LIBRARY OF PARLIAMENT

J
103
H7
1968/69
P8
A1

Canada. Parliament. House of Commons. Standing Comm. on Public Accounts, 1968/69. Minutes of proceedings and evidence.

DATE | NAME - NOM

DATE DUE

SEP 2 2 1995

GAYLORD

PRINTED IN U.S.A.

J
103
H7
1968/69
P8
A1

HOUSE OF COMMONS

First Session—Twenty-eighth Parliament

1968

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: Mr. A. D. HALES

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 1

THURSDAY, OCTOBER 24, 1968

THURSDAY, NOVEMBER 7, 1968

Public Accounts, Volumes I, II and III (1966 and 1967)
Reports of the Auditor General to the House of Commons (1966 and 1967)

WITNESSES:

Mr. A. M. Henderson, Auditor General of Canada; Mr. G. R. Long, Assistant Auditor General.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1968

29321—1

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. A. D. Hales

Vice-Chairman: Mr. T. Lefebvre

and Messrs.

Allmand,
Bigg,
Burton,
Cafik,
Crouse,
Cullen,
Éthier,
Flemming,
Howard (*Okanagan Boundary*),
[1]Laflamme,
[2]Major,
Noble,
Nowlan,
Rock,
Rodrigue,
Rondeau,
Thomas (*Maisonneuve*),
Winch—20.

Edouard Thomas,
Clerk of the Committee.

[1] Mr. Laflamme replaced Mr. Cobbe on October 15, 1968.

[2] Mr. Major replaced Mr. Leblanc (*Laurier*) on October 23, 1968 who had replaced Mr. Yanakis on October 15, 1968.

ORDERS OF REFERENCE

TUESDAY, October 8, 1968.

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

Messrs.

Allmand,	Éthier,	Nowlan,
Bigg,	Flemming,	Rock,
Burton,	Hales,	Rodrigue,
Cafik,	Howard (*Okanagan*	Rondeau,
Cobbe,	*Boundary*),	Thomas (*Maisonneuve*),
Crouse,	Lefebvre,	Winch,
Cullen,	Noble,	Yanakis—(20).

TUESDAY, October 15, 1968.

Ordered,—That the names of Messrs. Leblanc (*Laurier*) and Laflamme be substituted for those of Messrs. Cobbe and Yanakis on the Standing Committee on Public Accounts.

WEDNESDAY, October 23, 1968.

Ordered,—That the name of Mr. Major be substituted for that of Mr. Leblanc (*Laurier*) on the Standing Committee on Public Accounts.

TUESDAY, October 29, 1968.

Ordered,—That the Public Accounts Volumes I, II and III for the fiscal year ended March 31, 1966, laid before the House on January 9, 1967, and the Report of the Auditor General thereon, and the Public Accounts Volumes I, II and III for the fiscal year ended March 31, 1967, laid before the House on January 22, 1968, and the Report of the Auditor General thereon, be referred to the Standing Committee on Public Accounts.

ATTEST:

ALISTAIR FRASER,
The Clerk of the House of Commons.

29321—1½

(*Text*)

MINUTES OF PROCEEDINGS

THURSDAY, October 24, 1968.
(1)

The Standing Committee on Public Accounts met this day at 11.04 a.m., for organization purposes.

Members present: Messrs. Allmand, Burton, Cafik, Crouse, Cullen, Éthier, Flemming, Hales, Howard (*Okanagan Boundary*), Laflamme, Lefebvre, Noble, Rock, Thomas (*Maisonneuve*), Winch (15).

The Clerk of the Committee attending and having called for nominations, Mr. Flemming moved, seconded by Mr. Lefebvre, that Mr. Hales be the Chairman of the Committee.

Moved by Mr. Thomas (*Maisonneuve*), seconded by Mr. Noble, and

Resolved,—That nominations be closed.

Mr. Hales, having been declared duly elected Chairman, was invited to take the Chair. He thanked the members of the Committee for the honour bestowed upon him.

Moved by Mr. Cafik, seconded by Mr. Noble, and

Resolved,—That Mr. Lefebvre be elected Vice-Chairman.

Moved by Mr. Laflamme, seconded by Mr. Cafik, and

Resolved,—That the Committee print 750 copies in English and 350 copies in French of its Minutes of Proceedings and Evidence.

The Committee agreed that a Sub-Committee on Agenda and Procedure be comprised of the Chairman, the Vice-Chairman and three other members appointed by the Chairman after consultation with the Whips of the different parties.

At 11.35 a.m. the Committee adjourned to the call of the Chair.

THURSDAY, November 7, 1968.
(2)

The Standing Committee on Public Accounts met this day at 9.50 a.m., the Chairman, Mr. A. D. Hales, presiding.

Members present: Messrs. Allmand, Bigg, Burton, Cafik, Crouse, Cullen, Éthier, Flemming, Hales, Howard (*Okanagan Boundary*), Laflamme, Lefebvre, Major, Noble, Nowlan, Rock, Rodrigue, Thomas (*Maisonneuve*), Winch (19).

In attendance: Mr. A. M. Henderson, Auditor General of Canada; Mr. G. R. Long, Assistant Auditor General; Mr. H. E. Hayes.

The Chairman announced that the Sub-Committee on Agenda and Procedure would be comprised of the Chairman and Messrs. Lefebvre, Cafik, Rodrigue and Winch.

The Committee agreed to follow the order of business as suggested by the Auditor General in his letter to the Chairman dated October 30, 1968 which was tabled.

The Clerk of the Committee was instructed to send to all members of the Committee copies of (*a*) the Auditor General's letter dated October 30, 1968; (*b*) the Financial Administration Act; (*c*) a Comparison of proposed Auditor General of Canada Act with corresponding sections of the Financial Administration Act and explanation of changes proposed.

The Chairman tabled the Follow-up Report by the Auditor General to the Committee on the action taken by departments and other agencies in response to recommendations made by the Committee.

A general discussion took place on the first item of the follow-up report—*Second Class Mail.*

At 11.06 a.m., the Committee adjourned to the call of the Chair.

Edouard Thomas,
Clerk of the Committee.

EVIDENCE

(Recorded by Electronic Apparatus)

Thursday, November 7, 1968

The Chairman: Gentlemen, we have a quorum. Welcome to our first meeting of the Public Accounts Committee.

With your permission I think we will do something a little different this morning. I would like to go around the table, have each member introduce himself, his name and his riding, and what his vocation is at home, whether he is a lawyer, an accountant, a farmer, a businessman or what have you, so that we will all know one another and our particular interests because I think it will help in our deliberations. If we have two or three accountants in our midst we will look to them for a lot of guidance and direction.

I will start on my left with Mr. Winch. Just remain seated, gentlemen.

Mr. Winch: I am Harold Winch, member for Vancouver East. By occupation I am an electrician, an inside wireman, by avocation I am an elected member of the Parliament of Canada. You invited this. This week I start my thirty-sixth year as an elected member. There is one point, Mr. Chairman, that may be of interest and that is that during my 20 years in the British Columbia legislature I was always a member of a public accounts committee and, starting my sixteenth year in the House of Commons, I have always been a member of the Public Accounts Committee and without any disrespect to any other committee I consider it the most interesting and important committee of the House of Commons.

The Chairman: Thank you, Mr. Winch.

Mr. Bigg: I am Jack Bigg member for the new federal constituency of Pembina which takes in part of the great city of Edmonton. I am an ex-Mounted Policeman, a lawyer by training, and a professional politician.

The Chairman: Next.

Mr. Noble: I am Percy Noble. My riding is Grey-Simcoe and that is in the beautiful Georgian Bay area. My vocation is mink ranching.

The Chairman: Thank you. Next.

Mr. Crouse: I am Lloyd Crouse, the member of Parliament for a riding in Nova Scotia called the South Shore. For 20 years I have been a ship owner and an executive in the fishing industry. I first entered the House of Commons in 1957 and I have 11 years to my credit in this place. I suppose you would now call me a professional politician.

The Chairman: Thank you Mr. Crouse. Next.

Mr. Cafik: I am Norman Cafik, Ontario riding. I am in the printing and publishing business and have been so for about 15 years. Prior to that I was a financial consultant, an industrial consultant. I was elected in 1968. I had run twice before in 1962 and 1963 prior to coming here.

The Chairman: Next.

Mr. Éthier: I am Viateur Éthier, member for Glengarry-Prescott. I am a retired Civil Servant and businessman.

The Chairman: Thank you.

[*Interpretation*]

Mr. Rodrigue: I represent the riding of Beauce. I was elected for the first time in 1968, it was the first time I ran. For 20 years, I have been an accountant and administrator for a contracting electrician in my town. I live in Saint-Georges-de-Beauce which has a population of 14,000 . . .

The Chairman: Thank you very much. Next, our Vice-Chairman, Tom Lefebvre.

Mr. Lefebvre: I am Tom Lefebvre, of Pontiac County, which starts only a few miles from Parliament Hill and extends all over the map of Western Quebec. I was first elected in 1965. I am a former garage operator and sometimes I feel I would like to be there but

fortunately the electors put their faith in me once again.

The Chairman: Next.

Mr. Major: I am Robert Major, Argenteuil. This is my first time around as a member. I am a businessman.

The Chairman: Thank you, next.

Mr. Cullen: My name is Bud Cullen. I represent the Sarnia riding. This is my first time around. I was by profession a lawyer and I have dedicated myself to being a full-time member so I have abandoned my law practice. I must say the Auditor General has given me a lot of trouble in not only provincial campaigns, but more federal, and although I like the idea of the independent Auditor General and I supported it during my election it was a little difficult, this being my first election, to answer all of the charges that were made by the seemingly better-informed other parties and I was very pleased to find that I was going to be on this Committee and find out just how much truth there is in some of the complaints I have heard about the way government operates, and I am very happy.

I would agree with Mr. Winch, although this is my first time around, it is with considerable satisfaction that I have been selected to sit on this Committee. I think it will be very interesting and I would hope that the Auditor General will be given all the help that he needs and that we will be able to retain the independence that has been so obvious in the reports that he has handed down.

The Chairman: Thank you, Mr. Cullen. Next.

Mr. Thomas (Maisonneuve): You do not expect a speech, Mr. Chairman?

The Chairman: Oh, not over five minutes.

[*Interpretation*]

Mr. Thomas: I live in the next most beautiful riding, next to yours...Montreal-Maisonneuve. I was formerly a superintendant at *St. Lawrence Sugar*.

[*English*]

The Chairman: Next.

Mr. Allmand: I am Warren Allmand, Notre-Dame-de-Grâce, lawyer.

The Chairman: Now, there are two that came in. Just for their edification we have been around the table, gentlemen, and each member has told us his name and his riding and his former experience in life and we missed you.

Mr. Nowlan: I am Pat Nowlan, member for Annapolis Valley, I am a lawyer, and my profession is a politician by trade, having had some experience in school boards and municipal boards and looking forward to this board.

The Chairman: Next.

Mr. Flemming: I am Hugh John Flemming. I am not new to the Committee. I have been on this Committee before and I have enjoyed the experience very much. I am always impressed with the responsibility of the Committee to make a proper assessment of the problems and recommendations which they might subsequently make for the improvement of things in general.

Previously, you can call it whatever you like, I was a politician for part of the time, business for part of the time and in general just doing whatever came along to the best of my ability.

The Chairman: Thank you very much. I guess I cannot ecape myself.

I am Alf Hales, my riding is Wellington, 60 miles west of Toronto. I was brought up on the food business—farming—I am a graduate in agriculture, and I have been in politics since 1957. I like the Public Accounts Work very much and have had the honour of being Chairman of it a couple of times.

I think we are all now well acquainted and it is very interesting to see the cross-section that we have here. It is wonderful. We have practically every trade or profession represented. We have some accountants, lawyers, businessmen—all classes—and this will be of great help to us in committee work. I think we are ready to proceed now.

Mr. Noble: Mr. Chairman, before you proceed, would you please excuse me? I have just been notified by one of the boys from Agriculture they are short one man and I see you have plenty here for a quorum so I will go down and get them on their way and if I can come back I will be back.

The Chairman: We will let you go this time as long as it does not happen again, Mr. Noble. That is fine.

Mr. Winch: Mr. Chairman, before you proceed, could I just raise one question? At the organization meeting which we held I raised a certain matter and you suggested that I raise it at our first meeting.

The Chairman: Well, Mr. Winch, would you just wait until we get our organization laid out and then we will proceed with that.

I think I should apologize for the conditions in this room this morning. We are crowded. Every committee is meeting this morning and we are working under rather unusual conditions, but I can assure you they will not always be like that. I would like each one to speak into the microphone so the tape recording will be complete in all respects.

Now, the Steering Committee has been chosen as you suggested at the last meeting. It is composed of five people and they are the Chairman, the Vice-Chairman, Mr. Lefevre, Mr. Cafik, Mr. Winch and Mr. Rodrigue.

Now, Mr. Winch, I think we will entertain your suggestion.

Mr. Winch: I made a suggestion and you asked me to bring it up at this, the first regular meeting. If you remember, my point was that several years ago the Committee established a practice that the Auditor General should submit a report on what had happened to the previous recommendations made by this Committee and filed in the House.

I raised a further question based on the fact that also a few years ago, because it was found necessary, the Auditor General was given the right, and unanimously, to employ a private firm for legal advice when in his estimation the legal advice given by the Justice Department to departmental heads or ministers was legally wrong. I know this has been followed through, but my suggestion was that, in addition to the report of what happens to our recommendations, we support the principle that in future we have an additional report on the occasions upon which he had found it necessary to use the private firm authorized by the Committee, the reasons therefor and the results forthcoming through this procedure.

It might be advantageous to the Committee, and perhaps save time, if there was that additional report.

The Chairman: Thank you, Mr. Winch.

Before calling on Mr. Henderson, I must apologize, gentlemen, for forgetting to introduce four persons who will be with us at practically every meeting: Our clerk, Mr. R. E. Thomas, on my left; Mr. A. M. Henderson, our Auditor General, on my right; Mr. G. R. Long, Assistant Auditor General; and Mr. H. E. Hayes, Audit Director of the Auditor General's Office.

Mr. Henderson, perhaps you might like to answer Mr. Winch's suggestion before we proceed with our agenda.

Mr. A. M. Henderson (Auditor General, Auditor General's Office): Thank you, Mr. Chairman. I will, without dealing with any other matter, if I may, refer first of all to the point Mr. Winch has raised.

The full circumstances of my employment of my legal advisers, which was carried out with the approval of this Committe, are outlined in my 1964 report to the House.

Unfortunately, we have come armed with everything from 1965 on, so I canot read you the short paragraphs. I would like however, to explain the matter, Mr. Winch, if I may, and in so doing take the liberty of correcting one or two of the statements you made.

The background of this is quite simple. The Deputy Minister of Justice, the Deputy Attorney General of Canada at the time, appeared before this Committee and said that it was the considered opinion of the Minister of Justice and himself that no longer could they give legal opinions to various of the deputy ministers and to the Auditor General. This was the point at issue in the Committee, and his testimony is on the record.

He enumerated his reasons, but, of course, it included me, because traditionally the Auditor General has looked to the Minister of Justice and his deputy to rule on matters on which he required an opinion. The arrangement had gone on very satisfactorily.

Following this statement I quite naturally inquired to whom I should go to obtain legal opinions. I am a chartered accountant. I do not pretend to be a lawyer. My predecessor delivered a number of these opinions. He had had some legal training. I have not had any legal training.

In the course of my work I encounter situations which, it seems to me, should be looked at by a lawyer to know whether the suspicions I have are, in fact, properly founded in law. There are not many cases. It would not have paid me to have engaged a lawyer on my staff, which was one suggestion made to me.

I discussed the matter with the minister of finance of the day at the suggestion of the

Committee and he said to me that in his view I should employ such legal help on the outside.

I reported back to the Committee and I was given *carte blanche*, as I stated in my 1964 report, to employ.

I employed two firms—actually, two of the most prestigious in Canda, I might add—one in Montreal and the other in Toronto.

Whenever I encounter a situation in which I consider I need legal opinion I turn to my legal advisers. The cost of their services has borne out my original concept that it would not have paid me to have anybody on the staff. The opinions, as I told the Committee of the day—I was being rather careful of expenses; I found this out beforehand—were going to range from $7.50 up. I have been able to contain it within the area of a few thousand dollars each year, considerably less than I would have had to pay for an employee.

These are their views to me. I make the final decision. They are known as the legal advisers to the Auditor General and I turn to them when I want an interpretation, or when I take a view on something but I want to be absolutely positive that it is correctly founded in law.

I have never been asked to produce their opinions because I, myself, make the decision, as I must. They are purely in the realm of advisers to me.

There are still some cases in which we are successful in obtaining the views of the Department of Justice, not directly but by means of asking the deputy ministers of departments, if they would please obtain the views of the Department of Justice and give us a copy.

When I can solve my problem that way I naturally do so, but I think this independent approach has considerable merit. After all, it is the Department of Justice which has a hand in the writing of the law that I am perhaps questioning.

Does that answer the question quite clearly, gentlemen? If not, I would be happy to...

The Chairman: Thank you, Mr. Henderson. Mr. Winch?

Mr. Winch: These are confidential reports with confidential advice to you, and you make the decision on the basis of it?

Mr. Henderson: I make the decision, Mr. Winch. It is confidential to me but I regard myself always as the servant to this Committee.

If you were to ask me to produce the opinion I have no doubt that I should, in the final analysis, produce it. I think it would depend on the circumstances, as well.

Mr. Winch: In view of this, I will change my recommendation, Mr. Chairman, and say that if, as we go through your Report, there are instances where you have found it necessary to obtain advice which has not been agreed to, or been met, by the advice of the Department, it should be drawn to our attention. I think that would make it more satisfactory.

The Chairman: Thank you, Mr. Winch.

Are there any further questions on this? Mr. Allmand?

Mr. Allmand: Mr. Henderson, what are the names of the law firms that you have engaged in Montreal and Toronto?

Mr. Henderson: At the time I employed them I offered the names to this Committee and they declined to ask me, Mr. Allmand. For that reason they have never been made public.

I have no objection to placing them on the record, if that is the wish of the Committee, Mr. Chairman, but you will recall that at the time they were not made public.

Mr. Allmand: Why not? I am new on the Committee.

Mr. Henderson: That was the decision of the Committee at that time. I am just telling you what the Committee...

The Chairman: Order.

Mr. Bigg?

Mr. Bigg: On that point, I think it is fairly obvious that if these firms are doing other work for the Government it might prejudice their position in contracts with the Government if they came out with advice which was embarrassing to a department. I think we have to leave it as discreet as possible when we are asking for advice which, as I say, might embarrass a department or a deputy minister. I think it would prejudice the firm, to a certain extent, human nature being what it is.

The Chairman: What are your wishes, gentlemen? I think it is really beyond our terms

of reference. In the Committee on Public Accounts we are given the Auditor General's Reports. I rather think it would be going beyond these to demand the names of these people, but I am in your hands.

Mr. Allmand: Mr. Chairman, I will leave it for the time being.

The Chairman: Yes; all right. You can think about it, Mr. Allmand.

Mr. Winch: Do you, as Chairman of the Committee, and Mr. Henderson agree with my latter suggestion, that if, as we go through the Reports, there is an instance envolving a legal interpretation, and one has been received and not satisfactorily dealt with as between yourself and the departments, it should be drawn to our attention? I think that would be of assistance to us in dealing with your report.

Mr. Henderson: At the last sessions of this Committee, in deciding your position on something which had particularly legal implications, you have followed the practice of asking me did I secure a legal opinion on this, to which I have always said: "Yes, I did consult my legal advisers"; then you would ask the next question: "What did they say?", and I would say: "They agree with me." They do not by any means always agree with me and it is very good for me and my staff that they should not. You have asked those questions but you have never asked the next question: "Could we have a copy of their opinion?" and that, I am suggesting to you, is perhaps confidential between them and me.

Mr. Winch: Well, I accept that.

Mr. Henderson: But I am the servant of this Committee and in the final analysis, if you want it, I would feel that I would have to produce it.

The Chairman: We will leave that in abeyance for the time being, Mr. Allmand, at your suggestion.

Mr. Allmand: May I ask a related question. Has this Committee ever engaged legal counsel on various points?

The Chairman: No, not to my knowledge.

Mr. Allmand: You have not found it necessary?

The Chairman: No.

Now, gentlemen, we should have had a steering committee meeting but for various reasons we were unable to get together.

Mr. Henderson: Mr. Chairman, just for Mr. Allmand's information, I might say that the Committee has never engaged counsel but they did ask me to ask my legal advisers to prepare a new act for the office of the Auditor General. I commissioned my legal advisers to do this and that was brought to this Committee by my legal advisers at my side the last time. There, unfortunately, has been no action on this; it is something that is awaiting action by this Committee. That is the closest the Committee has ever come to incurring legal expense, if I can put it that way—or that I incurred it, at their request.

The Chairman: As I was saying, we should have had a steering committee meeting but for various reasons we were unable to do that. I thought this morning as a Committee, we might decide the course we will follow and the agenda. We will try and make this as brief as possible. As you know, Mr. Henderson is our star witness all the time and naturally I asked him for his views on how he thought we could get over the terrific backlog of work that we have to do.

I am going to read to you the letter that he sent to me as your Chairman, a copy of which went to the Vice-Chairman. This letter will be of particular interest to the new members of the Committee—and I think as we proceed we must remember that we have many new members on this Committee and those of us who have been on the Committee before must not take too much for granted.

The Auditor General writes as follows:

> In my capacity as adviser to the Committee, I have been giving consideration to the agenda I should recommend to you at this time. As I explained in our telephone conversation, these are difficult days for the Audit Office, not only because of the heavy workload we are handling, which now includes the United Nations audit, but because we are in the midst of preparing my 1968 Report to the House, a task which will occupy us full-time until at least the middle of January next year at the earliest. As you know, we continue to be short-staffed and very seriously so at the senior level. The fact that three of my Directors shortly go on retirement does not help this. In view of these factors, I would therefore like to

suggest to you the following agenda approach. If you would wish to have it discussed by the entire Committee in camera, I shall be glad to participate. Assuming then that the Committee commences its meetings within the next week or so, the steps I propose are as follows:

(1) That I submit our usual Follow-up Report to the Committee on the 50-odd Committee recommendations contained in Committee reports (1963-1967) still awaiting implementation by the Executive or consideration by the Committee of replies made on the government side. This will be based on the Follow-up Report put together last spring and now brought up to date. It will in fact be essentially the Appendix 1 to appear in our 1968 Report.

(2) That the Committee confine itself to discussing the items in this Follow-up Report. This should call for several meetings. The Committee would then report on this (presumably lack of progress etc.) to the House.

Having done this, the Committee will then be faced with the examination of the following Reports of the Auditor General to the House:

Report for the year ended March 31	To be examined
1964	Certain paragraphs
1965	Certain paragraphs
1966	Full Report
1967	Full Report

In my opinion, this backlong is so weighty—and the transactions so old at this date—that it is questionable whether the Committee should be expected to tackle such a workload. If the Committee does attempt it, I think a real danger exists of its efforts bogging down. Therefore I suggest, in the report it would make to the House proposed under (2) above, that the Committee say that: (1) it proposes to delay commencing its examination of the Auditor General's Reports until the 1968 one is submitted to the House of Commons; and (ii) after obtaining the Government's referring motion (we would hope within a day or so after its tabling) it would commence its examination of this 1968 Report paragraph by paragraph. This should be right after the House returns from its Christmas and New Year's recess.

If the above steps commend themselves to you and the members, then I will take special pains with the 1968 Report to update all of the continuing situations in the 1964, 1965, 1966 and 1967 Reports so that reference can be made, when the Committee is discussing each paragraph in the 1968 Report, to the previous years' detail. Admittedly this procedure will not cover the "single occasion" situation contained in the Reports of these years. I think this procedure has the advantage of (a) not tying us up between now and the end of the year while we are engaged on the all-important task of preparing our next Report, and (b) tackling the next Report when it is freshly off the press and tabled in the House. It will be more interesting for the members and easier for us to brief them because the subject matter will be timely and up to date. I would hope that this could then be covered during the months of February and March because I and a number of my senior officers will be heavily engaged in Europe and New York on our United Nations work during the months of April and May.

I think that is as far as I need to read as far as outlining the work that is before the Committee.

I will entertain any suggestions in this matter and if we agree with this outline we would then proceed with a list of the follow-up recommendations.

Mr. Winch: Mr. Chairman, I hope I have the intent of the letter correct. First of all, I completely agree with following our usual procedure of receiving a report on what has happened to the recommandations that were sent from this Committee to the House. However, I would like to have the comments, through you, Mr. Chairman, of Mr. Henderson on how he arrived at that suggestion of starting with 1967—the last one we have is 1967. I would like to hear a little discussion on this because from our past experience we often found that the recommendations of one report, not having been dealt with by this Committee, by the House or by the departments, were carried forward in a succeeding report and sometimes in another succeeding report. I am a little bit disturbed that we should deal with the latest and then go back on the others. I do not challenge what is in the mind of Mr. Henderson in this connection but I would like to know whether he feels we

could reach the same objective perhaps a little bit differently and in a more co-ordinated and proper manner by not dealing with one and then going back for two or three years. Would it be possible—and I realize how busy your Department is—to have a breakdown of the reports that we have not yet dealt with outlining the numerous recommendations in 1964 or 1965 which are carried forward into 1966 or 1967. In this way there would be no need whatsoever to consider them because reference would be made in later reports. Am I being clear?

The Chairman: Yes. This is taken care of in this recommendation, Mr. Winch. I think Mr. Henderson might like to add a comment at this time.

Mr. Winch: I am certain Mr. Henderson knows what I have in mind because he will remember at our last meeting, when we were going back so often, that he was able to tell us that such a thing was going to be carried forward into the next Report.

Mr. Henderson: Mr. Winch, if I might just explain—and this might be of interest to the new members. It has been our experience, where the Committee has not met for a considerable period, that when it does meet it has been faced with literally dealing with two Reports. Of course, the ideal way would be to start with what was not done in 1964 and move up to 1965, 1966 and 1967 but I think it will take far more meetings than the Committee will be able to handle. Now in the past you have propped up two years and I, in the discussion, have taken you from paragraph so-and-so in one year to paragraph so-and-so in the next year. I propose to carry those forward to wherever it is pertinent today and you then would deal with my 1968 Report right off the press.

Mr. Winch: Might I ask a question?

The Chairman: Let Mr. Henderson finish first.

Mr. Henderson: A number of these situations are of a continuing nature. Each year there is either an improvement or, more often, they get worse. Therefore, if you were to consider that situation for 1965 then you would want to look at 1966 and 1967, would you not? This way I can take you across the years right up to and including 1968. After all, my audit is a post audit—I am only reporting next February the transactions through March 31, 1968—so that we are practically a year at least behind by the time they even come out and reach the Committee.

My suggestion is to go right through the 1968 Report and then to go back to deal with those items, of which I would then give you a list, that you have not covered and you could see them. A lot of them are what we call "per occasion" transactions—single instances of waste or extravagances that are dealt with in my reports which you may or may not want to bother with if they happened far back in 1965 or 1966. As I told your Chairman, it is too bad that we have to cut our losses in this manner but I do not know any other answer.

The Chairman: Now, Mr. Winch, we will take your question.

Mr. Winch: I will ask just one question.

The Chairman: Make it brief, please.

Mr. Winch: It will be. Do I understand, Mr. Henderson, that as we go through 1968 paragraph by paragraph you will, from time to time, make reference to the fact that a certain matter was in 1967, 1966, or 1965, so that we then will know that this is a continuation.

Mr. Henderson: Yes, sir. We are in the middle of our 1968 Report now and, therefore, your decision this morning is quite important to us because it will decide the direction which we take.

Mr. Allmand: Mr. Chairman, Mr. Henderson's suggestion seems reasonable to me as long as he refers back when appropriate to the previous reports. I think this is the best way of approaching this subject.

I wanted to suggest to you, Mr. Chairman, that perhaps you could photostat and distribute that letter to all members of the Committee. As you know, the reports of these Committees are about three weeks behind time and I think it would be worthwhile if the members of the Committee had a copy of Mr. Henderson's letter suggesting the agenda.

I put this question to you, Mr. Henderson, because I am not familiar with all the answers. You mentioned your work for the United Nations. I would like to know under what authority your office works for the United Nations in addition to the House of Commons. If that is taking a lot of your time I wonder whether something should be done about it.

The Chairman: Mr. Allmand, I will entertain the first part of your question with regard to circulating the letter. Mr. Thomas, will you see that that is done.

Mr. Lefebvre, have you a supplementary on this point? Is so, will you put it and then we will revert to the other part of Mr. Allmand's question.

Mr. Lefebvre: I agree with the suggestion made by you, Mr. Henderson, that it would be almost impossible for us to go back to 1964, go right through to the 1967 Report and then start off with the 1968 Report, especially when you underline the fact that you will be taking special pains during our consideration of the 1968 Report to go back and refer to special items. I think we will have an impossible task ahead of us if we attempt to do this.

I would like to suggest to the Committee, and it is not necessarily a motion, that we accept your suggestion and proceed in the way that you have outlined in your letter.

The Chairman: Thank you, Mr. Lefebvre. Mr. Flemming, on the same subject?

Mr. Flemming: On the same subject, yes. I agree with Mr. Lefebvre's suggestion. I think that that is what we should do. I think it makes a lot of sense and I think we should proceed accordingly. If Mr. Lefebvre wishes to put this in the form of a motion I would be glad to second it.

Mr. Lefebvre: I so move.

Mr. Flemming: I second the motion.

Mr. Bigg: Mr. Chairman, I understand that up until we return after the Christmas recess we will be going through some of the major items in the previous reports. We are not going to wait...

Mr. Henderson: That is right.

Mr. Bigg: ...for the 1968 Report. So we will have some time to cover some of these rather serious matters in the 1966-67 Report...

The Chairman: That is right.

Mr. Bigg: ...That are of signal import.

The Chairman: Thank you, Mr. Bigg. Now, Mr. Major.

Mr. Major: When will this Report be ready, Mr. Henderson?

Mr. Henderson: It has been tabled in the past two years about February 19 or 20. It will be right around there at my present rate of progress.

Mr. Major: In other words, the Report will be available in February.

Mr. Henderson: Yes.

The Chairman: Just before we revert to ask Mr. Henderson about the United Nations audit in response to Mr. Allmand's question, I must explain to you that there are two paragraphs in this letter that I did not read because they deal with other matters. However, when it is circulated you will get the complete letter.

Mr. Crouse: You have a motion before your Committee, have you not?

The Chairman: It has been moved and seconded that we proceed on the outline of our agenda as set before you.

Mr. Allmand: Excuse me, Mr. Chairman, I thought that the motion was merely that when we deal with the report we deal with the 1968 Report first rather than the 1964 Report. Do you understand the motion to be the complete suggestion of Mr. Henderson?

The Chairman: No, the motion, as I understand it, is that the Committee will proceed with the follow-up Reports that have been submitted to the House one by one. There are some 55 of them. We will handle each of those with the understanding that anything that has been left uncovered in the 1966 or 1967 Report will be updated and will be in the 1968 Report so that it will not be missed and the Committee will have an opportunity to discuss it when we are handling the 1968 Auditor General's Report.

Motion agreed to.

The Chairman: Mr. Allmand asked a question. It is slightly beyond our terms of reference but it is very interesting and I think he should know about the Auditor General's functions at the United Nations. Mr. Henderson, would you like to give him a brief outline of this.

Mr. Henderson: I would first direct Mr. Allmand's attention to paragraph 9 of my 1967 report, in which I told the House the precise circumstances under which I had agreed to undertake for the Government of Canada the audit of the United Nations. As that not indicated, on December 16 last year I

was appointed to the United Nations Board of Auditors. This took place, I may say, in a manner which pleased our government because I think it was unanimous—about 95 countries to zero—and my work is effective January 1 1968.

Mr. Allmand's question carried the suggestion that he wondered how I could do this work in addition to the work I do for Canada. I am happy to answer that. I might say, Mr. Allmand, that it very much has the overtones that the Government of Canada is getting two jobs for the price of one, I took this on job, first of all, because I was asked by the government to take it on, which they can do pursuant to the Financial Administration Act. Canada has always participated actively by offering its services in the United Nations. It does not cost Canada anything. I recover the out-of-pocket overhead for my staff and my expenses. I took it on because not only did I want to meet the government's request but I felt that the experience would be simply invaluable for my staff. Today I have about 80 people on my 200-odd-man staff who have accounting degrees, and this type of experience, involving as it does extensive travel, nonetheless is very good. However, I have also had to supplement my staff by bringing in people from the private sector of my profession in order to not only give me the needed additional assistance but also to increase, help and train my own men in the area of what is known in my profession as management auditing. That is, we are doing a broader type of auditing than we do in Canada.

So far this partnership with the private sector is working extremely well and certainly, as far as I know, to the pleasure of the United Nations. We have only just made a start this year by having dealt with the first six months of 1968, but it carries considerable obligations on my part as a member of the United Nations Board. It is not a job that I can delegate to my two counterparts, the Comptroller and Auditor General of Pakistan and the Comptroller and Auditor General of Colombia. Only this morning the Chairman, the Comptroller and Auditor General of Pakistan, called a meeting in New York to which I shall have to go in about a couple of weeks, and it will mean that I shall have to miss one of your meetings.

I simply do my best to supervise this activity and at the same time carry on my own work. I hasten to assure you there is no diminution in the attention I am giving to my first responsibility, which of course is to the House of Commons.

Mr. Allmand: A supplementary question, Mr. Chairman. I ask this question because in the report the Auditor General has said that his office is short of staff and that they require more staff to do a proper job for the House of Commons.

I also understood that the Auditor General was appointed and is responsible to the House of Commons and was not appointed by the government. This is my understanding. According to this passage in the Auditor General's Report he says that he has been asked by the government to be an auditor for the United Nations, which to me is a distinction because I feel the Auditor General is responsible to the House of Commons and I wonder under the appointment of the Auditor General if that is an exclusive appointment and whether the government was right in requesting him to do another job for them, although he may be a very good man to do it. I ask all these questions in view of the fact that he says his staff is short and he does not have an adequate staff to do a proper job. I would like to hear the answers to these questions.

The Chairman: I think Mr. Henderson would like to answer that while he is referring to your question. By the same token, I think it is a great honour to Canada and of course a distinct honour to Mr. Henderson to have been asked to be an auditor at the United Nations. I realize he is doing it under great sacrifice; nevertheless it is a great honour.

Mr. Henderson: Mr. Chairman, I can direct Mr. Allmand's attention to section 71, Part VII, of the Financial Administration Act which relates to the Auditor General. This is the very Act and section of that Act which this Committee would like to see changed and incorporated into a separate act for the Auditor General and which they commissioned several years ago, and in carrying out what you have said I think that would definitely be taken care of in it. This is how the law stands today, and I am reading Section 71:

> 71. The Auditor General shall, whenever the Governor in Council, the Treasury Board or the Minister directs, inquire into and report on any matter relating to the financial affairs of Canada or to public property and on any person or organization that has received financial aid from the Government of Canada or in

respect of which financial aid from the Government of Canada is sought.

My predecessor took this assignment under that section in 1945 and I took it in 1967. I could not agree with you more that these directives should come from the House of Commons, but until this Committee interests itself further in the Act that they commission to be prepared there is nothing more I can do.

Mr. Allmand: Mr. Chairman, as I have been referred to certain sections of the Act I would like to leave this for the moment, but I would like to have the right to return to it at a later date if it seems appropriate to do so.

The Chairman: Right. In this regard I think each member would be well advised to have a copy of the Financial Administration Act. You can get a copy from the Distribution Office. Of course, you have all been given the 1966 and 1967 Auditor General's Report. May I remind you to be careful with them and bring them with you to every meeting, because they are in short supply. The other books that have been referred to us are the Blue Book and volumes 1, 2 and 3 of the Public Accounts of Canada. I believe you have all of those. So, we will be using most of these.

Mr. Winch: Could I make one suggestion?

The Chairman: Mr. Major is first and then Mr. Winch and Mr. Nowlan.

Mr. Major: Could I perhaps suggest that the Clerk send those reports to our office?

The Chairman: The Clerk could bring them to the meeting or send them to you. Thank you, Mr. Major. Mr. Winch?

Mr. Winch: I would like to suggest, Mr. Chairman, in view of the question by Mr. Allmand, and it is a very important one, could you as Chairman particularly advise all the new members where they can see the report which was made some time ago to this Committee respecting a proposal for a new, separate Auditor General's act. If we do not have the exact record perhaps a copy of the suggestion could be sent to all members, a copy of the proposed act that was referred to us on instructions of the Committee respecting the employing of outside advice in the preparation of it. I think it would be a good idea if all members had that, Mr. Chairman.

The Chairman: That will not create any problem.

Mr. Henderson: On this subject, Mr. Chairman, the Committee will remember that after devoting one meeting to reading through and hearing my legal advisers explain the proposal it was returned to me and I was asked if I could compare in columnar fashion what was being proposed with what is at present in the Act, with explanations out to the right as to why this was changed and that was changed. I did that. We have copies of that here. This is the first occasion I have had in the past two years to hand it to you. If you would like to take it along with you we would be only too pleased to distribute it.

Mr. Winch: I would move that it be filed and included as an appendix to the report of this meeting.

Mr. Burton: Did I understand that you have copies available?

Mr. Henderson: We brought them to this meeting as we brought them to the meeting last March, and they are available. They are in columnar fashion. First of all, the proposed Auditor General of Canada act as this Committee has commissioned it, then the corresponding sections of the present Financial Administration Act, and then an explanation of the changes proposed. This might be a very useful reference for you to take away, particularly as new members, and it was with that thought in mind that Mr. Hayes brought them to this meeting. Mr. Chairman, if you should decide you would like them issued, we have 14 in English and seven in French.

The Chairman: Is it your wish, gentlemen?

Some hon. Members: Agreed.

Mr. Nowlan: Along those same questions as Mr. Allmand to Mr. Henderson, in view of your well purported evidence of time-studies and detailed studies into the administrations of the Departments, have you done any internal study within your own department as to the allotment or allocation of either personnel or actual time involved in these United Nations studies or this International Lead and Zinc Study Group that I see here, or the International Monetary Fund? In other words, you have been asked and directed to do this extra work. As a result of that direction, and you have had the general lament I think quite justifiably set out, although I am new to this Committee, but just from reading the reports

of the last couple of years on the lack of staff, those two things lead me to the question of whether you have done any time-studies in your own Department as to how much time is involved with this United Nations work and/or people that are actually designated, or does it change from day to day?

Mr. Henderson: Yes, Mr. Nowlan, the staff situation was particularly bad several years ago. It has since improved, as I told the Committee last March, not improved to the extent to which I would like to see it but sufficient so that I am at least able to live with it and get on with the work, which is what I have addressed myself to. The United Nations involves about eight men for six weeks in the fall, and approximately the same in the month of April, finalizing the work. As I mentioned to you, some of this is supplemented by outside assistance that I am able to bring in. We recapture our costs from the United Nations. That includes salary and travelling expenses with the exception of the salary of the Auditor General which by tradition has always been donated by the country. I think the short answer to your question is that the experience my men are gaining on this outweighs the rearrangements that it necessitates. And it was with that in mind that I made a calculated decision. I took it on.

Mr. Nowlan: You have given me the answer too. If I have the previous figure correct, it is eight men for six weeks twice a year, balanced against a staff of 200.

Mr. Henderson: Two hundred and thirty today.

Mr. Nowlan: Two hundred and thirty.

Mr. Henderson: But Lead and Zinc takes one man a week a year. ICAO takes two men probably six weeks. My Montreal office handles that. Mr. Long, who speaks on the International Monetary Fund, that is solely himself for about six weeks.

The Chairman: Mr. Long.

Mr. G. R. Long (Assistant Auditor General): The International Monetary Fund is a two-year proposition, usually. It is for six weeks in May and June of the year. We have just played it two years. I do not expect we will be asked again for some time now. This is the third time we have taken part in this. We were members—the Assistant Auditor General was one of the members—of the original Audit Committee in 1945, I believe it was. This is the third time Canada's turn has come around.

Mr. Nowlan: Is that six weeks involving just yourself?

Mr. Long: Six weeks, one man.

The Chairman: Mr. Bigg.

Mr. Bigg: Might I suggest that as far as this Committee is concerned, our delays are not caused by a lack of staff but lack of recognition of our report once it comes in. I think we are appreciably worried about carrying on after we have finished our work here, rather than at this particular time being worried about the difficulties within the Department as far as workload is concerned. The work has been done, and we are principally worried about nothing being done about it after we have made our recommendations here.

Mr. Winch: I think it should be noted, Mr. Chairman, and I am sorry for putting it this way for the new members, that every year for at least 12 years there has been a report from this Committee on the staff situation. So it is not the responsibility of the Committee or the Auditor General. There has been a report every year on making recommendations as to how to rectify the shortage of staff.

The Chairman: We will come to that in a Follow-up Report. Regarding this report, "Comparison of Proposed Auditor General Canada Act with corresponding sections of the Financial Administration Act and explanation of changes proposed". There are not enough of these to go around at the moment. Mr. Thomas will have some of them photostated, so each person will have one. Now, gentlemen, I think we are ready to proceed with the Follow-up Report. It has been distributed to everyone.

Mr. Lefebvre: Mr. Chairman, before we do this, I would like to bring something to the attention of the Committee. I think we talked about it yesterday, and I thought you would mention it this morning. It would be good for the Committee members and very informative for all of us if we could have the President of the Treasury Board, the Minister responsible, and some of his officials appear before this Committee at some future meeting, especially because there will soon be, I believe, a new form of presenting estimates tabled in the House. It might be very helpful to us if we could extend an invitation from

this Committee to the Treasury Board to invite these officials to a committee meeting. And I would suggest that you, Mr. Chairman, see the Minister responsible about this, and if the Committee agrees I think this could be set up in the near future.

The Chairman: Thank you, Mr. Lefebvre, I did forget about that. The Treasury Board are prepared to come before us and are ready at our call, and there are some other things in addition to what you have mentioned. For a number of years, for two reports at least, we wanted them to come and explain just why they had not introduced some accounts receivable balances in some departments, and we want to know more about the internal audit of various departments and some other subjects. So when they come we will have these all lined up ready to ask them. Now, Mr. Henderson. Yes, Mr. Allmand.

Mr. Allmand: I have a point of order. The first time I have seen this Follow-up Report is when I walked in here this morning. I am a new member of this Committee. I do not want to delay the proceedings this morning, but I do not feel that I am prepared to really ask proper questions this morning because I have not seen it before this morning.

Mr. Rock: The same for me.

Mr. Allmand: Well, the same for probably many of us. So I think we should proceed, but I would ask you as Chairman—I would like to have the right at a future meeting to return to points in this report we go through this morning and ask questions, because I may not be able to do it this morning. I might see certain points if I had a chance to examine it beforehand, and I would suggest that these be sent out with the notices of meetings, anything that we are going to discuss, so that we can go through it.

The Chairman: Your point is well taken, Mr. Allmand, and I will abide by your wishes in that respect. These Follow-up Reports are appendixed to your 1966 and 1967, and this is really just a summarization of them with some additional notations. But we will certainly leave it open so you can go back to any one of them and ask questions. We have about 15 minutes or so left this morning, so if you are agreeable we will proceed with that in mind.

Mr. Nowlan: On that same point of order. I gather it is included in your acceptance of Mr. Allmand's general observation that in future it will be the custom of this Committee to set out in the notice the witnesses that will be appearing. On some committees—I have not been on this one like Mr. Allmand—there were to be many witnesses from time to time and we had notice of who they were before they appeared.

The Chairman: You will be well briefed as to what homework you have to do and there will be lots of homework to do, and please come prepared to ask questions. In this regard, I will entertain all the questions you have, but I do not want to entertain too many comments. We will not get over anything if we have a whole lot of comments here. Mr. Henderson is here to make the comments and answer the questions, but our members must direct questions to the witness. I hope that we will follow that closely.

Mr. Crouse: Mr. Chairman, might I ask one question before we leave the matter of the United Nations accounting. Is it the opinion of our Auditor General that we as a country should consider relinquishing our position in this regard, in view of the cost of same and when consideration is given to the figures of our deficit that has recently been made available to all members in the House of Commons? Do you believe that we should consider giving up this type of work in the interests of economy for our country?

Mr. Henderson: Giving up the type of work, Mr. Crouse that I am doing for the United Nations? Is that what you mean?

Mr. Crouse: Yes, Mr. Henderson.

Mr. Henderson: But the United Nations pays me for doing it. What is the objection to that? It takes part of my overhead. Is that not a good thing for my office?

Mr. Crouse: To put it in terms of costs, it requires only 15 or 20 minutes of my time to make a speech in my constituency, but it does take two days to get there and two days to return. I am thinking of the cost to Canada of your staff, the disruption of your ordinary routine and the fact that your Department is set up to audit the affairs of Canada. I am wondering if the change in routine is figured in the overall cost to this country.

Mr. Henderson: I think this country stands to be a considerable gainer from this in terms of the experience that it is giving its men, not to mention the contribution that Canada

as a country is able to make. Eight men for six weeks is not too much of a demand on an assignment of this kind, I suggest.

The Chairman: Mr. Howard.

Mr. Howard (Okanagan Boundary): Did not the Auditor General say that the money that is paid to Canada for the services of the Auditor General is donated by Canada for this purpose? Is it not just a direct donation that is received back?

Mr. Henderson: No. We do the actual external auditing and bill them for the time and the cost, the time and the travelling expense, and are reimbursed.

Mr. Howard (Okanagan Boundary): By all of the United Nations?

Mr. Henderson: By the United Nations, New York, yes, out of their general funds. We do not do it for nothing. The only thing that is donated happens to be my own time, because by tradition my predecessor did this work for many years and this tradition was established that the time the Auditor General himself devotes will not be charged, and therefore Canada has never charged for my time, but it charges for the time, the salary cost and the expenses of my men who are engaged on it.

Mr. Howard (Okanagan Boundary): Your time then is donated by the country.

Mr. Henderson: Yes, because that has always been the tradition from the founding of the United Nations, and it is done by the other two countries who serve with me on this board.

Mr. Howard (Okanagan Boundary): You mentioned the matter of gaining extra experience through doing this. Do you not feel that you have adequate experience to do the job of Auditor General in Canada at the present time?

Mr. Henderson: I do not need the experience myself, in my opinion—perhaps in other peoples'—but I am running a professional office with young men coming up who I would like to feel have got every chance to go places. Experience is the keynote to this and it fits into my planning for my staff very nicely. If it took any more time than that I would perhaps be concerned, but I am not concerned at the present time. That is all I can say to you. I appreciate perfectly well the rationale of your suggestions, but I find I am able to contain this within my schedule and it is on that basis that I undertook the work.

The Chairman: We will proceed with the Follow-up Report.

Mr. Henderson: We could go through it fairly fast.

The Chairman: Is it agreed that this be tabled?

Some hon. Members: Agreed.

Mr. Henderson: We could refer to it, if you like, and take as many numbers as we can encompass into the time available. Page 1 is, of course, a statement as to what the background has been. It is perhaps on the lengthy side, but that was for the benefit of the new members. Page 2, we start on the second class mail.

Perhaps, Mr. Chairman, before I begin I should direct the attention of the members to the very last page of this, which is a summary of the positions. This is like a categorization or a check.

You will see that there are 55 that you are going to have to consider here. Our categorization of them is that there is no action on 20. The Executive disagreed with 16, and slow progress is being made on 13. Only a couple of them have been implemented. This is where the 55 stand which were contained in my report tabled in the House last February.

Mr. Winch: So that the position is that we are up against the problem we faced all the time. Out of 55 recommendations, only four have actually been implemented.

Mr. Henderson: Two only have been implemented.

Mr. Winch: Yes.

Mr. Henderson: We are waiting for 53. One has been withdrawn, so that you have 53 on which action is pending or to which consideration should be given.

Mr. Winch: That is a remarkable record, that we had to withdraw only one out of 55 recommendations.

The Chairman: Mr. Cullen?

Mr. Cullen: Mr. Chairman, I hear this over and over again; that there are 55 recommendations and only two have been implemented. I appreciate the fairness through you, Mr. Chairman, and Mr. Henderson, of the way this is set up, but there is a category in here, "Executive has indicated disagreement with the recommendations". So it cannot be said that the Committee has made 55 recommendations and action is being taken on only two. Obviously 16 of these have been considered and rejected by the Executive. I am not saying they were right or wrong on this...

Mr. Henderson: But this Committee has not yet considered the reasons of the Executive for the rejection. You see, that is the trouble, Mr. Cullen.

Mr. Cullen: I do not disagree with that.

Mr. Henderson: No, I am not saying that you do.

Mr. Cullen: The blanket statement that 55 recommendations have been made and action has been taken on only two of them is really not correct, because in 16 of these cases the Executive, and as I said, right or wrong, have obviously considered the recommendations and have taken the position that they disagree with them. The other aspect, on 13 of these there is some progress being made, slow. Now that again is relative; it may be slow in your opinion but may be quick in the opinion of the Department.

Let us keep this as non-partisan as possible, but let us be fair when we say that 55 recommendations have been made. Let us break it down into the categories as the Auditor General has so fairly done, and that is that some action has been taken. It has been considered and rejected. Some progress is being made, some has been implemented, soon to be implemented are two, action taken not satisfactory—and that again is something we will discuss—but action has been taken on many of these suggestions. Maybe the Committee does not agree, or the Auditor General does not agree, but certainly the Executive has taken more action than on just two of these, and I would like to make that point, Mr. Chairman.

The Chairman: Thank you, Mr. Cullen. Mr. Lefebvre?

Mr. Lefebvre: There is something else we should point out. Sometimes as members of this Committee we will make recommendations to Parliament, such as ways and means of covering the loss of the Post Office Department in handling second class mail, and then when legislation for this comes up in the House, the very same members of this Committee who recommended this vote against such an act.

An hon. Member: Hear, hear.

Mr. Lefebvre: So we often have second thoughts about what we recommend right here in Committee.

Some hon. Members: Hear, hear.

The Chairman: Mr. Bigg, you had a question, and then Mr. Nowlan.

Mr. Bigg: I would like to interpret this summary a little, as I see it. We are not saying that the government is wrong in not agreeing with us. We are just saying categorically that they have not done what we recommended, and there is nothing partisan in that at all.

You will find when you have been on this Committee as long as I have that this is one of the most non-partisan committees in the whole House of Commons, and we are not working, I hope, in the narrow political sense here whatsoever. We are really riding herd on the public purse, and to say that they have not been acted upon is correct as far as our recommendations are concerned. The Executive have and will continue to have the last word, but they have not done what we asked them to do. But as for thinking that this Committee is picking on the government, I think that is far from the facts.

Mr. Winch: Do not point your finger at me. I voted in this Committee for second class mail, and I voted in the House of Commons for it, too.

The Chairman: Order. In order to keep us on the rails, instead of using the word "government", say "Parliament" and we will be all right. Mr. Nowlan?

Mr. Nowlan: To keep this on the objective basis that this present discussion is developing, were these 55 recommendations unanimous recommendations from this Committee, regardless of what happened to them all?

Mr. Henderson: They were contained in reports by this Committee to the House as indicated beginning at page 2. You

will notice the heading there. That was the Fourth Report, 1963, to the House on December 19, 1963.

Mr. Nowlan: Regardless of the political complexion and what has happened to the recommendations, they were the unanimous consideration of this Committee, which is interesting.

An hon. Member: In most cases they were unanimous.

Mr. Nowlan: I quite agree with the comments of the gentleman from Sarnia. It does advance the work of this Committee to have general salutations about government and if we keep Parliament, but Mr. Lefebvre realizes there were many other items in the bill that might have caused members to vote one way or another. There was just a recommendation from this Committee.

The Chairman: I think it is fair to say that another reason some of these have not been implemented is that it requires legislation to make a lot of these changes and it is very difficult to get legislation on the floor of the House. There is such a heavy backlog of work to be done in the House that the government of the day finds it difficult to open up the bill to make the amendments necessary to make these implications. We must also keep that in mind. Mr. Cafik, I think you had a question.

Mr. Cafik: I just want to know if in the Auditor General's opinion, in view of recent legislation in connection with postal rates, he would now consider that Item 1, which is listed under "slow progress being made", really belongs in a different category now?

Mr. Henderson: These are comments by the Auditor General.

Mr. Cafik: Yes, that is why I am asking the Auditor General.

Mr. Henderson: I categorized it as "slow progress being made". It is a step in the right direction. It does not solve it. It make my comment here, which this Committee can discard or throw out or do what it wants with, but I am your adviser so I tell you what I think.

Mr. Cafik: The reason I ask the question is that this is a summary of the position as at March 31, 1968, which was prior to the enactment of that legislation.

Mr. Henderson: No, this Follow-Up Report is the position as at October 31, 1968, right now.

Mr. Cafik: I am looking at page 27.

Mr. Henderson: If you look on page 2...

Mr. Cafik: Yes, I have read that and I understand your position there.

Mr. Henderson: I put it into the "slow progress being made" category because in my opinion that was a fair categorization of that problem. As Mr. Long points out, there is a slight error at the top. It says, "summary of the positions at March 31, 1968". I am sorry, that should be "October 31, 1968". I stand corrected. We had to prepare this under pressure of work.

Mr. Cafik: I think that answers the question.

Mr. Henderson: I beg your pardon.

Mr. Cafik: It was that date.

Mr. Henderson: Yes.

The Chairman: Mr. Howard?

• 1055

Mr. Howard (Okanagan Boundary): Mr. Chairman, in connection with these recommendations I think it is very important that the Canadian public get a very clear impression of exactly what has happened to these recommendations. Very often we in the House of Commons may understand that while a recommendation may have been made, some action may have been taken that is not agreed to by the Auditor General or perhaps by this Committee and there is an area of disagreement. I think it is important that the public understand the significance of the recommendations that we make. I think it is important that the relative merits of the recommendations are weighed in such a way that we neither whitewash nor condemn the government.

For example, on the changes in the postal regulations, this represents a very major difference in the total budget of the country. It is only one item on the list. There may be a number of other items on the list which add up to a great many items, but they may not have any great significance in dollar value as savings to the economy. I think it is very important that we differentiate in this regard.

The Chairman: Mr. Lefebvre and then Mr. Allmand.

Mr. Lefebvre: There is also another way of looking at this list. As you have pointed out, Mr. Henderson, we have 55 recommendations. Out of those 55 I see that on 20 no action has been taken as yet. That means that on 35 some type of action has been taken or we have had disagreement from the executive. So, in other words, there are only 20 that have not been looked into by the government. What exactly do you mean by this "no action as yet"? Have they replied in any way or have they just—

Mr. Henderson: There has been no reply.

Mr. Lefebvre: No reply.

Mr. Henderson: Nothing has happened. If it has happened they have not told me. My office has made inquiries but I have not heard.

Mr. Lefebvre: Right. Actually these are the 20 we should be aiming at, I believe, more than the others.

Mr. Henderson: I would think so. You will come to them in the sequence as you go through. You may disagree but I have attempted to categorize them in order to quickly give you a bird's eye picture. I would have preferred not to do so but, if my memory serves me right, this Committee asked me to do this. These are your recommendations, they are not mine. They are the unanimous recommendations of this Committee of the House, on which no action has been taken, and that is why in presenting it to you I endeavour to keep you up to date at all times in fairness to the executive, because they are very good in writing to me and telling me, "We are at last getting a move on with this one", or, "We propose to do this", and where I know that I am telling you right here today.

The Chairman: We now have Mr. Allmand and then Mr. Cafik.

Mr. Allmand: Mr. Chairman, this is further to the matter Mr. Cafik brought up. The comment with respect to Item 1, which is second class mail, that slow progress is being made was made after the Act was passed and I find it difficult to understand how that could be categorized as "slow progress being made". I was going to ask the Auditor General what he would consider to be fast progress if the passage of the Post Office Act was considered to be slow progress.

Mr. Henderson: I would suggest that you read my comment on page 2 because there I explain precisely what is said and you can categorize it yourself. I am only trying to short-circuit it.

Mr. Burton: This action is taken in relation to the recommendation made, is it not?

Mr. Henderson: I think if Mr. Allmand were to read this...

The Chairman: We will come back to it. Mr. Cafik?

Mr. Cafik: I want to pursue this a little further along the lines of my previous questioning, as well as Mr. Allmand's, on this slow progress. I have read page 2 about three times in the last half hour and I believe I am interpreting it correctly. I am looking at the top in the smaller print under "I. Second Class Mail", and I gather that is the actual report of the Committee. Your comments are below that in the typed area. It says in the actual report of the Committee:

> It considers it essential that the Post Office Department or Parliament immediately find ways and means of covering the loss of the Post Office Department in handling second class mail without this being done at the expense of other classes of mail,...

Then it goes on to point out that we must, of course, bear in mind "the need of assistance to small independently-owned newspapers circulated in rural areas". Then in your comments you make a suggestion which is brand new. It does not seem to have been contained in the report. It says at the bottom, "the deficiency be covered by an annual appropriation". That seems to be your view as opposed to the view of this Committee. It seems to me that your premise for saying that slow progress is being made is based upon your view, as opposed to the view presented by the Committee in its report. Is that a fair assumption?

Mr. Henderson: No, I do not agree with that but I am going to ask Mr. Long to reply because he is more familiar with the Post Office Act changes than I am.

The Chairman: This, sir, will be as far as we can go. It is 11 o'clock and some gentlemen have other committee meetings; but Mr. Long, will you answer this?

Mr. Laflamme?

Mr. Laflamme: Mr. Henderson said that those recommendations are the recommendations of this Committee. Did he agree with or support those recommendations?

Mr. Henderson: It is not my position to support them. I am the servant of this Committee, the adviser, and I draw things to the attention of the Committee which they may want to consider, pro and con, in assessing a given situation. Now perhaps Mr. Long could deal specifically with the Post Office Act for you.

Mr. Long: Mr. Chairman, I think you have to put in focus the categorization of "slow progress". This recommendation was made in 1963. We are now in 1968. The amount of coverage that has been given to the deficit on second class mail is not quite the increase in cost that is anticipated from 1967 to 1969. In other words, your deficit is going to be up anyway and it is now far higher than it was in 1963.

As far as the recommendations set out and indented here are concerned, the Committee did not say that the postage rates had to be increased. The Committee said ways and means must be taken or should be taken, to cover the loss on second class mail. What is set out here is not the Auditor General's recommendation. It is the recommendation made by the Glassco Commission quite some years ago, and it is a way that is still open, that the deficit on second class mail be covered by a special estimates item so that it could be reviewed by Parliament annually.

Mr. Cafik: Mr. Chairman, may I pursue that with a couple of supplementaries. First of all, I did not realize that we were judging the government in terms of the Auditor General's report on the basis of the Glassco Commission. I do not think that has anything to do with it. It might be a very valid point and it might be something we should look into.

The second thing is that I gather that in view of the fact that this recommendation was made a number of years ago and that steps were taken this year, the same might be true in all of these things. If we pass legislation tomorrow morning they would all find themselves in the category of "slow progress" being made because it took three or four years or any number of years to get to that point. So I do not think that is really a valid point either.

I still say that I cannot see any basis for the judgment of slow progress except that it has taken two or three years. I do not think that it is the position of the Auditor General, in making this categorization, to judge the method. It says ways and means. This is a method. It is a way or a means of offsetting some of these costs and in the report by this Committee it takes into account the need, I would suggest, for some kind of subsidy in any event in rural areas for newspapers and periodicals. So I still do not agree with that.

The Chairman: I will entertain one more question and then we must adjourn.

Mr. Bigg: On this very point, we discussed the postal rates for, as I remember, two full sittings.

Mr. Cafik: In committee or department?

Mr. Bigg: In committee. This is a report on our findings here, a very short summary. Now, if we want to leave the words "slow progress" out, as one member I would be quite willing to leave that out if that is supposed to be a direct barb at any particular unit of the Canadian Parliament. But say that progress is being made and then you will decide after you have been on this Committee a year whether or not it is slow or fast.

Mr. Cafik: I do not think that is really the point.

Mr. Bigg: Well, you are doing an awful lot of discussing of this. Perhaps we could delete this word from now on and say that progress has been made and it will be an individual judgment as to whether it is rapid or slow.

The Chairman: Mr. Cullen.

Mr. Cullen: Mr. Winch said earlier that this is the most interesting committee and I would have to agree with him.

The Chairman: Fine.

Mr. Winch: If I may, I want to emphasize this. As I say, and I am not being egotistical, but I have been on this Committee now for almost 15 years. I have been on many committees. This has been the one committee which I can honestly say has always been completely non-partisan. That is why it is such a wonderful committee and I sincerely hope that all of us—and certainly when I say all I include myself—will make our record this year and in the future the same as it has

been in the past: of a non-partisan operating committee looking after the well-being of the expenditures of Parliament. And I mean that.

Mr. Nowlan: As a continuation of the point of order and in that same spiritual light of mutuality, why do we not just take out the "slow"? There is progress being made.

The Chairman: At the next meeting we will review all of these and whatever the Committee wishes we will do. The meeting is adjourned.

HOUSE OF COMMONS

First Session—Twenty-eighth Parliament

1968

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: Mr. A. D. HALES

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 2

TUESDAY, NOVEMBER 19, 1968

Public Accounts, Volumes I, II and III (1966 and 1967)
Reports of the Auditor General to the House of Commons (1966 and 1967)

WITNESSES:

Mr. A. M. Henderson, Auditor General of Canada; Mr. G. R. Long, Assistant Auditor General.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1968

29323—1

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. A. D. Hales

Vice-Chairman: Mr. T. Lefebvre

and Messrs.

Allmand,	Flemming,	Rock,
Bigg,	Howard (*Okanagan*	Rodrigue,
Burton,	*Boundary*),	Rondeau,
Cafik,	Laflamme,	Thomas (*Maisonneuve*),
Crouse,	Major,	Winch—20.
Cullen,	Noble,	
Éthier,	Nowlan,	

(Quorum 11)

Edouard Thomas,
Clerk of the Committee.

ORDER OF REFERENCE

MONDAY, November 18, 1968.

Ordered,—That Booklets illustrating the proposed new form of Estimates be referred to the Standing Committee on Public Accounts.

ATTEST:

ALISTAIR FRASER,
The Clerk of the House of Commons.

29323—1½

MINUTES OF PROCEEDINGS

TUESDAY, November 19, 1968
(3)

The Standing Committee on Public Accounts met this day at 9.45 a.m., the Chairman, Mr. A. D. Hales, presiding.

Members present: Messrs. Allmand, Bigg, Burton, Crouse, Cullen, Flemming, Hales, Lefebvre, Nowlan, Rodrigue, Thomas (*Maisonneuve*), Winch (12).

In attendance: Mr. A. M. Henderson, Auditor General of Canada; Mr. G. R. Long, Assistant Auditor General; Mr. H. E. Hayes.

The Committee reviewed items 1 to 8 inclusive of the follow-up report and questioned the Auditor General thereon.

The Auditor General was requested to prepare a memorandum on the subject of investment of pension funds.

On a motion of Mr. Allmand the Committee agreed to the establishment of a sub-committee composed of Messrs. Allmand, Burton, Crouse and Rodrigue to undertake a study of Governor General's Special Warrants and report to the Committee.

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

Edouard Thomas,
Clerk of the Committee.

MINUTES OF PROCEEDINGS

TUESDAY, November 19, 1968

(3)

The Standing Committee on Public Accounts met this day at 9.45 a.m., the Chairman, Mr. A. D. Hales, presiding.

Members present: Messrs. Allmand, Blair, Burton, Crouse, Cullen, Flemming, Hales, Lefebvre, Nowlan, Rodrigue, Thomas (Maisonneuve), Winch (12).

In attendance: Mr. A. M. Henderson, Auditor General of Canada; Mr. G. R. Long, Assistant Auditor General; Mr. H. E. Hayes.

The Committee reviewed items 1 to 8 inclusive of the follow-up report and questioned the Auditor General thereon.

The Auditor General was requested to prepare a memorandum on the subject of investment of pension funds.

On a motion of Mr. Allmand the Committee agreed to the establishment of a sub-committee composed of Messrs. Allmand, Burton, Crouse and Rodrigue to undertake a study of Governor General's Special Warrants and report to the Committee.

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

Edouard Thomas,
Clerk of the Committee.

EVIDENCE

(Recorded by Electronic Apparatus)

November 19, 1968.

The Chairman: Gentlemen, with your permission we will proceed. I am advised that one or two are one their way and if it is agreeable we will proceed with those present.

First of all we are in a new room again and it is very important that you speak into the microphones for the recording. In most cases I think you should give your name at the start until those in charge become acquainted with the members.

Our next meeting on Thursday is in room 371 and we will have with us the President of the Treasury Board, Mr. Drury, and his officials to explain to our Committee a new system of presenting the estimates. I think you will find this very interesting and I hope we have all members present. Before we adjourn the meeting today there will be material given to you to lead up to our study of the new revised presentation of estimates for next Thursday. So I would ask each one to be sure to read it before going to the meeting next Thursday.

Now we will proceed where we left off last week. We were going over the Follow-up Report of the Auditor General and we were on the Fourth Report, Item 1, Second Class Mail. We had just about finished that and there were one or two questions sort of left in abeyance. I think it came about by the fact that this was listed as "slow progress" having been made and it was my feeling that possibly you felt that it should be raised into a higher category than that. I think that is where we left off. The meeting is now open. Mr. Henderson, do you want to start off with any comments or shall we move on?

Mr. Winch: I would suggest that we move on, Mr. Chairman. We had quite a discussion on that at the last meeting.

The Chairman: Before we move on we should make sure that that is moved into another category. I think it is only right that it should be moved out of that mecause of the legislation. The other categories are "implemented", "soon to be implemented", and so on. If you feel it has been implemented I would like to hear from you.

Mr. Allmand: Mr. Chairman, I have looked at some of the other things in the report that I presume are also under that "slow progress" category and they all seem to be in different stages of progress. There is no doubt that some are slower than others, that some are fast, and some of them I would consider as having been done. What I was going to suggest is that if it is an item that is on its way to completion but has not yet gone far enough to be under the "soon to be implemented" category, should it not be described rather as "progress under way" or something like that?

If this particular item on the Post Office was not completed, I would certainly have it under something like "progress under way" or "progress being made" rather than that qualifying adjective "slow", because in many cases it is not slow, in my opinion, although in others' it is and may be in the Auditor General's. But I just do not think it is a fair classification. I would rather see that whole classification described in another way unless you subdivide it.

• 0950

The Chairman: Mr. Allmand, I think what you are saying is that you would like to see the word "slow" out of there and say "progress being made."

Mr. Allmand: Right.

Mr. Nowlan: I thought that was what we decided at the tail-end of the last Session, or that we discussed it.

The Chairman: All right. Is that the wish of the Committee? Mr. Crouse?

Mr. Crouse: Mr. Chairman, I would refer the Committee to the words of the Auditor General where he says:

> I would point out to the Committee that this forecast deficit of $39.1 million is greater than the 1967-1968 deficit which was $37.5 million and is more than twice the deficit of $18.9 million which existed 10 years ago.

These are startling figures and in view of the fact that these constant reviews of Civil Service salaries, which are generally upwards, will perhaps tend constantly to increase this deficit, I personally feel that the word "slow" should remain. Progress is being made but it is slow progress and it is definitive of the situation. We just cannot ignore deficits that are in the nature of $30 million or $40 million and say that fast progress is being made. I think the word "slow" is quite definitive, is quite apt, and serves as a reminder to the government that they still have a problem on their hands in so far as the deficit of the Post Office Department is concerned. Those are my own views and that is what we are here for—to express them as members of this Committee.

The Chairman: Mr. Allmand.

Mr. Allmand: On the other hand, the government dealt with this particular recommendation, this problem, and passed legislation to cover a certain amount of the deficit; they could have at this time raised the rate of Second Class Mail, I suppose, to eliminate the deficit altogether. However, I guess they felt that they should still subsidize Second Class Mail to a certain extent. Therefore, action has been taken and they have made the decision to leave it in a certain way with a certain deficit for the time being. That is why I think it is not proper to describe it in such a way. If a person reads that "slow progress is being made" he gets the impression that nothing has been done at all or that it is being allowed to lag; whereas, in fact, the government has looked at it and has said that it would increase Second Class Mail rates by this amount. Parliament has said it is going to increase Second Class Mail by that amount and has left a certain deficit for certain reasons—political, social, economic—whatever you wish. But that is my own feeling. I feel that it is a misleading description.

The Chairman: Mr. Winch. We do not want to spend too much time on this but we want to get it ironed out.

Mr. Winch: I just want to add a point and it follows up what has just been said. What we have to consider here is not policy or expediency nor is it legislation that has been or may be introduced. What we have to consider here is the view of the Auditor General in his position of drawing certain situations to our attention. It is not government policy or opposition questioning or anything else. What we consider is the view and the opinion of the Auditor General, who has the responsibility of drawing certain matters to our attention.

So I just want to add that when we face a situation where the Auditor General, in accepting his responsibilities, again draws to our attention millions in deficit that he cannot see being overcome, then we have to consider this as a report and not government policy or legislation.

Mr. Allmand: On the other hand, yesterday in the House of Commons, under the Auditor General's Estimates—I am not too sure whether it was the Treasury Board's or the Auditor General's Estimates—a member of your party, Mr. Winch, got up and used this particular table at the back—in the House of Commons—and used those terms in a way which I felt was very partisan. That is why I do not want to have the term "slow progress being made" there as I feel it can be used very easily by politicians and by journalists to mislead and to give the wrong impression. I think it gives the wrong impression with respect to the Post Office Bill and the action that has been taken under Post Office.

• 0955

For example, the member of your party said that only four of these recommendations had been implemented or were about to be implemented, based on this particular table at the back, when, in fact, certain real action had been taken under "Post Office". That was included as one of the 55 where nothing had been done. So I think it is a misleading table, and although you say we are not supposed to consider government policy and the policy of Parliament and that we are supposed to consider what the Auditor General recommends, this table in this report is being used by politicians out of the House and even in the House to score points against the government in a partisan way. If they are going to do that I want the table to be more reflective of what is being done.

Mr. Orange: That is exactly what you are doing now.

Mr. Allmand: That is right, but I am going to retaliate every time somebody uses it against us.

The Chairman: Thank you, gentlemen. Mr. Flemming.

Mr. Flemming: Thank you, Mr. Chairman. The controversy that has arisen is due to the fact that there seems to be a difference of opinion as to what constitutes "slow". In my opinion the Auditor General is quite justified in saying it is slow. The question is, when does "slow" become adequate and when does it become satisfactory?

All you need to do is read the comments, which are factual. Mr. Allmand would not deny that they are factual. And so I think that he is overly sensitive about the comments made in this Committee with reference to the government. He will get a great deal more respect from the government which he supports if he contributes something which is going to strengthen and improve the actions of the government rather than to try, apparently, to say something and do something that is going to sort of justify everything that has been done.

Now, in my opinion, the label "slow" is justified. If action had been taken within six months it would not be justified. But it was not and it stayed there for a few years, is that not right? And so the question is, what constitutes "slow"? As far as I am concerned, I think the Auditor General was right and I will submit this as a proper interpretation.

The Chairman: Mr. Lefebvre.

Mr. Lefebvre: As Mr. Nowlan said a few minutes ago, I thought we had resolved this particular argument as we had agreed at the end of the last meeting—I do not have the Committee report here—that this particular adjective would be removed and that we would say "progress is being made". I stand corrected if I am wrong but this is the impression that I have. If anyone has a Committee report here, maybe we could check it, but this is my belief.

I have the French copy here, and under the comments of the Auditor General, it says in the second paragaph:

[*Interpretation*]

> By virtue of an amendment to the Post Office Act which received royal sanction on October 31, 1968, second class postage rates were substantialy increased.

[*English*]

—they were raised considerably. In one version we use the words "considerable increase" and in the other we say "slow progress". In my opinion, these two things do not seem to relate and I think we should stand by our decision at the last Committee meeting to remove the controversial word "slow" and just say "progress is being made".

The Chairman: Mr. Flemming.

• 1000

Mr. Flemming: Do you agree, Mr. Chairman, that this Committee had made the decision that we eliminate the word "slow"?

The Chairman: Well now, gentlemen, I personally would be agreeable to having the word "slow" removed. But I am at the wish of the committee.

But as we go through each one of these, if we are not satisfied with the category that it is placed in, it will be the prerogative of this Committee to put it in the proper category. The next one, for instance, is marked "slow progress". You may wish to move that into another category; I do not know. This seems to be the stumbling block and there are points on both sides in whether this word "slow" should be there or whether it should not. But I think the general feeling at the last meeting was that we would remove the word "slow". I think that was the final thought. I think it is only a technicality. Mr. Nowlan said:

> As a continuation of the point of order and in the same spiritual light of mutuality why do we not just take out the "slow"? There is progress being made.

That was said at the last meeting. Mr. Burton?

Mr. Burton: Of course, the term "slow" is a somewhat relative term. Nevertheless, I think we should consider that the Auditor General has given his opinion that this is his view of the progress that is being made with respect to the recommendations, and he would have his own definition of what he means by the term "slow". I would take it that it would be along the line that more rapid progress should have been made. I am only suggesting that this is what I think he might come up with. It seems to me we do not have any power to change this report of the Auditor General if this is his view. We might ask him if he would not consider a change of terms, and we could report that in our view a different state of affairs exists as well.

The Chairman: Mr. Burton, at this stage I would like to point out that this Committee has the right to change the category regardless of the category the Auditor General places them in.

Mr. Burton: In this report.

The Chairman: Yes. This Committee can rule otherwise if they so wish. I think we should hear from Mr. Henderson on this point.

Mr. Henderson: Gentlemen, may I just attempt for one minute to put this matter into focus. This recommendation was made by this Committee and it covers the past five years. Your recommendation is quoted at the top and I give you the nub of that recommendation in my comments below:

> early consideration should be given by Parliament to ways and means of covering the loss of the Post Office Department in handling second class mail.

As you well know, that loss has manifested itself in a very substantial deficit over the years. I readily agree that the government has come to grips with this. They put first class postage up forthwith. They are proposing the substantial increases of which you are aware in three stages, but not beginning before April 1, 1969. I make these comments in my capacity as advisor to you in order to bring you up to date on the factual situation and to point out factors that you should know in order to exercise judgment on the status of the particular recommendation.

• 1005

I think it was about three years ago that you asked me if it would not be possible to prepare some kind of a box score to categorize them in some way. In fact, I think several of the members who are here will recall that the Committee attempted to do that and then they asked me if I would do it for them. Therefore Mr. Long and I, for better or for worse, came up with the headings that you see on page 27 and for the past several years the items have been placed in that category. I hold no particular brief for the word "slow". Perhaps I could use an adjective somewhat more derogatory than that. I am only doing it to help you. If you have a better way of doing it or would care to form a committee of your own to do it, believe me, I should be more than pleased. It is simply to give you an indication of where the totals stand. We have here some 50-odd recommendations which have been with us now for a considerable number of years and which, I may say, increase substantially the complexity of my work, the size of my report and the burden of your work, and if you are able to follow out the technique that you propose, that is, to take my 1968 report—and we can clean it up, believe me—it will not only be a fine job but it will help me and it will save money for everybody. So, Mr. Chairman, I am entirely in your hands on the categorization. This is a modest attempt on our part to provide a shortcut, because time is always of the essence at these meetings.

The Chairman: Gentlemen, in view of the past experience of the Public Accounts Committee I think it is fair to say, on any recommendations we have made to the House, that we are tickled to death to know that progress is being made. It does not matter whether it is fast, slow, medium or intermediate so long as progress is being made. We are most interested in progress of some description being made, and with that in mind I would suggest that we say "Progress is being made" and leave out the adjective. If you are agreed on this we will proceed to the next point. Agreed?

Some hon. Members: Agreed.

The Chairman: Item No. 2 has to do with departmental trading and servicing activities, and so on, and progress is being made on this one:

> *Departmental Operating Activities.* The Committee reiterated its belief that it would be desirable, in order that Members may have a clear understanding of the true financial results of departmental trading and servicing activities, were overall financial statements reflecting these activities to be included in the Public Accounts, provided this can be done without undue cost or staff increases. The Committee requested the Auditor General to continue to keep the development of this objective under close surveillance and to report thereon to the Committee in due course.

Mr. Henderson has made the following rather lengthy comment:

> *Comment by the Auditor General:* In paragraph 251 of my 1967 Report to the House I referred to the issuance in April 1966 of the Treasury Board policy circular on the establishment and use of working capital advances (revolving funds) which should lead to the increasing use of working capital advances by departments and agencies in circumstances where it would be to their advantage in

carrying out any program or activity. In such circumstances annual financial statements would be prepared for isclusion in the departmental sections of the Public Accounts. Implementation of this program should represent a long step towards reaching the objective which I have been advocating for several years and which has been consistently endorsed by the Committee. Paragraphs 252 to 266 of that Report indicate how a number of the larger departments and agencies involved in trading of servicing activities have already reached or are progressing toward the development of financial statement along the lines recommended.

On June 27, 1967 the Treasury Board authorized a contract with a firm of management consultants to provide consultant services, to recommend the format of operating budgets, to cover certain manufacturing and trading operations carried out by departments and financed by revolving funds and advance accounts. The study was completed in November 1967.

On February 29, 1968, Treasury Board approved an extension to the contract with the consultants for the provision of additional information for the Treasury Board in connection with summary budgets for possible printing in the Estimates Blue Book, the establishment of principles and accounting practices which could be applied to all working capital advances and the nature of the information on working capital advances required for program review purposes. This involved preparing a revision to the Treasury Board policy circular. A draft of a revised circular is now being studied by the Treasury Board.

It remains my intention to keep the development of this objective under close surveillance and to continue to report thereon to the Committee.

would you like to add anything further to that, Mr. Henderson?

Mr. Henderson: Mr. Chairman, since the Committee made its original recommendation over five years ago, Treasury Board—and you will hear more particularly about this next Thursday morning—have been making considerable progress in the area of costing and producing financial statements. This has therefore become, shall I say, one facet of the total problem. It interested me some ten years ago because a lot of the departmental operating activities, had they been properly costed and set up in the form of financial statements, would have conveyed considerably more information than had been the case in the past. Treasury Board and I are both working toward this common objective.

When this matter was discussed in 1963 the Committee gave its blessing to my proposal but it added the strong proviso that it be developed without—and I quote the words they used—"undue cost or staff increases", and it directed me to keep the development of the objective under close surveillance and to report to the Committee. I have been doing that, and I think it would be better if you were to perhaps pass over this item for now, Mr. Chairman, until you have an opportunity to consider what Treasury will say to you next Thursday morning. There may also be one or two other items which I think you may want to handle in like manner.

The Chairman: No. 3 is listed as progress being made. This is a very important item. It has to do with the area of internal financial control, and the Committee is very much interested in this.

3. *Internal Financial Control.* The Committee requested the Auditor General to continue his examinations into the 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: While a number of the larger departments and Crown corporations possess their own internal audit staffs, some of them have not yet taken steps along these lines even though the circumstances justify it. On the other hand, in the related field of pre-audit, staffs are larger and methods more elaborate than modern practice requires. I do not believe the solution to these problems lies in engaging more staff but rather 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. In this connection the President of the

Treasury Board advised the House on December 7, 1967 that

> 44. The Government intends to introduce legislation to provide for transfer of the pre-audit responsibility from the Office of the Comptroller of the Treasury to individual departments and agencies. Substantial staff savings are anticipated when this process is completed.
>
> (Hansard p. 5183)

It is my intention to keep this matter under review and to report further thereon to the House.

As you will note, one sentence in the Auditor General's report says that some of the departments..

> ...have not yet taken steps along these lines even though the circumstances justify it. On the other hand, in the related field of pre-audit, staffs are larger and methods more elaborate than modern practice requires.

• 1010

That is a statement that needs some thought and some explanation. Does anyone have any questions they would like to ask the witnesses in this regard? If not, I will ask Mr. Henderson to enlarge upon it.

Mr. Henderson: Mr. Chairman, this is another item which will come up, or should come up, when the President of the Treasury Board is before you. It encompasses a very large area but the principal point here is that the Glassco Commission made a very important recommendation—I do not know whether this was included in the 21 which the President of the Treasury Board tabled yesterday—namely, that a great many of the financial responsibilities be decentralized or delegated to the departments, that the pre-auditing work of the Office of the Comptroller of the Treasury, which is now carried out, be removed, and that the responsibility be vested in the Deputy Ministers—much along the same lines as the government delegates this responsibility to the presidents and managements of Crown Corporations.

They have been, shall we say, tuning up in readiness for it, but no action, so far as I know, has been taken in this respect yet because before this responsibility can be transferred—what we call the pre-auditing responsibility and commitment control—the Financial Administration Act has to be altered. We have to bear in mind the Comptroller of the Treasury does this pursuant to statutory requirement. I therefore gave you the quote of what the President of the Treasury Board stated in the House last December here, namely, that...

> The government intends to introduce legislation to provide for transfer of the pre-audit responsibility from the Office of the Comptroller of the Treasury to individual departments and agencies. Substantial staff savings are anticipated when this process is completed.

This, therefore, is the key to this and several of the other points here that you will be considering, and I would suggest that that is something on which you would like the President of the Treasury Board to expound next Thursday.

The Chairman: Are there any questions?

Mr. Cullen: A question was raised in the House yesterday about the fact that all Crown Corporations do not use the Auditor General, that some of them retain their own auditors and for very good reasons—because their speciality may be in that particular field. Now is Polymer, of which I am somewhat familiar, one of the Crown Corporations where you feel some improvement could be made by better use of staff, or is hat being too particular?

Mr. Henderson: I can answer right off in the case of Polymer. First of all, I am the auditor of Polymer and have been from its inception. The auditing of all its foreign subsidiaries, however, I share jointly with a private firm under an arrangement that has been going now for many years and which works extremely well.

Mr. Cullen: This is the point I am making.

Mr. Henderson: It is not a corporation to which I would suggest any particularly better use could be made in this area. I am speaking more here of the departments and some of the other Crown Corporations without particularizing.

Mr. Cullen: Do you feel that it is beneficial to work together, particularly when working in a foreign field?

Mr. Henderson: Well, it saves me trouble, Mr. Cullen. Moreover, a Corporation like Polymer, as heavily involved as it is in some of the foreign markets, faces local taxation

problems the nature of which are more familiar to them than to me, and together we are able to give them better service.

Mr. Cullen: So in a situation like that...

Mr. Henderson: That is right.

Mr. Cullen: ...that would be your recommendation.

Mr. Henderson: This is a very clear-cut example of the benefits of the joint auditor relationship practice.

Mr. Cullen: Thank you very much.

Mr. Henderson: Your Committee has another recommendation under this heading which you will come to in this Report.

The Chairman: We will move on. That one is listed as "progress being made" and we will take it up further when Treasury Board are here.

• 1015

Mr. Crouse: Before we move on from this item there is a question that comes to mind which has to do with a statement in the House by the Finance Minister regarding shared cost programs.

We were informed, if I remember correctly, that the reason for our large budgetary deficit for example at the present time was brought about as a result of an inability to properly keep control of the shared cost programs—in simple words, they got out of hand and neither the departments nor the ministers nor anyone seemingly was aware of just what was happening. The result was that we have this enormous deficit facing us and facing Canada and, having just returned from my constituency, facing the people who are concerned to a degree that I never before have been aware of. Would this type of recommendation that is before us now, whereby your Department would have closer auditing control within the departments, serve to prevent this from happening in the future?

Mr. Henderson: Yes, I think it would, Mr. Crouse. Of course when you make deals such as the government has made on the shared cost programs, which are open-ended, it is pretty difficult. I thought Mr. Benson's presentation of that subject was very sensibly and very well done, if I may say so. Now you see that exemplified in my report already under the heading of "Unemployment Assistance." For many years I have been flogging that one because the ambiguities of that Act are so tremendous that a number of things are going off under it which we just cannot stop.

Winter Works is another program, as you well know from my Report two to three years ago—I think Mr. Flemming particularly will recall the discussion he had in the Committee—where a number of projects were being carried out which in our view just simply did not qualify. Now we brought these to attention and there was considerable discussion. I recall Mr. Marchand appearing before the Senate and a great deal of discussion taking place. This year, as a matter of fact, my officers and I are engaged in looking at it. I think this will be perhaps its final year because the Prime Minister, as you know, has announced that will cease effective 1967-68, I think.

There is an area indeed for better auditing, better co-operation and the extent to which the departments and the Crown Corporations can perfect their internal auditing so that they automatically give me something in which I can place a greater reliance and therefore have to do less work. Believe me, there is no duplication but, in many instances, because they do not have one we have to do more work than we should. And we are after them. Sometimes the size of their organization perhaps does not justify having a very elaborate thing but the case is examined on its merits.

If the pre-auditing—and I think this is a very interesting case—now exercised by the Comptroller of the Treasury is lifted and the deputy ministers of departments of government are given the cheque book and make the payments, then a greater accent will have to be placed on ensuring that they have proper internal auditing after the event in the department and a greater accent on the external auditing that I do.

Therefore I am extremely interested in the rate of progress and what the government's intentions are with respect to this decentralization of responsibility. I think the proposals they are making make complete sense but you do not just bring a change like this in overnight.

Mr. Crouse: Would it be true to say then that if your department does not do post auditing the escalation of costs under the shared cost program could even get wider without evident control?

• 1020

Mr. Henderson: I would hope that our work would stem it. I do not think I can offer any guarantees but we are certainly fully aware of it and we always intend to do our best.

Mr. Nowlan: Mr. Crouse has raised a very interesting point which is pretty basic to what little Parliament can do regarding some of these shared cost programs. Mr. Henderson, it is admitted that these are open-ended and that administration, presumably, is in the hands of the provinces. The Department of National Health and Welfare is one of the more basic departments for these open-ended programs. Let us avoid this myth of ministerial responsibility which was fine a hundred years ago but government is so complex and complicated now that I think we are going to have to face the fact; we face it in reality anyway. It is a myth.

Can you go down to the Department of National Health and Welfare and pick up some department head who, in February, told the Minister of Finance that share cost programs were going to balance out at a certain figure, and yet come back there four months later and have that same man say, "Well, look, I made a mistake in my figures. The bridge collapsed, we are in the water, the deficit is $600 odd million"?

In other words, can you see where the buck stops to pass and the chairman or the director of a certain department made a mistake and we know he made a mistake—and everyone can make mistakes—but perhaps next year, if he makes another mistake obviously he gets red-circled, and perhaps demoted, because I come to that.

I think this is a basic thing. Perhaps you have explored this in the past. If not, a Committee like this and or Parliament is perhaps going to have to go behind this corporate veil of ministerial responsibility. For instance, the fine arts building down here on Confederation Square. Well, that is not Confederation Square with that building; that is accounting confusion because there should be somebody somewhere who made a wrong estimate.

It happens in all governments; we made wrong estimates when we were in power. I think we are paying these men who are in charge of departments or section heads good money and that the parliamentarian at some stage, and perhaps a committee of Parliament, should be able to find out if Sam Jones made an estimate of $18 million in the fine arts centre and it turns out to be $48 million, or whatever it may be.

I think it is part and parcel of what Mr. Crouse mentioned on the share cost programs. Is there someone you can put the finger on within the Department when you go in on either a pre-audit or post-audit and say he made a mistake?

Mr. Henderson: The answer to that, Mr. Nowlan, is yes, but at the same time you have to remember that it is not my function or responsibility nor my desire, in fact, to wish to interfere in administration. In our examination of the facts leading up to the cases with which we would deal in this Committee, I naturally must be familiar with what has caused it and always seek to get just as far down the line as I can to find where that buck you speak of really passed.

When it comes before this Committee and you examine it as you will be doing in my 1968 Report, you then examine or have as witnesses the people who are responsible in that department, the deputy minister and his assistants. I feel it is proper that I should defer to them to answer this question to you although they are fully aware that I have the total picture. I usually speak on these subjects only when directed by the Committee to do so. You then have the man who takes the ultimate responsibility under our system.

Mr. Nowlan: I appreciate that, and I gather we can wait for these officials to appear, but as you are aware, without getting political, there certainly is some suggestion that the federal government was aware that certain figures were not realistic and they got that suggestion from other provincial governments who allegedly pointed out the differences. Now, as a parliamentarian—whether I am on one side or the other, but naturally being on the side I am in the present make-up of the Federal Government—I would be most interested in just seeing, within the internal accounting, who rationalized some of these suggestions coming, say, perhaps from Ontario that share cost programs and figures were realistic when in fact they were not.

The Chairman: Mr. Nowlan, I think when the 1968 Report is before us you will have an opportunity to follow that further. Mr. Allmand?

• 1025

Mr. Allmand: Mr. Chairman, I was merely going to ask how we do check into these

types of things. For example, the shared cost programs; should these miscalculations on predictions be investigated in the Health and Welfare Committee where they bring in officials and the Minister or do we bring them here? For example, for the National Arts Centre they are trying to question why the predictions were so out of line. I understand in the Broadcasting Committee they question the Minister and the deputies and the other civil servants. Do we bring these people back in this Committee also to go through that same...

The Chairman: Yes, we will, Mr. Allmand. We can have the CBC officials before this Committee.

Mr. Allmand: I see.

Mr. Nowlan: We could duplicate or supplement what is going on in the Broadcasting Committee now with Mr. Southam.

The Chairman: We must remember that the Auditor General audits the books after the money has been spent and he is not in a position to catch this spending of money before it is spent. His duty is to audit the moneys that have been spent. Anything prior to that is really policy and out of his field.

Now, if there is nothing further we will go on to No. 4, Unemployment Assistance.

> 4. *Unemployment Assistance.* The Committee shared the opinion of the Deputy Minister of National 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. It 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.
>
> In its Fourteenth Report 1966-67 presented to the House on March 2, 1967 the Committee referred to discussions it had with the Deputy Minister of National Welfare concerning the Canada Assistance plan enacted by Parliament in 1966 which permits the Federal Government to enter into agreements with the provinces to make contributions to the cost of providing assistance and welfare services, pursuant to provincial law, to all persons in need. The Committee believes that the new plan should provide a better overall co-ordination of assistance programs, although recognizing that, until the regulations under the plan are established and agreements entered into with the provinces, it is not posible to fully assess the adequacy of the new comprehensive approach to social assistance in overcoming administrative weaknesses previously criticized. The Committee asked the Auditor General to follow up this matter and report further to the House thereon in due course.

The Chairman: This is listed as "soon to be implemented". Are there any questions or observations? Does anybody wish to question Mr. Henderson or Mr. Long? If not, we will proceed. I think it is pretty well outlined there.

No. 5 concerns the findings of the royal commission on government organization.

> 5. *Findings of the Royal Commission on Government Organization.* The Auditor General referred to the numerous and widespread findings made public in 1962 and 1963 by this Royal Commission as a result of its examination into the organization and methods of operation of departments and agencies of the Government. He reminded the Committee that where administrative action has caused or contributed to waste of public money, it is his duty to report such cases as he considers should be brought to the notice of the House. He pointed out that while some instances come to his attention directly during the course of his audit work, others are indirectly brought to light by action on the part of the administration itself in the course of examining its own operations, as for example, through the medium of internal auditing.
>
> By the same token, he considers it to be his duty to study reports prepared by or for the managements of departments and agencies, as are by law available to him, directed toward the saving of public money by the elimination of wasteful practices and unnecessary or uneconomical operations. To the extent such reports correctly indicate where and how savings could be made, the Auditor

General considers he has a responsibility to Parliament to follow through in all such cases and ascertain what action has been or will be taken toward achieving such savings, or if no action is to be taken, to inquire why. On the other hand, he does not conceive to it to be his responsibility to assess the practicability of any specific recommendations made because, in his view, the decision with respect to the extent to which, or the ways in which, such recommendations can and will be implemented must always be the sole responsibility of management.

With regard to the findings of the Royal Commission on Government Organization, the Auditor General believes it to be of considerable importance that those relating to outdated procedures, uneconomical operations and wasteful practices be effectively dealt with, not only in the interests of improving efficiency but because of the substantial savings of public funds which could result. It is the opinion of the Committee that not only does this lie within the statutory responsibilities of the Auditor General but that the Auditor General's concept of his responsibilities in this matter is in accord with the intent and wishes of Parliament.

The Chairman: This is listed as "progress being made".

Mr. Lefebvre: Mr. Chairman, has this to do with the announcement yesterday by the President of the Treasury Board that further recommendations have been approved by the government. Has this to do with that?

The Chairman: Do you mean the fact that they are going to bring before us the new submission of the Estimates?

Mr. Lefebvre: The President of the Treasury Board on Motions yesterday—and perhaps I did not catch it clearly—I thought had listed some more items that have been approved or accepted by the government as having to do with this report.

The Chairman: I think that is right. Mr. Henderson may have an observation because in his remarks here he says:

> This leaves 94 of the original 276 recommendations still to be dealt with,

Mr. Lefebvre: There were some more yesterday.

The Chairman: We will ask Mr. Henderson for the most up to date report on that.

Mr. Henderson: Mr. Chairman, I noticed in this morning's paper that the Minister tabled 21 more yesterday and therefore I think I am right in saying that it will now leave 73. You will recall that this particular subject was an assignment given to me by the Committee on which I reported back in 1965, and I believe some of these recommendations the President of the Treasury Board proposes to discuss with this Committee, which I think would be an excellent thing.

The one I am principally interested in is the one I mentioned earlier, namely the all-important one of the decentralization of the responsibility; the lifting of pre-audit control.

The Chairman: The next one, No. 6, will be dealt with next Thursday. Progress is being made.

No. 7 concerns Governor General's Special Warrants.

> 7. *Governor General's Special Warrants*. The Committee recommended that a study be made of Governor General's special warrants.

Mr. Henderson: Mr. Chairman, if I might take the liberty of correcting your No. 6, there is no action here. These are two things that the Committee proposed on which Treasury Board has taken no action, namely the inclusion of the supporting financial information of Crown corporations. You will recall our discussions on this over the years whereby when you vote the money, for example, for the CBC of a hundred-odd million, there is just that figure and this Committee felt it should be in the Blue Book. You should have the budget, the six or eight categories where the money is going to go put in, so that you see the general broad areas where the spending is going to be made. There has been no action on this. Second, as and when there are major increases in the size of staff establishments in all governmental departments as they appear in the Estimates there should be a brief note at the bottom saying why. There has been no action on that.

• 1030

Mr. Winch: Mr. Chairman, when you say "no action" you mean there has been no reported action. We do not mean they have not discussed it or they have not brought it up.

Mr. Henderson: I have not been advised of anything being done by the Treasury. I hope that the secretary of the Treasury Board will be able to submit something to you on Thursday about this.

The Chairman: That is really what I had in mind when I said progress was being made, in that they are coming here Thursday, but up to this point we have not heard.

Mr. Crouse: We will discuss No. 6 then on Thursday? We are just deferring this discussion then until Thursday?

The Chairman: That is right, Mr. Crouse.

Mr. Crouse: Thank you.

The Chairman: On paragraph 7. Governor General's special warrants. This is a very big and a very important subject.

Mr. Henderson: It was, I suppose, two or three elections ago that the Committee put down this request, because it was concerned over the procedure and requested that a study be made. I suppose we know there is no action yet, so I have categorized it as that. That is Section 28 of the Financial Administration Act.

Mr. Lefebvre: This is the way the government spends funds between parliaments.

Mr. Henderson: When Parliament is dissolved, Mr. Lefebvre.

The Chairman: Mr. Allmand.

Mr. Allmand: I was just wondering what the end of the study was to be? Why did we recommend that a study be made? Because we felt that the warrants were being abused? There is not very much information there.

Mr. Henderson: If you will refer to this subject in my 1965-1966 and 1967 reports, you will find very detailed explanations as to how they were carried out.

Mr. Allmand: How the warrants...

Mr. Henderson: How the money was spent when Parliament was dissolved during those particular years.

Mr. Allmand: Yes.

Mr. Henderson: And you will see the circumstances which led this Committee up to suggesting that the whole area be studied.

Mr. Allmand: That is in paragraph 48 of your 1966 report?

Mr. Henderson: Yes, that would be right.

The Chairman: Would the Committee like to give consideration to setting up a subcommittee, say of three members, that would study the Governor General's special warrants during the last period when Parliament was not in session and bring back a report to this Committee? It would be a very interesting subject and research. If three members would like to do it, this Committee would be interested to know how the warrants were used while Parliament was not sitting; what the money was spent for; whether it was spent in line with the warrants; and so on. I think it would be most interesting.

Mr. Allmand: I too think it would, Mr. Chairman.

Mr. Nowlan: It is not just for dissolution, Mr. Chairman. Does not prorogation or adjournment give rise to Governor General's warrants?

Mr. Henderson: Well you always...

Mr. Nowlan: Is this not a little vague?

Mr. Henderson: ... vote supply before you adjourn. This generally exists when Parliament is dissolved.

Mr. Bigg: But if they ran out...

Mr. Henderson: Yes, if they ran out, then...

Mr. Bigg: ...this is a way of doing it.

Mr. Nowlan: This is one of the vague things about it, is it not?

Mr. Lefebvre: Actually the Governor General does not have anything personally to do with the spending of this money, but it gives the impression that the Governor General is spending millions of dollars. I do not know, but I cannot see this term at all. It is too bad they could not change it.

The Chairman: Mr. Allmand?

Mr. Allmand: I think your suggestion is a good one, Mr. Chairman. I would move that we set up a subcommittee. You are in a better position to know just how many people would be required, but I would suggest that this subcommittee be set up.

The Chairman: I would think if we had one person from each of the parties on this Committee. If you would leave it to me to name four, I would do it. I would like Mr. Allmand, Mr. Crouse, Mr. Burton and Mr. Rodrigue. The four parties will be represented and they could make a complete study of Governor General's warrants for the last session. I do

not think we need to go any further than that, for the last time they were used. They could report to the Committee and we could have your report sometime early next year.

• 1035

Mr. Nowlan: I think this is a good idea, but should they not look back. Did not the Auditor General say it goes back to 1966, or is this just going to be too much? It certainly will refer to those earlier reports.

The Chairman: We will leave that up to the subcommittee. They can go back as far as they like with particular reference to the latter period. Is it agreed?

Some hon. Members: Agreed.

The Chairman: Mr. Cullen?

Mr. Cullen: May I ask one question? The recommendation was that the Committee recommended that a study be made of the Governor General's special warrants. Now, are you suggesting a study be made by Cabinet. Is this aside from the internal one?

Mr. Henderson: Mr. Cullen, the Secretary of the Treasury Board—if my recollection serves me right—said he would make a study of it. I do not think he has done it yet, or I do not think Dr. Davidson had by the time he left that position.

Mr. Bigg: Perhaps this subcommittee could check with them to find out if there has not been much of this research done, and which they could use rapidly.

The Chairman: Paragraph 8—Unemployment Insurance Fund and its Administration.

> 8. *Unemployment Insurance Fund and its Administration.* The Committee stated its opinion that it is in the public interest that the Government's consideration of the report of the Committee of Inquiry (which was tabled on December 20, 1962) be completed as soon as possible and that the Government bring forward promptly such proposals as it may deem necessary to deal with the problem raised by the report.
>
> The Committee also reiterated the additional recommendation made in its Fourth Report 1963 that preparation of the annual financial statements for the Unemployment Insurance Fund should be made a statutory responsibility of the Unemployment Insurance Commission and that the statements should be reported on by the Auditor General.
>
> After having a report from departmental officers, the Committee in its Fourteenth Report 1966-67, presented to the House on March 2, 1967, indicated its understanding that legislation was to be brought before the House covering the report of the Committee of Inquiry.

The Chairman: There has been no action taken on this recommendation and it was a matter of the Act having been amended so that the Act would make it the responsibility of the Unemployment Insurance Commission to make a report. Also that the Auditor General, as I recall, would be the auditor of that Commission. Is that right?

Mr. Henderson: That is right.

The Chairman: As you recall, in the House we had the Act before us, but it was simply to increase the contributions and the benefits, and we did not get into this particular part of the Act. Therefore no action has been taken. It is being done, but it is not being done according to statute. Is that right, Mr. Henderson? Mr. Lefebvre?

Mr. Lefebvre: Just recently—I do not know if it has anything to do with this particular recommendation of the Committee—I guess all the members here saw in the newspapers that there was a loss of $8 million to the Unemployment Insurance Fund last year through frauds of different kinds. They were setting up more strict supervision or observation or questioning of those applying for benefits, and they hope to save $3 million this year and more next year. In the period of three or four years they are trying to wipe out this possibility of fraud. Has this anything to do—this recent announcement that I am speaking of—with the recommendations put forth here?

Mr. Henderson: Yes. In part it does, because this Committee was quite active in looking into the Unemployment Insurance Fund and its administration in 1962. Paragraph 266 of my 1967 report gives the situation as to what has been taking place and also there are quite interesting figures on the benefits, the kind of auditing and checking and what not which goes on. The principal point of this No. 8, however, is the fact that there should be some provision that the annual financial statements of this Fund be examined and reported on by the Auditor General. That has not yet been put in, although the Minister has indicated that they are going to bring in a revision of the Act one of these days.

The basic recommendation that your Committee would be interested in is that the Committee stated its opinion that it is in the public interest that the government's consideration of the report of the committee of inquiry—which was tabled back in 1962—be finished as soon as possible, and the government must bring forward promptly such proposals as they may deem necessary to deal with the problems raised by the report. Well, I suppose you could say those were brought forward on March 7, 1968, when they increased the contributions and they increased the benefits. But this rather smaller and less important point that the Committee recommended has still got to see the light of day.

• 1040

The Chairman: Mr. Allmand?

Mr. Allmand: Is that the general report?

Mr. Henderson: That is the general report.

The Chairman: Mr. Henderson, are you reviewing the financial statement of the Unemployment Insurance Commission now?

Mr. Henderson: Yes, sir. In fact I sign it as though it were in the law. We always get it to do each year. I really have no authority to do it, but I do it anyway. I hope they will make an honest person out of me soon.

The Chairman: So the point is that you are doing it, but the Act does not state that it should be given to you and audited by you.

Mr. Henderson: That is right.

The Chairman: I am wondering why such a small amendment as this was not incorporated in the Act when it was before the House just a short time ago.

Mr. Lefebvre: Excuse me. You are in fact auditing this, but you have no authority from the—

Mr. Henderson: The disbursements are made out of the Consolidated Revenue Fund, and by law I am the Auditor of that. Some years ago we were instrumental in getting the Unemployment Insurance Fund—to prepare proper financial statements—a balance sheet—which I thought was a very sensible thing. It used to have a large portfolio of investments. From time to time it gets changed around, but each year it should have produced, or so it seemed to me, proper financial statements so that one could see what the income was, what the outgo was and how many people were drawing the money, and so on. Up to that point there had not been any. Then I suggested that if they would put in all the costs and set them up right I would sign them on the bottom and we could put them in the Public Accounts of Canada so that the whole story would be available. That is what we proceeded to do. But, legally, provision for me to sign separately should be in the Unemployment Insurance Act, as it is in many other acts. We thought this was a good thing to do and the statements, I think, should commend themselves to you now.

Mr. Nowlan: Mr. Chairman, why is it not there now? You have been given some answer at some time. Probably it is in one of the earlier reports.

Mr. Henderson: I really do not know, Mr. Nowlan. I guess it is one of those things that they have not—

The Chairman: It has just been an oversight.

Mr. Lefebvre: All that remains is to give you official word. Actually, everything else has been done?

Mr. Henderson: There is provision for my doing it in most of the legislation dealing with other similar funds. We do not have anything like this in the Canada Pension Plan. If I were the Auditor of that, there would be financial statements—a balance sheet and a proper setup. I think it is a good thing. Considering the amount of money involved in these funds there should be an acocunting to the people; and the Auditor should—

Mr. Crouse: Am I to understand that you do not audit the Canada Pension Plan?

Mr. Henderson: I do the auditing of that, of course, because I am the Auditor of the Consolidated Revenue Fund which encompasses it all. However, if I were directed to sign the financial statements of the Canada Pension Plan there would be financial statements. Obviously there would have to be before I could act. This was a point which was drawn to the attention of the Ministers of the day at the time that legislation came down, but they did not pursue it.

The Chairman: I, as Chairman of this Committee, am as responsible as anyone for letting this slip by. I think every member of the Public Accounts Committee bears the responsibility, too.

When this Act was before the House we should have been on our feet asking that this

amendment be put in the Act. It is a very simple thing. It is being done. It is just a matter of making it statutory. It slipped my mind and your minds, and officials in the Department did not do it, and there it is. It is really a very small matter, but it brings up the point, gentlemen, that as Members of this Committee we must be on our toes at all times to watch for these things when a bill is before the House and is related to some recommendations that we as a Committee have made.

Mr. Flemming, and then Mr. Bigg.

Mr. Flemming: My question of the Auditor General is very brief. Who has the authority to invest the Canada Pension funds, which must run into an enormous amount of money?

Mr. Henderson: I have the authority to do that. The Comptroller of the Treasury is responsible for the disbursements and has a good and capable staff engaged on that; and I do the auditing.

I would like to see financial statements at the end of the year showing, in a form that the layman could follow, the income and outgo. Several government departments are mixed up in this.

• 1045

Mr. Flemming: What action could this Committee take to expedite such action? I am sure everyone agrees with this.

Mr. Henderson: If the Committee wishes I would be happy to prepare a memorandum giving the precise facts of the situation, Mr. Flemming, and indicating what course of action the Committee might care to consider. Would that not perhaps be the sensible thing to do?

Mr. Flemming: Perhaps we can leave it at that for the time being, Mr. Chairman.

The Chairman: You wish to speak of the Canada Pension, Mr. Bigg?

Mr. Bigg: Mr. Chairman, my question is very closely related. We claim that no action has been taken on a great many of these. From the time we make a recommendation in the Committee, exactly what liaison is there to keep it before these people?

All the departments are very busy trying to get things done. The legal department is drawing up sections of the act. Whose responsibility is it to look after something like that?

Obviously the Chairman cannot go every day to the law officers who are drawing up a new statute to make sure that our recommendations are followed up.

The Chairman: All right, Mr. Bigg. We will deal with Mr. Flemming's suggestion first and then come back to yours.

The suggestion was that the Auditor General prepare a memorandum on this matter.

Mr. Henderson: On the Canada Pension Plan.

The Chairman: Is it agreed, gentlemen?

Mr. Burton?

Mr. Burton: In addition to the Canada Pension Plan fund are there any others to which we should be giving like consideration?

Mr. Henderson: Mr. Burton, I had not expected this matter to come up this morning. If you would care to leave it with me I will discuss it with my directors.

Mr. Burton: That is fine.

Mr. Henderson: Perhaps a small working paper on the Canada Pension Plan would be useful.

The Chairman: All right. Is it agreed?

Some hon. Members: Agreed.

The Chairman: Mr. Bigg, Mr. Henderson way wish to comment on your question on whose responsibility it is to follow up the recommendations.

Mr. Henderson, have you anything to say on Mr. Bigg's question?

Mr. Henderson: Indeed, yes. When you make recommendations the Chairman sends them to the Ministers responsible. That is explained on the first page of the follow-up Report. Then No. 3 states:

> in order that the members of the Committee may be made aware of the extent to which the Government is adopting the recommendations of the Committee in relation to legislation which is proposed for Parliament, it is recommended that the Auditor General advise the Chairman, Vice-Chairman or whomsoever either may designate, from time to time, as to the status of each recommendation contained in this and subsequent reports of the Committee.

Accordingly, in the hope that it would aid in the debates that take place in Parliament, we have been writing to chairmen and vice-chairmen to say that such-and-such an act is coming up and the committee on such-and-such a date proposed this or that.

Unfortunately, however, as your Chairman can probably explain better than I, we have not always been able to obtain very good results from that course.

The second point I would like to make to Mr. Bigg is that in the case of the Unemployment Insurance Commission—this is the type of experience we have—it happened that I had a talk with the Chief Commissioner of the Unemployment Insurance Commission shortly after he was appointed. I thought that I could get this problem solved and I brought it up. I briefed him fully on the point that we had been making since 1960, with respect to his audited financial statements, and he said that he was fully in accord with our position. However, he did not feel that the required change in the legislation should be included in Bill C-197 to amend the Act which was just coming before the House.

This bill has a limited purpose, dealing only with salary limitations and amounts of contributions. He felt that the necessary provision about audited financial statements should be part of the more comprehensive overhaul of the Act that is to be made. That was in 1968, eight years after this Committee first brought it up. We have made a bit of progress in that respect.

The Chairman: Mr. Allmand?

Mr. Allmand: Mr. Chairman, it seems to me that the best way for Members of Parliament to inquire about whether these recommendations are being carried through is by putting questions to the Ministers in the House from time to time.

After all, it is our responsibility, if we have made a recommendation to a certain Minister to do something, to ask him every so often what in fact is being done.

• 1050

Having read recommendation 8, I have already given notice to the Minister of Labour, whose Estimates are coming up on Thursday, that I am going to ask him about the Gill Report. He said that he would try to have an answer for me. We should do it when the estimates are up and say, "What about recommendation No. X that we gave you last year? Can you give us any progress on that recommendation? What about the Gill Report, what about the other report?" and so forth and so on. I think it is up to us as Members of Parliament, in the estimates period and also in the general question period, to tie down the Ministers from time to time.

The Chairman: You are quite right. It is along the views I expressed a few minutes ago that this is the time to do it in the House when the estimates or the Act are being opened up so we can have an amendment. Mr. Nowlan.

Mr. Nowlan: One further thing on that point that Mr. Bigg raised and that Mr. Allmand carried forward a little. Most of the legislation seems to go through the House between 2.30 and 6 o'clock on a Friday afternoon, and I think I was there when this unemployment thing came up last year and there were about 10 people in the House and it came up rather unexpectedly. That is why I was interested in Mr. Henderson's statement that he tries to forewarn the Chairman or the Vice-Chairman because, as far as I know, if my memory serves me correctly, I remember the Gill Report and I thought we should have had a full-scale debate on the whole Act, or even on what was raised, but it came up quickly. There were very few people around. It went through, I believe.

The Chairman: You will recall, Mr. Nowlan, that it was just before the adjournment of the last Parliament and they wanted to have this put through, and if the bill had gone into a full-scale debate, it would have held up proceedings in the House.

Well now, gentlemen, we have time to end on another one of those controversial ones like we ended up on the last time—The Office of the Auditor General. This is an old chestnut. We have been talking about this at many of our Committee meetings. We have had the Public Service Commission people before us. It has to do with the staffing of the Office of the Auditor General. Since we last discussed this, I was amazed to learn that the new Public Service Commission legislation then under study would permit delegation of staffing functions to departments and agencies, including the Auditor General's Office, if the Public Service Commission is satisfied that the office or agency has the necessary competence. In October, 1967, Mr. Henderson said he sought delegation under Section 6 of the Public Service Employment Act which came into force on March 13, but was informed that the Commission was not prepared to grant this request.

For the new members, our Public Accounts Committee has always taken the view that

the Auditor General should be allowed to hire his staff himself. We have supported him in this matter, but he has not been allowed to do so. I will let Mr. Henderson speak for himself on this, but filling the new members in on some of the background, he has found that by hiring through the Public Service Commission, by the time all the red tape has been handled, the man he wants has secured another position and he has lost him. He has lost some good men in this respect. So I think, Mr. Henderson, you might bring us up to date in the few minutes remaining and we could carry on if we do not complete it, at the next meeting.

Was that a fair observation that I made, Mr. Henderson?

• 1055

Mr. Henderson: Oh perfectly, Mr. Chairman. The best answer to this problem is, of course, contained in the proposals made in the draft for the Office of the Auditor General, text of which was circulated to you at the last meeting. It will provide that the Auditor General simply shall be empowered to employ the staff that he requires to discharge his responsibilities. There is nothing new about that. The Government is proposing to give that to the newly appointed Commissioner of Official Languages. He is proposed to be set up in terms identical with the Auditor General, and it interests me very much to note that his authority to hire his own staff, to make his own decisions on money and so forth, were subject only to the Treasury Board, as they should be. But they were word-for-word the language that was contained in the draft that this Committee authorized my legal advisers to prepare, and which you have. In this respect, therefore, I ask no more than is given to other officers of Parliament, and the freedom that you give to agencies such as the National Film Board and Crown corporations. I think that the Auditor General should be free of any of the executive agencies that he audits in the recruitment of his staff, as a matter of principle.

This is a very large subject, Mr. Chairman. I am tempted to suggest you might like to defer it until you consider this Act and you have the total picture before you, perhaps based on my 1968 Report. I told the House last year that unless total delegation of the type the Chairman referred to in reading out my comments—and which I may say Mr. Sharp, as Minister of Finance, drew to your attention—was available unless total delegation under this Act is granted or a change accomplishing the same objective is made in the legislation under which it functions, namely the Act that you have, my office will continue to be severely handicapped in its efforts to meet the standards set by the Public Accounts Committee. And those are the standards that you have reiterated here under Item 9, namely that it is fundamental that this independent office be strong, capable, efficient and equipped to operate in accordance with the highest standards of independence and objectivity expected of professional accountants.

That is our major objective. I cannot speak too highly of the loyalty and the competence of my staff. We are seeking to achieve that goal, but it is being made very difficult, and I may say unnecessarily costly by this continued situation we have with the Commission.

The Chairman: Mr. Allmand.

Mr. Allmand: I am just wondering where the refusal had come from—the Public Service Commission or the Government?

Mr. Henderson: So far as I am aware, it comes from the Public Service Commission.

Mr. Allmand: So it is the Chief Commissioner who makes this decision as to whether he will allow it to be delegated to a group or not.

Mr. Henderson: That is right.

The Chairman: The Committee might wish to have the Chairman of the Public Service Commission before us and ask him some questions, ask him why.

Yes, Mr. Cullen.

Mr. Cullen: Will this separate Act that you are talking about, Mr. Henderson, take you out of that surveillance?

Mr. Henderson: Yes, it would. As a matter of fact, it would provide simply not that my staff would be engaged pursuant to the Public Service Employment Act, but I would be empowered to employ my own people. They are going to give that right to the Commissioner for Official Languages, and as an

officer of the House of Commons, it does not seem unreasonable that I should have the same right to recruit as, for example, Mr. Speaker has.

The Chairman: Gentlemen, you will receive this afternoon, delivered to your office by hand, the brief from the Treasury Board. I would ask you to do some homework on it so that it will relieve Mr. Drury from reading it in full on Thursday, and he will just bring the highlights to our attention.

I would ask Mr. Henderson, or any one of his officials, to be present next Thursday to sit in and observe the presentation.

OFFICIAL REPORT OF MINUTES
OF
PROCEEDINGS AND EVIDENCE

This edition contains the English deliberations and/or a translation into English of the French.

Copies and complete sets are available to the public by subscription to the Queen's Printer. Cost varies according to Committees.

Translations under the direction of the Bureau for Translations, Secretary of State.

ALISTAIR FRASER,

The Clerk of the House.

HOUSE OF COMMONS

First Session—Twenty-eighth Parliament

1968

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: Mr. A. D. HALES

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 3

THURSDAY, NOVEMBER 21, 1968

Revised form of Estimates

WITNESSES:

Honourable C. M. Drury, President of the Treasury Board; Mr. S. S. Reisman, Secretary of the Treasury Board; Mr. A. M. Henderson, Auditor General of Canada.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1968

29325—1

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. A. D. Hales

Vice-Chairman: Mr. T. Lefebvre

and Messrs.

Allmand,	Éthier,	Noble,
Bigg,	Flemming,	Nowlan,
Burton,	Howard (*Okanagan Boundary*),	Rock,
Cafik,	Laflamme,	Rodrigue,
Crouse,	Major,	Rondeau,
Cullen,		Thomas (*Maisonneuve*),
		Winch—20.

(Quorum 11)

Edouard Thomas,
Clerk of the Committee.

MINUTES OF PROCEEDINGS

THURSDAY, November 21, 1968
(4)

The Standing Committee on Public Accounts met this day at 11.10 a.m., the Chairman, Mr. A. D. Hales, presiding.

Members present: Messrs. Bigg, Burton, Cafik, Crouse, Hales, Howard (*Okanagan Boundary*), Laflamme, Lefebvre, Noble, Nowlan, Thomas (*Maisonneuve*), Winch—(12).

In attendance: Hon. C. M. Drury, President of the Treasury Board; Mr. S. S. Reisman, Secretary of the Treasury Board; Mr. A. M. Henderson, Auditor General of Canada; Messrs. S. Cloutier, J. G. Glashan, G. R. Long.

The Committee agreed to a motion of Mr. Laflamme to print as an appendix to this day's proceedings "Remarks prepared for the President of the Treasury Board relating to a revised form of Estimates". (*See Appendix A*)

Hon. C. M. Drury was questioned on his statement to the Committee.

The Committee questioned the Secretary of the Treasury Board and the Auditor General on the revised form of Estimates.

At 12.50 p.m., the Committee adjourned to the call of the Chair.

Edouard Thomas,
Clerk of the Committee.

29325—1½

EVIDENCE

(Recorded by Electronic Apparatus)

Thursday, November 21, 1968

• 1111

The Chairman: Gentlemen, shall we proceed? We welcome this morning the President and Secretary of the Treasury Board. Before proceeding I would ask if there is general agreement to have the remarks prepared for the Committee by the Treasury Board considered as read, with the understanding that they will be an appendix to today's proceedings. I ask this general agreement in view of the fact that Mr. Drury is prepared to give a summary of what is contained herein. Is it agreed?

Mr. Winch: Mr. Chairman, may I ask a question here? We appreciate the work and the business of the President of the Treasury Board. We have received this document yesterday and I understand from you we are going to get only a summary from the Minister. In view of the fact that we are going to get only a summary, and that this 22-page document says "remarks prepared for the Honourable C. M. Drury, President of the Treasury Board, relating to a revised form of Estimates", could we have the name of the person who prepared the remarks for the Minister and could this person be consistently available for questioning by this Committee?

The Chairman: Your question is in order, Mr. Winch. Mr. Drury, would you like to answer?

Hon. Charles Mills Drury (President of the Treasury Board): The title indicates that the composition represents rather a synthesis of a number of people's views for which I, of course, accept full responsibility. The remarks themselves I suppose contain two main elements.

Mr. Winch: No. I am sorry, Mr. Minister. I said: "Who prepared the remarks for Mr. Drury, and will whoever prepared the remarks be available for questioning by this Committee?" Because I realize that you have to go away.

Mr. Drury: This is a preparation by the staff of the Treasury Board, and the staff of the Treasury Board will be available to the Committee to the extent that it meets the needs of the Committee in the form of both the Secretary, Mr. Reisman, and his supporting staff.

Mr. Winch: Can I ask who is responsible for presenting this to you for presentation here?

Mr. Drury: I am responsible.

• 1115

Mr. Winch: But it says "remarks for". Now who do we, as a Committee, ask on this?

Mr. Drury: Me.

Mr. Winch: No, no, sir; you cannot be here.

Mr. Drury: I can be here to the extent that the Committee needs me, and I will be delighted to. Unfortunately this morning is the regular weekly meeting of Cabinet and I hope to get back to it, but I will be glad to come on any other occasion. I do insist that I must accept responsibility for these remarks and not try to suggest that someone else is responsible for them or has to carry the responsibility for them.

Mr. Winch: Mr. Chairman, I am afraid the Minister misunderstands. I am asking again who will be responsible for the remarks and be before the Committee.

The Chairman: Mr. Winch, maybe I could help clear the matter up. Mr. Drury has to go to the Cabinet after he gives this summary this morning. Then, if it is the wish of the committee to go through this report paragraph by paragraph, the Secretary, Mr. Reisman, will be here to go through it paragraph by paragraph and answer any question. Will that be satisfactory?

Mr. Winch: You understand the reason for my question on this and the way it is put.

The Chairman: No, I do not exactly understand the reason for your question, Mr. Winch, but does that satisfy you?

Mr. Winch: Not at the moment, Mr. Chairman. I am sorry. I do not want to hold you up, but it is a rather important matter when we are given information which says, "Remarks prepared for...". I just want it clear, although I cannot clear it now, that it is your staff that prepared it, but who will be here because I realize, sir, why you cannot be.

The Chairman: Mr. Reisman, the Secretary of the Treasury Board, will be here. All right?

Just before we ask Mr. Drury to give us the summary of the documents before us dealing with the revised form of Estimates, I would like to put on record the position of the Public Accounts Committee. On December 19, 1963, in the third report of the Public Accounts Committee, we made this recommendation to the House:

> ...your Committee believes that the following changes in the form of the annual Estimates would contribute to a better understanding of the Estimates:
>
> (*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 the establishments.

I will read no further on the recommendations but I thought the Committee would like to be brought up to date on what we had recommended to Treasury Board. We are delighted that they have been working on this recommendation from Public Accounts and are now prepared to give us their findings. Mr. Drury, will you proceed.

Mr. Drury: Mr. Chairman, Committee Members, it is a pleasure to be with you this morning to present for your consideration the revised form of the Estimates.

In that the full text of the presentation has already been circulated, I hope the Committee will accept them as read and I will confine my remarks basically to a few brief extracts.

The Committee has not dealt with changes in the form of Estimates for some time. Perhaps I might again remind members that as a result of the deliberations of this Committee in 1963, the number of votes in the Estimates was reduced from some 550 to 220 as recommended in the Committee's report to the House at that time. The primary reason for that change was related to the need to bring together under one heading the different elements that constitute a departmental program.

• 1120

Since that time, and following the recommendations made by the Royal Commission on Government Organization, the Treasury Board staff have been engaged in a fundamental review of its expenditure control role in the context of its position as a central planning agency, in cooperation with all departments and agencies. As a result, the orientation of the Treasury Board has changed, as the royal commission envisaged, from an agency primarily concerned with keeping the lid on expenditures through highly centralized and detailed control mechanisms, to a forward-looking planning body which promotes the effectiveness of departmental programs through expert analysis of expenditure proposals in terms of both possible alternatives and the objectives of the government. Within the constraints prescribed by the government, the Treasury Board is then able to set goals and proposed allocation of resources on the basis of priorities and the forecasted availability of funds.

Members will have noticed that the principal change in the 1968-69 Revised Estimates was implementation of a new system of standard object classification.

For the 1969-70 Blue Book, we proposed to extend this principle and to incorporate certain other improvements such as inclusion of

supporting financial information for certain Crown corporations, elimination of salary ranges and clarification of grants and contributions. In this last matter, I would like to emphasize that Parliament would, of course, retain its fundamental right of determining grants that are clearly unconditional disbursements, and the government would have added flexibility in carrying out the wishes of Parliament and making payments required as a result of agreements authorized pursuant to acts of Parliament. In no case of course would the total of a vote in the estimates for grants and contributions be exceeded without further parliamentary action.

With regard to both expenditure coding and elimination of salary ranges, the heretofore available detailed information will be available from the departments if required for estimates consideration.

We would have preferred to have presented these changes to the Committee but since events prevented us from appearing before you until now, and since they could not have been implemented in the 1969-70 estimates if the necessary instructions had not been issued to the departments and agencies of government before this September, the Treasury Board reviewed these changes very carefully last summer and authorized the issuing of the necessary instructions.

One essential aspect of the revised form of the estimates for 1970-71, which is a year later, which is now before you for consideration, is the implementation of the program approach to estimates presentation which it is hoped will permit members of Parliament to analyze departmental estimates in a more rational manner.

As you have already received sample copies and a full description of the proposed changes, I shall leave the matter to be discussed in committee rather than repeat what you have already read.

I thank you very much for your attention and should you have no specific questions for me I shall leave it to the capable officials of the Treasury Board to continue this discussion with you.

The Chairman: Gentlemen, do you have any specific questions of a general nature that you would like to ask Mr. Drury before he leaves?

Mr. Winch: I have one.

Mr. Chairman: Mr. Winch?

Mr. Winch: Mr. Chairman, over the years on this Committee—and I am speaking now on my knowledge of 15 years—on occasion there has been discussion as to knowledge of the actual cost of running a department, whether it is shown in the estimates or in public accounts. I realize you have only been in your present position for a few months, but to your knowledge has any thought been given by the Department or yourself, in the presentation of full knowledge to Parliament through the estimates—and I am also going to say in public accounts—to see that a true presentation is given.

I can give you an example of what I mean. On the estimates which are now before the House of Commons we find that all rentals go through the Department of Public Works. This runs into many many millions of dollars. Although this money is paid through the Department of Public Work, in order to have a picture of the cost to a particular department that a notation be made showing that so much money has been charged to rentals. I just use that as an example. Has any thought been given to that? This would give the members of the House of Commons a clearer picture of the actual cost of operating a department. In my opinion it has always been a little wrong that the Department of Public Works should have millions of dollars made available to spend when these expenditures are actually made in behalf of various departments. Have I made my position clear, Mr. Minister? Could you give us any indication as to your thinking on this matter or whether it is under advisement.

• 1125

Mr. Drury: Some progress is being made with respect to getting over that. The current Blue Book shows in respect of each department the services which are provided to it by other government departments. Unfortunately I do not have a Blue Book with me.

The Chairman: Perhaps you can find it in this one.

Mr. Drury: Does that include the rental?

The Chairman: Yes.

Mr. Drury: It reads:

> Approximate Value of Major Services not included in these Estimates

This is for the Department of Indian Affairs and Northern Development. Then it says:

> Accommodation (provided by the Department of Public Works), $2,216,000. Accommodation (in this Department's own buildings)

The Chairman: That is in the new...

Mr. Drury: This is the current form.

Mr. Winch: You mean it is now covered and it shows the rentals?

Mr. Drury: It is not shown as rentals. It is the general cost of services.

The Chairman: So that everyone will know what we are speaking about, this is a booklet entitled "Illustration Only", and on page 196...

Mr. Winch: That is what I said, it is for illustration only, it is not now in effect.

The Chairman: Yes, it is. This is a direct duplication of what is in the Blue Book. He read from the top of page 196.

Mr. Winch: But it is under services and there is no breakdown for services.

Mr. Drury: No. This shows part of the total cost of a department and the elements of the resources provided by other government departments are shown in the present form. In the new scheme of things we hope to take this information and break it down, not only in respect of departments but in respect of programs that a department carries out, in order to show the total cost of each program. And in respect of each program there will not only be the cost of people and materials, but also the value of these services which are provided by other government departments.

Mr. Winch: That is the point I was making. It is your intention to have a greater breakdown in order to show where the services come from.

Mr. Drury: I hope we have had some success in doing this, but it is up to the Committee to express their views on our success or lack of it.

The Chairman: Mr. Winch, on page 12 of the Revised Estimates for 1968-69 I think you will find a further explanation of the question you just asked. No doubt we will be coming to that.

Mr. Winch: I am referring to the estimates.

Mr. Drury: These are the proposals for 1970-71.

Mr. Winch: I am sorry, Mr. Chairman, I am referring to the estimates as they appear before us, not...

Mr. Drury: As the estimates appear in the current Blue Book they show the cost of major services in the appropriations of other government departments, but the beneficiary does not actually seek money for these.

The Chairman: Are there any other questions of a general nature?

I would like to ask a question at this point. Is it the intention of Treasury Board to scrap the old Blue Book of estimates as we know it now, and the new one will be composed of illustrations in the form as outlined in these examples that were shown to us?

• 1130

Mr. Drury: Perhaps, Mr. Chairman, we would seek some advice from the Committee. I suppose, ideally, the make-up would be a bilingual text in the form in which statutes are now published and would contain all this information in one volume; but a bilingual text, with the additional information proposed in this illustrated form and with quite a lot of narrative, would be a very large document indeed. It would be quite expensive to provide this very large volume to everyone who wished information on the Estimates.

A probable compromise is that there be a limited number of large volumes containing all the information and that there be a supplement for special use by departments or others, with the detail relating only to one department as a document complete in itself.

The Chairman: Does the Committee follow that?

Mr. Winch: Mr. Chairman, are we limited to Revised Estimates, or could we later ask the Secretary for certain explanations of the operation of Treasury Board?

The Chairman: Perhaps you will reserve that question.

Mr. Winch: I see; we can ask the Secretary later?

The Chairman: Yes.

Mr. Winch: Thank you.

The Chairman: Mr. Crouse.

Mr. Crouse: Mr. Chairman, do I correctly understand the Minister to say that for the 25 departments of government we will in future get 25 books such as showing the departments' Estimates separately, and that for usage by departments these 25 booklets will be combined into one massive book in English and French?

Mr. Drury: I am just saying that the advice of the Committee would perhaps be helpful on this. We have not really made up our minds. What we are talking of now will happen a year and a bit hence. The first time the Estimates will be published in this new form will be for 1970-71.

Mr. Winch: Which we will have at about the end of February? Am I correct on that?

Mr. Drury: For the 1969-70 . . .

Mr. Winch: In February of this year; but this new plan will not affect . . .

Mr. Drury: A year later.

Mr. Winch: A year later.

The Chairman: Has anyone else a question. If not, I would like to ask one.

Mr. Nowlan: I have a couple of questions. I appreciate that the Minister wishes to get back to a Cabinet meeting. Certainly I am all for his direction in the Cabinet. It needs it.

The Chairman: Mr. Nowlan, is your question related to the one that Mr. Crouse was asking?

Mr. Nowlan: Well, no.

The Chairman: If it is not, I will ask mine, because it is on exactly what he was asking. It is a supplementary.

Putting it into practical application, before the House yesterday we had the Estimates of the Department of Labour, the Department of Justice and one other department. Under the proposed new plan a Member going into the House would have taken with him three books, one for the Department of Labour, one for the Department of Justice and another, we will say, for the Department of Public Works.

Mr. Drury: I suggest that the total Estimates, in some number of copies, will have to be bound together, but it will be quite a big, heavy volume. Probably those who have frequent recourse to this document would greatly prefer the special section in which they are currently interested. We will probably have to get around this by doing it both ways.

The Chairman: Mr. Winch, on a supplementary.

Mr. Winch: This is most intriguing and interesting. Do you mean that on the question of whether they should be bound or be in separate copies you would appreciate receiving the advice of this Committee?

Mr. Drury: That is right. After all, the purpose of this document is that it be useful to people. Those best able to tell whether or not it is useful are the users.

The Chairman: Perhaps, Mr. Drury, thought should be given to whether to publish some by departments. If, as you say, one were to publish one big volume of all departments in a bilingual form the question of cost would have to be interjected, because one can run off 3,000 copies as cheaply as 1,000 copies; so this . . .

• 1135

Mr. Drury: Not quite.

The Chairman: Not quite; but in proportion. This would have to be considered.

However, we will discuss this further. You have the idea and the format.

Are there further questions on the proposed format? If not, Mr. Nowlan, I will take your question.

Mr. Nowlan: Mine is not on the proposed format, but on the summary the Minister gave. More particularly, I refer to the detail of his remarks, for which he is responsible, and to page 2 where he mentions that the role of the Treasury Board has changed, as envisaged by the Royal Commission on Government Organization, from an agency to keep the lid on expenditures to a forward-looking planning body which promotes the effectiveness of departmental programs through expert analysis and expenditure proposals.

Perhaps, to a degree, this is a loaded question, but can the Minister say what happened to the expertise between February, when the Minister of Finance told us we would have no budget deficit and the supplementary Estimates came down, and when the budget finally came down and we found we had quite a substantial deficit?

I asked in rather a general way the other day whether, within Treasury Board, one of the experts in this forward-looking planning body which promotes eeffctiveness had had his fingers rapped for making an incorrect calculation in the amount of substantial millions?

The Chairman: I wish to rule your question out of order at this time. We are discussing the proposed format.

Mr. Nowlan: No; I said I was not dealing with that. We are discussing the remarks the Minister has just made. If we are going to sit all day just discussing formats. . .

The Chairman: You are reading from page 2 of the document that was circulated?

Mr. Nowlan: Yes. Otherwise, let the Minister get to his Cabinet meeting. We can discuss the format with his officials and Mr. Reisman. And I also have a couple of questions for him on his interesting speech in Toronto before the Canadian Tax Foundation, which I am sure the Minister does not want to answer.

If we are merely going to discuss format I do not think we have to keep the Minister here, but if we are going to discuss substance let us discuss substance.

Mr. Winch: That was the reason for my question a moment ago, Mr. Chairman. I certainly do not wish to delay the Minister but are we merely going to be discussing format? When I asked whether, before the Minister left, I could ask a question on certain authorities and procedures of the Treasury Board I understood you to say that I could.

The Chairman: Mr. Winch, we are here to discuss the proposed revised form of Estimates. These two questions are really related to the steps leading up to the setting out of the actual Estimates in dollars and cents. The Committee is really here to get information on the proposed format and to make observations thereon.

Mr. Nowlan: I do not wish to be stubborn on this at the moment because I appreciate that the Minister has to move on, but would it be fair to ask that the new format in setting out the Estimates is to try to avoid the large gap in the four or five-month period during which the old Estimates showed up? The whole thing is related.

The Chairman: That question is in order.

Mr. Nowlan: I am not casting any aspersion on the hard-working people in the Treasury Board. Frankly, your wording and your descriptive narrative about the function and purpose of the Treasury Board stimulated my question. If it was so forward-looking, and had effective programs for expenditure, I, as a layman, would like to know what happened to the effective control and for the forward-looking plan?

Mr. Drury: Mr. Chairman, I would hope that the statement made in the House would cover the question.

The large discrepancy between the forecast in the early part of 1968 and the later revised Estimates in the fall arose out of a lack of accuracy on the expenditures to be made during the course of the current year by governments other than the federal government. Although I would not, perhaps, use the term "knuckle rapping," let me say there has been a lot of soul-searching since that event. I hope that this has led to a better system of forecasting, rather more in the way of checks being made on the accuracy of forecasts than perhaps there was in the case in point.

• 1140

One particular item I did mention in my statement in the House was that henceforth the expenditure by the Government of Ontario would be provided to the federal government not by individual departments of the Government of Ontario but through the central control agency in the Department of Finance. This in itself I think will help. Because the relative size of provincial expenditures has been rising very rapidly in past years there is perhaps now an awareness of the importance of rather more accurate forecasting because of the significance of these expenditures.

Mr. Nowlan: I appreciate that answer, Mr. Chairman and Mr. Minister. I have one other question on this point. Before the computers picked out the difference between February and the budget figures had other computers, say, in Ontario suggested to the federal government that there were some people in Treasury Board who had made wrong calculations?

Mr. Drury: Not perhaps that there were people in the Treasury Board who had made wrong calculations but that the provincial mechanisms or entities had produced wrong calculations or wrong forecasts. The estimates were put together in Ottawa previously by way of a rather detailed analysis by each

department of government here of their expenditure proposals and added into this in respect of joint programs—shared cost programs, was an estimate obtained by that department from its provincial counterparts of what they thought would be needed. The individual government departments here did not have the machinery to analyze adequately the estimates provided by provincial governments.

The Chairman: Mr. Drury, could you relate Mr. Nowlan's question to how this might be overcome in the new proposed estimates and where would this sort of thing show up in the new proposed estimates.

Mr. Drury: Mr. Chairman, this question does not really relate at all to the new form. The new form will not operate in any way to cure this particular problem.

Mr. Nowlan: Perhaps it does not relate but to clarify something that you just said before the Chairman intervened, do I understand from your last answer that it was because there was not federal machinery to digest the provincial calculations or are you suggesting the provincial calculations for their part of the shared cost program were out of line?

Mr. Drury: The latter.

Mr. Nowlan: You are suggesting that it was the provincial calculations for their shared cost programs that were vastly under-estimated and these figures, you suggest, were out of line?

Mr. Drury: That is correct.

Mr. Nowlan: Not the other way around.

Mr. Drury: Well the figures obtained by the federal government were from provincial sources. It is merely a mechanical adding together of all the estimates provided by the provincial program departments.

• 1145

Mr. Nowlan: But, Mr. Minister, if the provincial figures were out of line I gather then that there was no warning from any province that the total picture was out of line—because they were not aware of it in the provincial capitals. Is that what you are suggesting?

Mr. Drury: Well we are dealing with a chronology here and at some point clearly it became apparent to the provincial government that the sum total of their departmental programs was clearly in excess of their available resources. This happened. Then they had cause to look at their programs over-all, which resulted in a recasting of their estimates. There was first a doubt and then the actual recasting was communicated to the federal government, but the results of the recasting only reached us in the late spring of this year—May and June.

The Chairman: Mr. Winch and then Mr. Bigg.

Mr. Winch: The estimates and the format are basically introduced to the House of Commons by the Minister of Finance. You are the President of the Treasury Board, which is composed of a number of Cabinet Ministers. In the actual analysis are you, as President of the Treasury Board, and the members of the Cabinet who make up the Treasury Board, responsible for the estimates and the format as presented to the House of Commons.

Mr. Drury: You say, in the final analysis are we responsible? In the final analysis it is the government that is responsible to the House. But I am charged with the responsibility of presenting these estimates to the House.

Mr. Winch: Does that mean that everything in the estimates and, of course, in the format that is before us now, has to go before you, as President, and the Treasury Board before it can be introduced in the House.

Mr. Drury: That is correct.

Mr. Winch: All expenditures and all estimates must go through you before going to the House. Is that correct?

Mr. Drury: This is the route to the floor of the House, that is correct.

Mr. Winch: Is it correct that nothing can be spent without your authority, acting through Treasury Board, unless it is conveyed by law or is in the estimates?

Mr. Drury: That is correct.

Mr. Bigg: Were all the estimates uniformly underestimated by the provinces or did it pertain to just certain things such as, say, trade training, health and winter works, just to take three? Were the discrepancies more pronounced in any specific department?

Mr. Drury: Unfortunately, I have not come prepared to answer your question. I did not realize that we were going to go into this question.

Mr. Bigg: Well I thought you might have the answer.

The Chairman: Mr. Bigg, I will not accept any more questions like that unless they are related to the proposed estimates. Can you tie it in?

Mr. Bigg: I have a supplementary. If some program really got out of hand perhaps you could be short a billion dollars. Is there any way of enforcing a ceiling? Could we say to the province that we do not want them to go beyond "X" dollars? The corollary to that perhaps is what supervision have we over waste and falsification? A year or two ago this same problem came before this Committee.

• 1150

The Chairman: Mr. Bigg, if you will add to that question, is there any way in which this can be detected by a parliamentarian in the new proposed form, I will accept it.

Mr. Bigg: Is there anything in the new proposal that will plug these...

Mr. Drury: The answer to that is, directly "no". This is not new machinery. This new form is not new machinery for controlling or eliminating waste in joint programs.

Mr. Bigg: But it will help us to see where...

Mr. Drury: It will enable members, I hope, to comprehend rather more easily and better than in the past what these programs are all about. In this sense, by reason of being better informed, perhaps they will be in a better position to sense dangerous possibilities if there are any.

The Chairman: Mr. Lefebvre?

Mr. Lefebvre: Mr. Chairman, I would like to ask the Minister whether I understood correctly that he said these samples—and I am looking at the one for Indian Affairs and Northern Development—would be available for each department, one series printed in French and one series in English, but there would be a master volume which would be bilingual. Is th s correct? Is this the way you explained it, sir?

Mr. Drury: What I suggested was one possible format. The decision on that would be most desirable has not been made and I expressed the view that perhaps the Committee could provide some advice on this. We will be able to give some estimates of cost of the various ways of putting this information together and then perhaps the Committee might express its view at what would be most useful from the point of view of the people who are going to have to use these things.

Mr. Lefebvre: If I understood you correctly further, this master volume would have distribution limited to those who actually need it. In other words, those who are interested in one department only would get the small booklet and those such as parliamentarians and others interested in the whole government would get the master volume as well. Is that correct?

Mr. Drury: The question of distribution is an open one. Quite clearly the information should be readily available to those who either need or want it. There is a quite wide distribution of the present volume. If it is going to be very much larger and more expensive and, as a consequence, more cumbersome to work with and carry about there would probably be a number of people who would prefer just a specific part of it.

Mr. Lefebvre: This is what I was referring to. I am sure that most of the members here will agree with me. I think the government puts out lists of those who get certain publications. I am sure there could be a great saving by limiting distribution to those people who actually need them and not go by lists of people that have been on the books for years and years who get the books and then throw them into the nearest wastebasket. I am convinced you could pay for the new cost by eliminating distribution to those people wo either do not need or have never requested them.

Mr. Drury: I think we might take a look at this.

The Chairman: Do you have a supplementary, Mr. Winch?

Mr. Winch: In view of the statement by the Minister, estimates of course must be a bound book and supplied. This information we are just getting from the Minister now is the possibility of a bound volume of all departments this way and separate. I gathered from what the Minister said that costing is available. My question is: Is this possible?

Mr. Drury: Will be.

• 1155

Mr. Winch: Oh, not today. I was going to ask the secretary if he is prepared to give us any costing now, because I think your suggestion that you would welcome a report from this Committee is most advisable and, I say, most unusual from a Cabinet Minister, too. I was just wondering, as you mentioned you would be able to supply costing, whether it is available now from your secretary after you leave, or whether it will be a future date?

The Chairman: At a future date, naturally. Mr. Burton?

Mr. Burton: Mr. Chairman, I was just going to comment that I think it is obvious, of course, that a major concern of both the executive branch of the government and of Parliament as such is to ensure that in so far as is possible when Parliament is considering estimates and voting supply that we do have as accurate estimates as possible before us. I have some appreciation of the difficulties involved in producing these estimates and it seems to me that there are three possible areas where variation and change can take place.

The first is really the straight mechanical difficulty of trying accurately to forecast on the basis of assumptions and known factors what expenditures are going to be. The second area where error can occur is due to external decisions, decisions by other governments, that have an effect on expenditures, unforeseen economic or social events, disasters, epidemics and something of this sort that can affect the whole range of expenditures.

The third area, of course, is with respect to subsequent policy decisions or changes in policies by the federal government itself. All of these can affect the projections and estimates of expenditures. I was curious to know, following up the discussion that has already taken place, whether the Minister considers the problems that occurred with respect to this year's estimates were entirely in the first area of mechanical problems in forecasting these expenditures?

The Chairman: Mr. Burton, I think your question was answered earlier, unless Mr. Drury would like to add to it.

Mr. Drury: I do not think I have much to add, Mr. Chairman. I think the fact of the matter is that the forecasts turned out to be inaccurate. Why they were inaccurate probably resulted from a variety of reasons, perhaps being rather more concerned with the administration of provincial governments than with the operation of the federal government.

As you know, the mechanics of the preparation of estimates in any government service involve a certain amount of bargaining and in that, rightly so I guess, the operators of programs have enthusiasm for them. They believe in them and they believe that their particular concern is the most important of all and should enjoy the highest possible priority and, as a consequence, receive the assistance of the greatest quantum of resources they can get. It is the task in every government for some central agency to allocate the available resources which almost invariably are less than the demands.

Now, how you as a departmental or program manager set about putting forward the best possible case you can to get the best possible allocation of resources is, as I say, a sort of bargaining process. This is carried out in every government, it is carried out in most corporations, and in this process the techniques of relating resources to demands, or relating demands to resources, vary between different provincial governments. Some, of course, are more sophisticated than others; some are larger than others; some are smaller than others. To generalize, I think, would be a little dangerous.

• 1200

The Chairman: Do you have another question, Mr. Burton?

Mr. Burton: Just to elaborate on one aspect of the point I was making, it seems to me, for instance, that a budget such as we had in the current year, basically a deflationary type of budget, might help to keep some of these program expenditures under control, but it could have an effect of increasing other areas such as the Canada Assistance Plan. It would have the effect of increasing the Canada Assistance Plan expenditures.

Mr. Drury: This is part of the process of endeavouring to achieve a balance in the proper allocation of resources. There is not much use denying, if I can put it this way, a constructive program of resources with a view to saving, if in fact you are going to have to expend the same or more on a non-constructive or transfer type of program.

The Chairman: Mr. Howard.

Mr. Howard (Okanagan Boundary): My question is along the same lines. My concern over this is that when you hand us a book of estimates, it is really a piece of fiction rather than a piece of real forecasting when the errors are that large. The difficulty seems to be very largely in what we call the open-end programs. Surely there must be some way of stopping the ends on these programs during a specific period. There must be a number of these programs where the government can say our budget in this year will be what the estimated figure is and no more, and when the province comes to the end of that figure, then they are on their own.

I realize that in some areas this may not be possible. But, for example, in the aid to education program, surely we do not let the provinces just share indefinitely in the public purse in Ottawa. We cannot abdicate control over our finances to this extent. I would like to hear the Minister's comments.

The Chairman: Mr. Howard, I think what you are getting at is where this will appear in the new proposed estimates, so that you as a Member of Parliament can spot such an item.

Mr. Howard (Okanagan Boundary): Yes, surely there should be certain items that are categorized not as estimates but as limiting amounts, as items that have definite limits on them.

The Chairman: And where it will be found in this book?

Mr. Howard (Okanagan Boundary): Yes, how would it be marked in some way so that we know that this a limited item and not an estimated item.

The Chairman: Mr. Drury.

Mr. Drury: One would hope that the sense of this would be conveyed in the narrative which underlines the figures in the sample you have.

The Chairman: Mr. Drury, I wonder if I could interrupt, so that the Committee would have a concrete example. Could it be found in "Department of Indian Affairs and Northern Development", where there would be a joint open-end program?

Mr. Drury: Mr. Chairman, you look at Indian Affairs and Northern Development, illustration only, which would be a proposal for the new form at page 12. In respect of the Indian program, there is in addition to the money figure shown at the top of the page, a definition of the program objective and program explanation. In cases where there had been a joint program with the provinces, this narrative description would be the place to put the kind of indication as to whether this was what you called an open-ended program or one in which in fact there were limitations proposed.

Mr. Howard (Okanagan Boundary): Yes, this program could still be an open-end program over a period of years, but it would not be open-ended in any specific year. There would be a limit in that year so that the government would know.

• 1205

Mr. Drury: What I think you are talking about is the technique of controlling expenditures, rather than the form in which they are to be portrayed. This particular problem you have raised did largely form the substance of the last federal-provincial conference of finance ministers, and it is likely to arise in future federal-provincial discussions. This is a problem which both levels of government face, namely the control of expenditures ultimately, but in the meantime rather more accurate forecasting so they know where we are all going, not only the federal government but also the provincial governments.

Mr. Crouse: A supplementary question, Mr. Chairman. We are dealing with an example as given by the Minister on page 12. Would it not be possible in listing program objectives to say.

> Providing education and social services equal to those provided in the provinces of residence...

up to one half million dollars, and so on right down the line? Then you would have an exact knowledge of how much money you would plan to spend. You would have some control.

As it is now, it is quite evident, without being political, that we have lost all control of our money expenditures in this country and this is the concern of the small businessman as well as the large industrialist. Somewhere someone has to start giving direction. This is my opinion, and I am wondering if this would not be one way of starting.

Mr. Drury: I think what we are discussing here are the techniques of fiscal control rather than the method in which we are going to

present to Parliament the policies which have been adopted. You are addressing yourself now to the right kind of policy rather than how to portray that policy. I had hoped this morning that we would be discussing an adequate representation or display of the policy rather than getting down to the business of what the policy should be.

Mr. Nowlan: I have a supplementary question, Mr. Chairman. Under this draft for future estimates, is there not a basic change from the past, from setting out only what was spent in nominal increase in a program to, in effect, setting out objectives and explanations and purposes and/or limits or ceilings on programs? If that is the purpose, which is commendable in itself, is it the place in the estimates to do this, or does this lead us back to the Finance Minister and his budget? At budget time the Minister takes, for example, the Indian program on page 12, and indicates that the objectives were so and so, and says they have accomplished this to a degree, but there is a ceiling on this program and now the Indians must go back and fish.

Is there going to be duplication, or is the President of the Treasury Board going to pick up what the Finance Minister vacates, so that we do not have duplication? There seems to me to be a fundamental change in this type of estimate. I am not saying it should not come somewhere, but if he is going to do it as President of the Treasury Board, I would hope the Finance Minister is going to forget about half his budget speech. Is this a fair commentary on this pictorial representation of estimates, that we are getting into the purposes and explanations where in the past all we looked at was the dollar figure spent one year, and the increase this year?

• 1210

Mr. Drury: Well, I am not certain it is as fundamental as suggested. The practice of the past has been for departmental estimates to be called in the House of Commons or in Committee, and the explanations of these somewhat cryptic figures provided orally either on the floor of the House or in Committee. The proposal here is to take a few steps towards providing these departmental explanations in the document itself, rather than orally in Committee where the presentation or explanation is limited to relatively few people, the relatively few being the members of the Committee or the readers of *Hansard* or the Committee Proceedings. This will achieve a very brief summary of this departmental explanation and make it available to a much wider range of people.

The Chairman: Mr. Noble, then Mr. Winch and then Mr. Bigg.

Mr. Noble: Mr. Chairman, the Minister has answered my question. However, I would like to ask him this: Am I right in concluding that the Minister feels the new system will save time and money as well as accomplish greater efficiency?

Mr. Drury: Yes, I certainly would hope so.

The Chairman: Mr. Winch?

Mr. Winch: I am interested in what is before us, and that is the estimates and the format of estimates. I have been most interested in and intrigued by some of the comments that have been made by the Minister but I know his desire is to get back to Cabinet, so I would like to ask as to whether or not, Mr. Chairman, through you to the Minister, if you could come back on the same subject because I have some questions I would like to ask in view of your comments, or would you leave it to our questioning the Secretary? I do not want to ask a question of the Secretary that might be policy...

Mr. Drury: I have great confidence in the Secretary. He will answer all the questions he can and reserve those, if any, for some future appearance here.

Mr. Winch: I can ask questions now, but I know that you want to get back to the Cabinet.

Mr. Drury: I think he can probably answer them a lot better than I can.

Mr. S. S. Reisman (Secretary of the Treasury Board): That is very unlikely, sir.

Mr. Winch: Then will you put me down for questioning the Secretary in view of the Minister's statement?

The Chairman: May I excuse Mr. Drury now and introduce to you the Secretary, Mr. Reisman? Mr. Reisman will you take Mr. Drury's chair?

Mr. Bigg: May I ask just one question?

The Chairman: Before Mr. Drury leaves, Mr. Bigg?

Mr. Bigg: Yes. As I see it I think we are going to go into policy and worry about how

much money is going to be voted to all these different votes. That is another problem which is not really the main problem of this Committee. I think our main problem is to make sure that accounting procedures and that sort of thing are tightened up to help the Auditor General and his staff make sure that when they present their report to the Canadian people it gives an accurate picture.

Is anything going to be done in accounting by way of liaison with the provinces? Prevention comes in here. Three years later it is not much good talking about abuses and I think that good accounting and liaison between the provinces and the dominion government would stop the leak before it occurred. It is easy to spend money that is not being accounted for, and so on. Is there anything in our new procedure that is going to assist us in this way?

The Chairman: Mr. Drury?

Mr. Drury: There is nothing in the presentation made this morning which will achieve this, but I can assure you that the federal government is conscious of the necessity for achieving a much closer consultative co-operative arrangement with the provinces in the problem of controlling the expenditures in a joint or a shared cost program.

The Chairman: Mr. Burton, one short question of Mr. Drury.

Mr. Burton: It may be in part a comment, but I think part of my concern and part of the concern of the discussion that has taken place on some of the recent questions is that I suppose three different things can happen with respect to estimates and what subsequently happens in terms of actual expenditures.

It can be said, "Look, we made a mistake." Second, it can be said, "We made a mistake because certain things happened which could not be anticipated or which could not be accurately forecast at the time that the forecasts were made." Third, it could be said that the estimates are mistaken because of subsequent policy decisions which changed the expenditure projections and estimates.

• 1215

I think beyond that part of my concern is that I certainly would not want to see some program suffer because of possible buck passing between the two levels of government—the federal and provincial governments—through the use of techniques that may be developed; in other words, to restrict programs by saying, "Well look, the other government said we could only spend so much" or "We only agreed to spend so much", and that an actual restriction in expenditure takes place which has a program effect rather than simply a method of expenditure control in a mechanical sense.

Mr. Crouse: Mr. Chairman, before the Minister goes, would it be a fair comment to say that we in Ottawa have been somewhat like the businessman who gave his wife ten credit cards without any ceilings and she went out and charged everything she could and finally, when the accounts came in, he found there was not sufficient income? Are we now going to apply a closer checkrein on our credit cards that we have out to ten provinces, Mr. Minister?

Mr. Drury: As I indicated, this was what the recent Federal-Provincial Conference of Finance Ministers was all about. I do not think in a federal system one can or that one really should try to work to a form of dictatorship from the centre. We want to achieve this. Presumably all levels of government are pursuing the same objective, namely the improvement of the quality of life of the same Canadians and to do this on a co-operative basis, on a basis of mutual understanding. This is the direction in which we are trying to go.

The Chairman: Gentlemen, I think it would be a mistake if I did not ask Mr. Henderson to say a brief word just before Mr. Drury goes.

Mr. A. M. Henderson (Auditor General of Canada): Mr. Chairman, I have been most interested in what the Minister has said this morning because beginning at 9.30 a.m. the Senate Finance Committee held a meeting at which I was the witness and because they had copies of the new proposed material which you, I think, tabled on Monday night there was a brief discussion about it. I may say that particularly in the case of the questions raised by Mr. Crouse and Mr. Nowlan which have just been dealt with, they have the same type of suggestions to make.

There is one matter that I feel it might be quite helpful to me and to my officers and perhaps to the members of the Committee if I could put it to the Minister. One of the principal purposes of the program of project budgeting which you are going to be asked to consider is to achieve a better degree of

accountability so as to pin down what is the cause of some of the expenditures, and so forth, which you discuss, and as you know from the witnesses we have had before us in the Committee it has always been very difficult to determine, as you so often say, where the buck stops.

This is a very genuine effort to do this and the Glassco Commission recognized this in their books, as we all know. Now, one of the principal recommendations of the Glassco Commission, on which I had been hoping there might have been some action by this date, has to do with the transfer of authority or the decentralization of the authority to the departments now that they are getting tooled up to receive it.

I refer to a statement made by your predecessor, Mr. Minister, in the House on December 7, 1967, which we in the Committee were discussing just last meeting on Internal Financial Control, Item 3 of the Follow-Up Report, where he said:

> 44. The Government intends to introduce legislation to provide for transfer of the pre-audit responsibility from the Office of the Comptroller of the Treasury to individual departments and agencies. Substantial staff savings are anticipated when this process is completed.

This is, of course, of considerable interest to me because I have been asked by the Secretary of the Treasury Board, Mr. Reisman's predecessor, and we have had some discussions with respect to what will likely be an increase in my responsibilities when that pre-audit responsibility is passed to the departments. Could you perhaps say a word as to where this stands at the present time?

Mr. Drury: In general terms we have been proceeding to implement this. This decentralization calls for a knowledge within the departments of new techniques and the recruiting and training of personnel to carry out this particular function. This has been proceeding, I think, for the past two years. We are now getting very close to the point when this transfer will be made completely and the present functions or the classical functions of the control of the Treasury will be changed. I do not know what a date would be or whether we want to set a date. I suspect it will be rather like the implementation of most of the other recommendations of the Glassco Commission. As a department reaches a stage where it is prepared to shift onto the new basis it will be shifted, and this will be done progressively throughout the government.

Mr. Henderson: Thank you very much. I thought this would be helpful to us in our future discussions, Mr. Chairman.

The Chairman: Thank you, Mr. Henderson. Now, Mr. Drury, we will excuse you and ask Mr. Reisman to fill the chair.

Mr. Drury: Thank you very much. It was nice to see the members of the Committee.

The Chairman: Thank you for coming, Mr. Drury. We will not come to a conclusion today, that is for sure, but you can rest assured that the Committee will make recommendations to you after we have had a good discussion.

Mr. Drury: A very simple problem.

The Chairman: Mr. Winch, you have a question?

Mr. Winch: Yes, Mr. Chairman. In view of the comments by the Minister where he said that not only he had the fullest confidence, as we all have, in the Secretary, but also that the Secretary might be able to answer questions even better, which I doubt, but however—

Mr. Reisman: I do, too, sir.

Mr. Winch: Based on the format which, of course, concerns the estimates, I have two questions I would like to ask the Secretary of the Treasury Board. I am going to base my first question, Mr. Chairman, on the illustration you gave on Indian Affairs and Northern Development.

The Chairman: What page, Mr. Winch?

Mr. Winch: Page 12. I am going to use that to present my question.

We find there the budgetary expenditure of this Department and underneath "Program Objectives". Could I expand that to the general picture of format on estimates? As simply as I can put it my question is this.

When the Treasury Board starts, I believe around June, getting the estimates for the budget which goes into effect on April 1 the following year, the Treasury Board actually has to deal with all the departmental proposals for expenditures. In so doing, the House of Commons gets your contemplation over a period of about six months as the proposed expenditures in the following year. Now, on the format of presentation, when you prepare

those estimates, for example on construction costs, a year ahead, on what has been decided, or wage costs—your own Public Service wage costs—does the House of Commons get, in the format of estimates, any conclusion as to what the cost is going to be a year ahead because of the possible, the probable and perhaps the inevitable increase in salaries and costs?

• 1225

Do I make my first point clear? In other words, do we get a format of estimates based on present costing or, because the estimates are for many months in the year ahead, do we actually get the true picture as to what it is going to cost?

Mr. Reisman: Mr. Chairman, this is a pretty profound question and I will try to do justice to it. The question related to a number of elements that go into expenditure forcasting. Mr. Winch referred to construction, he referred to wages and salaries, and he referred also to other elements.

Mr. Winch: Do you get my point, whether we are getting an honest picture for the future?

Mr. Reisman: Yes. On the matter of construction costs, when a department puts forward its proposals and these are reviewed by the Treasury Board and after agreement is reached they appear in the printed estimates, they should take into account, as far as can be known or as far as can be anticipated or projected, any acceleration or escalation in costs that may incur in the program. That is as far as construction is concerned.

My answer to you on wages and salaries will have to be a little more complex. As you know, we are not in a regime of collective bargaining, in so far as the Public Service is concerned, for a very large proportion of the Public Service and one cannot in the government anymore than in the private sector project precisely what the outcome of a collective bargaining process will be. At the same time, in the light of what is taking place in the economy as a whole and what is taking place in the private sector in particular, an attempt is made to include in the figures for expenditures any anticipated changes in the salary and wages structure.

In connection with the 1968-69 estimates which, as you know, were tabled in the House of Commons last February, an effort was made to project the increased costs that would arise out of the first round of collective bargaining. This was a very important round of bargaining because it involved adjustments that would date back in many, many instances. Because we could not be certain as to just how this would affect individual departments in respect of their employees, a fairly significant figure was included in the Treasury Board estimates in their contingencies vote. It was a fairly substantial sum which would provide moneys and which would explain to the House of Commons at that time as providing moneys that may be required to supplement the departmental estimates in respect of wage and salary adjustments.

The simple answer to you, sir, is: in so far as we are able, in an uncertain situation, to make these projections, the estimates do try to present to Parliament and to the public a true picture.

Mr. Winch: When I asked you to explain construction, you said *should* provide; you said *should*. I would like to know whether you do provide. I am not misquoting. You said *should*. I am asking you: did they, or do they provide? I am speaking now of the format of the expenditures. Do we get a true picture all the time?

• 1230

Mr. Reisman: When I use the term "should", I use the term in the sense that with the best effort in the world we cannot be precise in anticipating cost escalation. We try to give you the best picture we can, but of course what actually happens in the course of a year depends on so many considerations. Are you going to have an escalation of two or three or four per cent? We know if we look back over the past half dozen years or so there have been occasions when the degree of escalation of costs in an industry like the construction industry has in some instances been under-estimated and there have been occasions when the projections have not anticipated adequately the degree of escalation. But in so far as is humanly possible there is an attempt in the Estimates to give you a true and valid picture.

Mr. Winch: This question also has to deal with what we are discussing now because we had a second budget just a short time ago, also for our present fiscal year. Now at that time I cannot remember any format of presentation which actually included assignment of contracts to our own federal civil servants,

a number of which have been assigned in the past few weeks. As I understand it, all expenditures in respect of increases must go through Treasury Board even if the arrangements are made under the new system of negotiations with civil servants. In the format based on the most recent budget how do you deal with the thousands of civil servants in relation to the 60-day clause where Treasury Board does not have to issue the increase or the rectroactive pay until after 60 days? I understand if the retroactive pay is not paid by January 1 they then come under the new taxation on money earned this year. Has that been dealt with?

Mr. Reisman: Yes.

Mr. Winch: How has it been dealt with? Not only I but a great many thousands would appreciate hearing your explanation on what is happening in that connection.

Mr. Reisman: If I understood the question correctly, Mr. Chairman, I am being asked to comment on whether the Revised Estimates that were tabled in the House in September took into account the results of the collective bargaining agreements that were negotiated with groups of public servants in between the period of the first Estimates and the Revised Estimates. The answer to that is yes. In so far as there were agreements reached, that there were known results and that these would affect wage and salary costs, these were included in the Revised Estimates. However, in respect of public servants that were about to enter into negotiations or negotiations that were proceeding but not completed, we did not attempt to write into the Estimates an anticipation of the results of such a process—and I think the members of the Committee will understand why.

Mr. Winch: I have a supplementary. In view of what has now been agreed to since the introduction in September of the Revised Estimates, on which Treasury Board has to pass—I am not asking about supplementaries—what is Treasury Board doing about paying before January 1 to ensure that public servants are not hit with a two per cent surcharge in January on money they earned this year. I believe that most certainly comes under Treasury Board?

Mr. Reisman: I am afraid I cannot answer that question, sir. Payment is made pursuant to collective bargaining agreements in accordance with the terms of those agreements.

Mr. Winch: By Treasury Board authorization?

Mr. Reisman: Yes, indeed by Treasury Board authorization. I can assure you, sir, that no change in the procedures or in the speed or in the efficiency with which these are processed through Treasury Board is in any way altered or affected by virtue of any tax changes that may have occurred in the interim.

• 1235

Mr. Winch: Hold it! This is most interesting. Do you mind, Mr. Chairman?

The Chairman: All right, but make it brief, Mr. Winch.

Mr. Winch: Does your statement now mean that notwithstanding that 60-day period within which by law Treasury Board has been paying money on increased salaries that if the money is not paid until January that they will not be charged a two per cent surcharge?

Mr. Reisman: No, this is not what I said, Mr. Chairman. I said that in so far as the work and operations of the Treasury Board are concerned, they proceed in accordance with schedule in a normal manner and we make out payments pursuant to those agreements in an orderly way. As to what the tax situation is, I am not a tax expert although I know a little bit about taxes from my previous work in the Ministry of Finance years ago. If you want a good answer on that kind of question I would suggest that you call a witness from the Department of National Revenue which administers the tax laws.

Mr. Winch: But as far as agreements made this year are concerned, Treasury Board will pass them fast?

Mr. Reisman: They will pass them as expeditiously as we can do our work, sir.

Mr. Bigg: I am asking my next question because I think it relates to the whole program. I trust I will not be ruled out of order.

At one time an expenditure of $2 million was passed for the digging of the Welland Canal and, as I understand it, the engineers who made the estimate were paid a fee in relation to the total amount of the expenditure. Is it correct that if there was a mistake made in estimating the cost of constructing a building, say a difference between $2 million and $34 million, that the building would be

proceeded with on a cost-plus basis, regardless of the size of the error made, and that the engineer and architect would draw a fee of five per cent, or whatever it is, of the total even though the error made was so great that it becomes scandalous? If this is so, are you people going to be given the authority to impose a penalty or to do something which will act as a deterrent to the continuation of this sort of thing.

Have I made myself clear?

The Chairman: Yes, you have made it maybe too clear, Mr. Bigg.

Mr. Bigg: Is my question out of order?

The Chairman: We will have to bounce the ball here to see who will answer that one.

Mr. Reisman: Mr. Henderson, if you would like priority of place in answering that question, I would be very pleased to hear what you have to say.

Mr. Henderson: Mr. Chairman, I know that we have been discussing such cases in Committee now for some years and it is the same old question.

Mr. Winch: It is fifteen years, to my knowledge.

Mr. Bigg: Is there not some cut-off that we can put on or that we can help you put on this constant waste of public money. There should be some deterrent. If an engineer is so scandalously inadequate that he makes a mistake in the amount of the difference between $2 million and $34 million, should he be entitled to a five per cent cost-plus payment? Is there any way that we can help you in this particular field?

Mr. Henderson: It is a good question, Mr. Chairman, because after all, although a lot of these things originate in the Department of Transport and the Department of Public Works, they do make their request to the Treasury Board and...

Mr. Winch: They have the veto.

The Chairman: Just a minute now. Mr. Henderson is speaking.

Mr. Henderson: Just as in the correspondence you and I are having now on the question of disclosure of *ex gratia* payments—*ex gratia* settlements which come into this matter. With a little tightening up or re-examination of your Treasury Board procedures you could catch them and probably ask more questions than you do now. Would you not think that is worth examination?

• 1240

Mr. Reisman: Certainly any suggestions that can be made by this Committee or by Mr. Henderson which would lead to a tightening of control on expenditures by way of improvement in Treasury Board procedures would be most welcome, I can assure you, sir.

Mr. Winch: But do you have the power of veto?

Mr. Reisman: May I continue?

The Chairman: Continue, Mr. Reisman.

Mr. Reisman: As you know, the procedures which apply in respect of departments of government in so far as financial control is concerned are different from those which apply to Crown or to agency corporations, and the degree of influence and control which Treasury Board may have would vary with these different institutions.

In connection with the specific case which was put—I think a reference was made to the Seaway and to certain contracts in connection with the deepening of the Welland Canal and the architectural or engineering fees relative thereto—I might say that the contracts that individual agencies or departments enter into vary a good deal from case to case. In some instances the agreement with an architect or engineer may be on a fixed price basis. In other instances it may be on a cost of work basis. The actual management of projects of that kind would rest with the agency or department that initiates the work.

However, Treasury Board has an interest in this in a number of ways. We are concerned with management and management systems and procedures. Within the Treasury Board staff we have a branch which is called the Management Improvement Branch. I would accept some responsibility for the kind of work and the kind of advice that emanates from that Management Improvement Branch in respect of this kind of situation. If there is evidence that in the contracting procedures applied by Crown corporations or by departments there is a practice which leads to incentives to escalate costs in order to escalate fees, then we ought to do something about that kind of management practice. I am not aware that this is a general situation, although I do not doubt that such cases have

arisen in the past and may indeed arise in the future.

May I make an apology, Mr. Chairman. I think the Committee knows that I am a rather new Secretary of the Treasury Board and I do not know all that I should know—and I hope I will know in time—about these matters, but I promise that if it comes to my attention that practices of the kind you indicate are taking place, I would not hesitate for a moment to advise the ministers of the Treasury Board to authorize some change in the procedures in respect of these matters. I would be very interested to know, both from the Committee and from Mr. Henderson, if there are such cases.

The Chairman: Before we proceed, I think the Committee can assure Mr. Reisman that we will be inviting him and the head of his Management Improvement Branch to appear before our Committee, because we had examples of this in the past and our 1968 report will probably contain some of those cases and we will be asking for explanations of those at a later date. I think we will let it rest at that point for now.

Mr. Bigg: I just wish to make one remark on this occasion. I was not trying to make any specific references at all. It was really exploratory to see if, in procedures and general principles, we could assist them in the over-all picture. I am not suggesting that the Board has been delinquent, in any way, or anything of that nature at all. It is merely that we are trying to help them from this end.

The Chairman: The Committee is glad to hear Mr. Reisman's assurance, as Secretary of the Treasury Board, that he is going to watch this point very, very carefully.

• 1245

Gentlemen, it is now a quarter to one. I realize you have been kept here quite a long time. Mr. Nowlan has a question and the chances are there are others who may want to ask questions. Would you like to proceed now or wait until next Tuesday, Mr. Nowlan?

Mr. Nowlan: I do not have one question, I have several. However, I would like to ask one question, which will perhaps take care of the others.

The Chairman: Treasury Board will be back with us again next Tuesday, if that is all right with you, Mr. Nowlan. In the meantime you may ask one question and then we will adjourn.

Mr. Nowlan: I have one question, and I think I know the answer. Mr. Reisman, in your speech before the Canadian Tax Foundation yesterday in Toronto were you talking about the same form of estimates that we have before us now?

Mr. Reisman: That is right, sir. Mr. Chairman, I gave a speech in Toronto on Monday morning...

Mr. Nowlan: It was a good speech.

Mr. Reisman: ...to the Canadian Tax Foundation. They invited me some time ago to speak on expenditures, planning and control within the federal government. It was with the Ministers' permission that I gave this speech. It was a speech that I think was devoid of many of the standard type of questions that this Committee and the public are interested in. It dealt with procedures, methods and mechanisms, and in it I made reference to the program planning and budgeting system that we hope to introduce and the new form of the estimates which I think I said in my speech we would put to this Public Accounts Committee for their views, comments and advice, and in due course we hope to introduce a system which will meet with the wishes of this Committee and Parliament.

Mr. Nowlan: So you were talking about one and the same thing.

Mr. Reisman: That is right, sir.

Mr. Winch: I would like to ask just one question. If this Committee's advice is to be presented in time for the next estimates, could you obtain for us the latest date upon which our Committee could report on this phase of the format of the estimates if it is to have an influence on the next estimates which will be introduced.

The Chairman: I presume, Mr. Reisman, that you would like our report just as soon as you could get it.

Mr. Reisman: That is right, Mr. Chairman.

The Chairman: We will proceed along those lines and continue with this matter until we are in a position to make recommendations.

Mr. Nowlan: Mr. Chairman, is Mr. Reisman going to be the first witness on Tuesday?

Mr. Reisman: Sir, all you have to do is ask and I will be here.

Mr. Nowlan: In other words, are we just going to continue and I will still be the first questioner?

The Chairman: We will have Mr. Reisman here next Tuesday as our witness, and I would like you to confine your questions as much as possible to the revised estimates. The Treasury Board is going to be back again to deal with items under the Auditor General's report, and I know that this will take care of a lot of the questions that you have in mind. I have shown quite a bit of latitude this morning . . .

Mr. Winch: We appreciate it.

The Chairman: . . . but I do not propose to do it at the next meeting. I am giving you fair warning.

With respect to our next meeting, would Friday morning at 9.30 be suitable? Do you think a goodly number could attend? The reason for my concern is that the Committee rooms are crowded on Thursday, and we are overlapping with other committees. I know that some of you have experienced this. I throw this out just for. . .

Mr. Lefebvre: Do you mean tomorrow, Mr. Chairman?

The Chairman: No, not tomorrow, next week.

Mr. Bigg: Do you mean rather than Thursday, or just on this one occasion?

The Chairman: Rather than Thursday.

Mr. Nowlan: Mr. Chairman, this business of the committees is causing difficulties to every member. I do not know, but I think the House leaders had better get together. There are ten committees meeting on Tuesdays and Thursdays and the members are out of their offices all day.

The Chairman: They have a co-ordinating committee and they are doing their best, but it is impossible to crowd all the meetings into Tuesdays and Thursdays without some overlapping.

Mr. Lefebvre: I understand we are on the schedule for next week.

The Chairman: Yes, we are on the schedule for Thursday but we are overlapping with Finance, Trade and Economic Affairs and one other. I understand there are three or four more.

Mr. Lefebvre: I think Agriculture has been dropped next week to make way for our Committee.

The Chairman: I take it you do not favour Friday morning too heartily?

Mr. Winch: The House commences at 11 o'clock, but we could sit for an hour and a half at 9.30 if we were sure of a quorum.

Some hon. Members: I have no objection to it.

An hon. Member: I have a commitment on Friday morning, so I will be engaged until 10.30. I will miss an hour of it.

The Chairman: We will meet on Tuesday and Thursday of next week, but I would like you to keep this Friday morning meeting in mind. I think we will have to hold a meeting then in order to come up with a report in time.

• 1250

Mr. Reisman: With your permission, Mr. Chairman, I answered rather quickly on the question of my appearing as a witness at your meeting on Tuesday. I am reminded that I was asked to appear and give evidence at a Cabinet Committee on Tuesday morning, and the meeting is to commence at 10 o'clock. Staff will be available from the Treasury Board and with your permission I will appear as quickly as I can fulfill my duties at that Cabinet Committee.

The Chairman: I do not know whether we should demand precedence over that Cabinet Committee! I think we will have to bow to that committee, Mr. Reisman.

We will commence at 9.30 a.m. Please come as soon as you can. Will you have a substitute here?

Mr. Reisman: Yes, sir.

The Chairman: Thank you. The meeting is adjourned.

APPENDIX A

Remarks prepared

for

The Honourable C. M. Drury

President of the Treasury Board

relating to

a revised form of Estimates

November, 1968

Mr. Chairman, members of the Committee, I am happy to have the opportunity to be here this morning to review briefly with the Public Accounts Committee the changes that have occurred in the form of Estimates in the past few years and to present you with proposals for further changes that are designed to assist Parliament in its consideration of Governmental expenditure plans.

As committee members no doubt know, the Financial Administration Act vests in the Treasury Board, in the name of the Queen's Privy Council for Canada, authority to deal among other things with matters relating to financial management, Estimates and the review of annual and longer term expenditure plans and programs of departments. The Estimates Blue Book is a *reflection* of this responsibility.

The Estimates in a very real sense provide the basis for financial management in the Government service. Because the Public Accounts Committee is very much concerned with this function, it has been the practice to seek its concurrence for any change in Estimates presentation. After its deliberations are completed the Committee may recommend to the House changes that it, in its review of departmental spending, views as desirable. It also makes recommendations with regard to changes that are brought before it from time to time by the Treasury Board.

This Committee has not dealt with changes in the form of Estimates for some time. I therefore thought that I would recall to members that as result of the deliberations of this Committee in 1963, the number of votes in the Estimates was reduced from some 550 to 220 as recommended in the Committee's report to the House at that time. The primary reason for that change was related to the need to bring together under one heading the different elements that constitute a departmental program. This purpose, generally speaking, was achieved by setting up one administration, one capital and one grants vote for each departmental program. This resulted in a more rational presentation of activities within each Departmental structure, but it was only the beginning of what was to become an exhaustive study of how best to achieve better departmental control over existing operations, to improve governmental assessment and control over both new and existing programs, and to provide more meaningful information on public expenditures to Parliament.

Since that time, and following the recommendations made by the Royal Commission on Government Organization, the Treasury Board staff has been engaged in a fundamental review of its expenditure control role in the context of its position as a central planning agency, in cooperation with all departments and agencies. As a result, the orientation of the Treasury Board has changed, as the Royal Commission envisaged, from an Agency primarily concerned with keeping the lid on expenditures through highly centralized and detailed control mechanisms, to a forward looking planning body which promotes the effectiveness of departmental programs through expert analysis of expenditure proposals in terms of both possible alternatives and the objectives of the Government. Within the constraints prescribed by the Government, the Treasury Board is then able to set goals and propose allocation of resources on the basis of priorities and the forecasted availability of funds.

I would now like to deal with a number of changes that we are proposing for future Estimates presentation as well as with certain changes that we are incorporating in the

1969-70 Blue Book now under preparation. Committee members should note that the changes being made to the current form Blue Book, that is the book that will display the estimates for 1969-70, fall into two categories: those of a purely presentational character; and those featuring an element of control.

Before I review the changes for 1969-70 I might mention that the Revised Estimates for 1968-69 which were tabled in the House on September 25 reflect a change that was introduced earlier this year in the original Estimates tabled on February 12. I refer to new standard objects of expenditure that are designed to serve the needs of internal accounting procedures and a national accounts presentation. This new system was developed by an inter-departmental committee which was asked to determine the coding procedures that would be compatible with these needs, while retaining the existing level of information for publication in the Blue Book.

The inter-departmental committee made recommendations on the restructuring of the standard object classification and this restructuring was subsequently approved by the Treasury Board. The new system consists of 13 standard objects in place of the traditional 34 standard and special objects which have appeared in Estimates until now. The new system is adaptable to whatever object classification individual departments adopt for internal purposes, because each of the 13 new standard objects can be further broken down into reporting objects and economic objects that can be used for expenditure accounting purposes by departments and for the provision of information needed for the presentation of expenditures on the National Accounts basis.

With regard to the 1969-70 Blue Book, we would have preferred to present you with proposals for changes earlier this year, but since events prevented us from appearing before you until now, and since they could not have been implemented in the 1969-70 Estimates if the necessary instructions had not been issued to the departments and agencies of Government before this September, the Treasury Board reviewed these changes very carefully last summer and authorized the issuing of the necessary instructions.

1. *Expenditure Coding*

Having briefly explained the new system of standard object classification which is incorporated in the Revised Estimates for 1968-69 we plan to extend the implementation of the system by consolidating in single line entries, under new descriptive titles, the entries that appear separately in these Estimates. For example, the "Traveling and Removal Expenses", and the "Telephone and Telegrams" which are both shown as standard object (2) in the Revised Estimates would be grouped under the heading "Transportation and Communications" as standard object (2).

I might add that this change will reduce the length of the Blue Book by some 27 pages. However, the more detailed information which heretofore appeared in Estimates will continue to be available at the departmental level and can be provided to Parliamentary committees, or the House during Estimates consideration.

2. *Supporting Financial Information for Certain Crown corporations*

It is now the custom in Canadian Estimates to give much less detail for votes containing provision for the requirements of agency and proprietary Crown corporations than is given for the requirements of departments and departmental corporations. This treatment is a reflection of the different expenditure control relationship which Parliament has prescribed should exist between the Treasury Board and Crown corporations. It is also a reflection of the requirement that the budgets of Crown corporations be tabled separately in the House of Commons.

As you are well aware, the Public Accounts Committee has in past years endorsed recommendations made by the Auditor General that supporting financial information be given in Estimates for Crown corporations requiring appropriations. At the request of the Public Accounts Committee, the Treasury Board undertook to consult with the heads of these Crown corporations regarding the provision of such supporting information. Earlier this year, we wrote to a number of Crown corporations expressing the views of the Public Accounts Committee and asked them to consider how they could best respond to your Committee's wishes.

I am pleased to report that, as a result of these consultations, we will include in the printed Estimates for 1969-70 a statement of income and expenditure in support of Crown corporation operating requirements funded through Estimates and an indication of proposed capital expenditure where these are

funded through Estimates. This change, I am certain, will be most welcome by your Committee.

3. *Elimination of Salary Ranges*

We propose to eliminate the various salary ranges now appearing in the Estimates and indicate instead the numbers of continuing full-time employees in each major occupational category. The kind of detail now provided is rather meaningless since there are continuous changes between ranges in the course of the year as a result of economic salary revisions and the reclassification of Staff.

The inclusion of numbers of employees in each category should provide a better appreciation of the type of personnel engaged in carrying out the purposes of individual programs.

I might say that this change would result in a reduction of some 70 pages in the current Blue Book. In this case also, should more detailed information be required during Estimates consideration it would be made available by the Departments concerned. We propose of course, to retain the Manpower Allocation and Utilization Summary which now appears at end of the current Blue Book.

4. *Clarification of Grants and Contributions*

As members of the Committee are no doubt aware, it is an accepted principle of Parliamentary practice that the making of outright grants is a prerogative of Parliament. This is reflected in Canadian Estimates in such vote titles as "Grants and Contributions *as detailed in the Estimates.*"

However, the situation is now such that we do not have any rational distinction between outright subsidies on the one hand (such as the grant to the Boy Scouts as shown on page 445 of the Revised Estimates for 1968-69) and payments made by the Federal Government in pursuit of programs already authorized by legislation. For example, the Occupational Training of Adults' Act authorizes payments by the Government for several purposes, such as for training allowance and for capital assistance. These payments are made pursuant to agreements entered into with the Provinces, under the authority of legislation. The agreements always call for the auditing of accounts to be presented by the recipients of the payments. Present vote titles however (such as Manpower and Immigration, Vote 10, at page 304 of the Revised Estimates for 1968-69), do not allow the transfer of an excess provision that might arise under one agreement to meet a deficiency arising under a different agreement. Such excesses or deficiencies may occur as a result of the difficulty of forecasting with precision at the time of the printing of the Estimates, levels of anticipated expenditures which depend entirely upon the extent of participation in the program in question. To achieve such a transfer of funds, it is now necessary to include an item in Supplementary Estimates, regardless of the fact that authority to enter into the agreement already exists and that sufficient funds may be available within the vote as a whole.

On the other hand, there are vote wordings which permit the transfer between contributions without the requirement for a Supplementary Estimates. An example of this is shown at page 104 of the Revised Estimates for 1968-69 where the wording of Vote 50 for Energy, Mines and Resources allows transfers between the ten contributions that are presently listed pursuant to the Canada Water Conservation Assistance Act.

We propose that restrictive vote titles be used only in those cases where no Parliamentary authority for the expenditure exists and where no accounting or auditing is made of the expenditure in question. Under this change, Parliament would retain its fundamental right of determining grants that are clearly unconditional disbursements, and the Government would have added flexibility in carrying out the wishes of Parliament and making payments required as a result of agreements authorized pursuant to Acts of Parliament. In no case of course would the total of a Vote in the Estimates for grants and contributions be exceeded without further Parliamentary action.

Having dealt with changes for the fiscal years 1968-69 and 1969-70, we now have further changes to propose for the Estimates for 1970-71.

The Committee will recall that the Royal Commission on Government Organization recommended that:

> 1. the form of the Estimates be revised so that the votes more clearly describe the purpose of expenditures, that more comparable and complete supporting information be provided, and that unnecessary detail be eliminated;
>
> 2. departmental Estimates be prepared on the basis of programs and activity and not only by standard objects of expenditure.

One of the first steps taken by the Government following the receipt of the Glassco report was to engage management consultants who were given the task of proposing expenditure control and financial management procedures for four departments. These departments were Agriculture, Northern Affairs and National Resources, Transport, and Veterans Affairs. As a result of these studies, there arose proposals to change the form of Estimates presentation designed to better reflect the new concepts of financial management, as recommended by the Glassco Commission, and to provide Parliament with the kind of information necessary for a meaningful review and discussion of governmental activity.

Subsequently, five departments (Dominion Bureau of Statistics, Indian Affairs and Northern Development, Insurance, Manpower and Immigration and Royal Canadian Mounted Police) submitted their 1967-68 Main Estimates in the suggested new form as well as in the traditional form. After further refinements, and I might say at this point that we are continually refining the presentational aspect of this proposed new form, twenty six departments and agencies were able to submit their Estimates for 1968-69 to the Treasury Board in both the current form and the proposed new form. Finally, I expect that for the 1969-70 Estimates, most departments and agencies will be in a position to submit their Estimates in both forms.

Several booklets were distributed this morning to illustrate the Estimates for 1968-69 in the suggested new form for the departments of Insurance, Indian Affairs and Northern Development, and for Solicitor General. The current form of Estimates for the Department of Indian Affairs and Northern Development was also distributed to permit comparison between the two forms. You may wish to refer to these as I review briefly the proposed new form of Estimates, which reflects the changes I have already mentioned as well as several additional new features.

If Committee members will look at their sample new form for the Department of Indian Affairs and Northern Development, they will note that a forword appears on page 3 which outlines in general terms some of the features that are proposed to be included. With this in mind, perhaps the Committee will now permit me to discuss in more detail some of these new features.

(a) Members will note that on page 5 there appears a statement of departmental objectives which are explained in terms of the four programs of the department.

(b) On page 6, where a detailed breakdown of the Administration Program begins, you will note the statement of the program objectives followed by a narrative description of the Program itself outlined in terms of those objectives. The Program has broken down into a number of activities that are the means by which the objectives, as set out, are to be achieved. This approach is designed to assist Members of Parliament in identifying the purpose of the Administration Program, thereby aiding in their examination of the Expenditures proposed under it.

This same approach for each of the other three programs is followed throughout the sample (at pages 12, 20 and 30). In this regard, I might remind the Committee that the current form of estimates does not include any narrative material concerning the department nor, for that matter, any of its programs or activities.

(c) As I reviewed the vote structure appearing in the current Estimates, I recalled to the Committee that it had agreed in 1963, to reduce the number of votes in the Estimates, so that generally speaking, each departmental program would show one Vote for each of the categories administration, capital and grants. The purpose of that change was to provide Parliament with a appreciation of the cost of any given program and the elements which went into its makeup.

In line with the concepts of program budgeting and responsibility accounting under which each program is considered as a unit, made up of these three different elements, we are proposing to take the next logical step in the development of a rational vote structure and to consolidate into a single vote the three votes presently being shown for each program. This would permit Members of Parliament to review more readily each departmental program in the light of its total cost and would give members a firm basis for a more complete discussion of each particular program. The total cost of each program would of course continue to be broken down in the Estimates details into its main elements of administration, capital and grants.

Together with this, we also propose that non-budgetary requirements (that is loans, investments and advances) be shown with the appropriate program. Pages 10, 12 and 13 of the sample new form of Estimates for Indian Affairs and Northern Development illustrate

how this treatment would be reflected in the Estimates for the Indian Program of that department.

This change in the vote structure, if it commends itself to your Committee would have resulted in a reduction of some 100 Vote items from the current 236, had it been applied to the Estimates for 1968-69.

(d) The Estimate for each program is displayed by activities broken down into the usual categories of operating requirements, capital requirements and grants and, where applicable, into non-budgetary requirements, against the operating requirements for each, there is shown the proposed man-years of employment allocated for each activity. (pages 6, 12, 20 and 30 of the sample).

The indication of manpower utilization in this manner should allow members of Parliament and the public to relate more effectively than is possible at present to a given activity the number of employees engaged in that activity.

(e) There is also added to the estimate of the cash requirement for each program the value of services received from the department itself or from other departments.

In the case of the Indian Program illustrated on page 12 of the sample new form, the value of services provided by other departments includes: accommodation provided by Public Works; (this includes only the cost of office accommodation for which the Department of Public Works is responsible. For specialized accommodation such as laboratories, warehouses, schools, hospitals, etc., the cost is shown against the entry "Accommodation provided by this Department"); accounting and cheque issue services provided by the Comptroller of the Treasury; contributions by the Government as an employer to the Superannuation account, the Canada Pension Plan account and the Quebec Pension Plan account; the Government's share, as an employer, of Group Surgical Medical Insurance premiums; the Government's share of employee compensation payments; and the carrying of franked mail by the Post Office Department. This should assist Members of Parliament in assessing the total cost of the various programs.

In the current Blue Book, the value of services received free of charge from other department is provided for the total department only. Page 196 of the current form sample in front of you illustrates this point.

(f) For each program, we propose to provide a table showing the total cost of the program by standard object of expenditure, again broken down into the three main elements of Administration, Capital and Grants, (pages 7, 14, 23 and 32 of the sample new form).

(g) Details of the manpower allocation among the major occupational categories (and its utilization) are shown for each program as the committee can see at pages 8, 14, 23 and 32 of the sample new form of Estimates. The total man-year utilization in the first column of the table is of course identical to the total shown against the activity breakdown on the program, which I just mentioned. One important feature of this table is the allowable strength at year-end figure which is shown for both the current and new years. In addition, a three-year comparison of staff numbers is offered instead of the two-year comparison in the current form. The Manpower Allocation and Utilization Summary appearing at the end of the current Blue Book would of course be retained.

(h) Members will also note at pages 15, 24 and 33 of the sample new form of Estimates that construction and acquisition projects with a total estimated cost—regardless of the year of expenditure—in excess of $250,000, are shown in a separate table for each program.

(i) Having in mind the principles which I described earlier in relation to grants and contributions, where I outlined the distinction to be made between outright subsidies and payments made pursuant to agreements, we propose that for each program there be a listing of each grant and of each contribution that is to be made under the program. An example of this is shown at page 26 of the sample.

Having reviewed the main features of the proposed new form of Estimates, it is evident, I believe, that the program approach to Estimates presentation is the fundamental concept that emerges. Perhaps I might recapitulate by stating what is a program and what is an activity. A program is a group of departmental activities authorized by legislation or authority emanating from legislation, that is directed to the achievement of a definite objective. The activities are the varied means employed in carrying out the program. Bearing this in mind, the program structure must be carefully designed to assist in the resource allocation decisions made by the

Government. The programs of a department are the headings under which that department makes its request for funds and under which requirements can best be justified and the benefits forecast.

It might be appropriate at this point, Mr. Chairman, to outline briefly to the Committee, the process through which Estimates are prepared for presentation to Parliament.

In recent years, the Treasury Board has developed a two-stage approach to the examination of departmental expenditure plans. First, there is the review during the summer months of departmental 5-year forecasts of Estimates requirements, on the basis of which targets are set for the following fiscal year. Secondly, there is the traditional detailed Estimates review in the late autumn and early winter.

During the review of program forecasts, the Treasury Board considers this information against the background of overall government priorities and the most recent estimates of the total funds that are likely to be available throughout the 5-year period. This review is the occasion where the Treasury Board, following discussion and consultation with departments, sets financial and manpower targets for each program for the subsequent fiscal year. Eventually, when the system is more refined, it is proposed that this would be the occasion for Treasury Board to grant broad approval in principle for the department's long-term plans for each program.

Following the program review, the second phase of Estimates preparation and review for the subsequent fiscal year begins. With the approval in principle of their plans for each program, and against the financial and manpower targets that have been set for each program, departments are asked to develop their detailed operational plans for the next fiscal year—establishing recognized goals for each centre of budgetary responsibility and allocating the necessary funds within individual programs.

The Board's review of the Main Estimates submissions consists of an examination of departmental proposals, and of their detailed plans to confirm that they are in line with previously approved targets, and the government's expenditure policy for the forthcoming fiscal year. In addition, the Board reviews at this time the departments' detailed costing of the operational plans for each program for the new year.

The product of this second phase is the Book of Estimates. The Estimates for 1969-70 will of course be produced in the present form, incorporating the changes that I mentioned earlier. In addition, we expect to be in a position next Spring to provide Parliamentary Committees that will be considering departmental Estimates, with Estimates booklets similar to those that have been distributed to you today. We believe that these booklets will permit a more informed examination of departmental Estimates by the Committees. From the discussions of your committee and from the examination of Estimates by Parliamentary committees next Spring, I would expect that there will emerge suggestions for further refinements which could be incorporated into the Estimates for 1970-71.

In 1970-71, then, Estimates would be prepared and presented to Parliament in the new form only. It would be our intention to produce them both in booklet form for each department as well as in the form of a complete volume containing the Estimates of all departments and agencies.

I want to conclude, Mr. Chairman, and members of the Committee, by re-emphasizing what I said at the beginning of my remarks. The Blue Book of Estimates constitutes the framework for Parliamentary control and the examination of Departmental expenditure plans. The primary objective of the proposals that I have presented to you is designed to facilitate your task in carrying out your responsibilities as Members of Parliament. At the same time, they are designed to serve better the needs for more effective Government Administration.

I know Committee members will want to express their views and reactions to these proposals. My officials and I are at your disposal and we would be willing to provide you with all the assistance we are able to.

Thank You.

HOUSE OF COMMONS

First Session—Twenty-eighth Parliament

1968

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: Mr. G. W. Baker, M.P.

MINUTES OF PROCEEDINGS AND EVIDENCE

TUESDAY, NOVEMBER 26, 1968

Revised Issue of Estimates

WITNESSES:

Mr. Sylvain Cloutier, Assistant Secretary of the Treasury Board;
Mr. G. R. Long, Assistant Auditor General.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1968

OFFICIAL REPORT OF MINUTES
OF
PROCEEDINGS AND EVIDENCE

This edition contains the English deliberations and/or a translation into English of the French.

Copies and complete sets are available to the public by subscription to the Queen's Printer. Cost varies according to Committees.

Translations under the direction of the Bureau for Translations, Secretary of State.

ALISTAIR FRASER,
The Clerk of the House.

OFFICIAL REPORT OF MINUTES

OF

PROCEEDINGS AND EVIDENCE

This edition contains the English deliberations and/or a translation into English of the French.

Copies and complete sets are available to the public by subscription to the Queen's Printer. Cost varies according to Committees.

Translations under the direction of the Bureau for Translations, Secretary of State.

ALISTAIR FRASER,

The Clerk of the House.

HOUSE OF COMMONS

First Session—Twenty-eighth Parliament

1968

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: Mr. A. D. HALES

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 4

TUESDAY, NOVEMBER 26, 1968

Revised form of Estimates

WITNESSES:

Mr. Sylvain Cloutier, Assistant Secretary of the Treasury Board;
Mr. G. R. Long, Assistant Auditor General.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1968

29378—1

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. A. D. Hales

Vice-Chairman: Mr. T. Lefebvre

and Messrs.

Allmand,	Flemming,	Rock,
Bigg,	Howard (*Okanagan Boundary*),	Rodrigue,
Burton,	Laflamme,	Rondeau,
Cafik,	Major,	Thomas (*Maisonneuve*),
Crouse,	Noble,	Winch—20.
Cullen,	Nowlan,	
Éthier,		

(Quorum 11)

Edouard Thomas,
Clerk of the Committee.

MINUTES OF PROCEEDINGS

TUESDAY, November 26, 1968.
(5)

The Standing Committee on Public Accounts met this day at 9.49 a.m., the Chairman, Mr. A. D. Hales, presiding.

Members present: Messrs. Allmand, Bigg, Cafik, Crouse, Cullen, Flemming, Hales, Howard (*Okanagan Boundary*), Lefebvre, Major, Nowlan, Rodrigue, Thomas (*Maisonneuve*), Winch—(14).

Also present: Mr. Ritchie.

In attendance: Mr. S. Cloutier, Assistant Secretary of the Treasury Board; Mr. G. R. Long, Assistant Auditor General; Mr. J. G. Glashan, Director of Estimates and Supply Procedures Division, Treasury Board.

The Committee undertook a review, paragraph by paragraph of Appendix A "Remarks prepared for the President of the Treasury Board relating to a revised form of Estimates" and questioned the witnesses.

At 11.02 a.m., the Committee adjourned to the call of the Chair.

Edouard Thomas,
Clerk of the Committee.

29378—1½

EVIDENCE

(Recorded by Electronic Apparatus)

Tuesday, November 26, 1968.

• 0939

The Chairman: Gentlemen, we have a quorum and are ready to proceed.

At the last meeting we were discussing with Treasury Board the new proposed format for Estimates and at that time we had a general discussion on a number of far-ranging questions. I am in your hands today, gentlemen, on the procedure we will follow. I have been giving this matter some thought. Perhaps it would be desirable to go through this Treasury Board document paragraph by paragraph as each paragraph brings up a suggested change. Mr. Cloutier will be representing Mr. Reisman for most of the morning. Mr. Reisman may be here a little later on.

Are there any other suggestions?

• 0940

Mr. Cafik: Mr. Chairman, what is the title of the document you are referring to?

The Chairman: These are remarks prepared for the Honourable C. M. Drury, President of the Treasury Board, relating to a revised form of Estimates.

Mr. Cafik: Thank you, Mr. Chairman.

The Chairman: If it is agreed to proceed on that basis, we will discuss each paragraph as we go along.

The first page is purely introduction. The first paragraph on page 2 states what the Committee did in 1963. As a result of its recommendations the number of votes was reduced from 550 to 220. There is not too much in particular at the bottom of that page. Then follows a number of changes that we are proposing for future estimates. We get into the meat of it on page 4.

Mr. Winch: Mr. Chairman, starting at the bottom of page 2 and then going on to page 3, does this refer to a contemplation for the future or something that has been in effect for a while?

I ask that question because it says:

> Within the constraints prescribed by the Government, the Treasury Board is then able to set goals and propose allocation of resources...

and so forth. In view of the situation a year ago and this year it would hardly seem that it has been functioning that way. That is the reason I ask whether this is what you contemplate would be the results of the new set-up and the new arrangement. Because of the very heavy deficits that we have been faced up with it would rather appear that this has not functioned.

Mr. S. Cloutier (Assistant Secretary, Program Branch, Treasury Board): Mr. Chairman, this statement on page 3 of the document before us refers to a process that is ever being refined. It does relate to the present practices and also to the practices that we are getting into under the new form of Estimates.

Mr. Winch: That does not quite clarify it, Mr. Chairman. I believe, from your looks, that it does not quite clarify it for you either. As you say, it means the carrying on of a past practice, with a refinement, but does the latter part of the paragraph on page 3 indicate that your refinements as outlined here are such that we will not be facing $500 million or $700 million deficits which are completely out of line with your estimates budgeting.

Mr. Cloutier: It is our expectation, sir, that this will be the case.

Mr. Winch: On the new refinements.

Mr. Cloutier: That is right.

Mr. Winch: It does not apply to the past though?

Mr. Cloutier: Not to the extent that we would wish.

The Chairman: Perhaps we should read this as we go along in case we miss something. What do you think, gentlemen?

Mr. Cafik: It would be a good idea.

Mr. Cloutier: Of course this is Mr. Drury speaking, and I am reading from the text:

I would now like to deal with a number of changes that we are proposing for future Estimates presentation as well as with certain changes that we are incorporating in the 1969-70 Blue Book now under preparation. Committee members should note that the changes being made to the current form Blue Book, that is the book that will display the estimates for 1969-70, fall into two categories: those of a purely presentational character; and those featuring an element of control.

Before I review the changes for 1969-70 I might mention that the Revised Estimates for 1968-69 which were tabled in the House on September 25 reflect a change that was introduced earlier this year in the original Estimates tabled on February 12. I refer to new standard objects of expenditure that are designed to serve the needs of internal accounting procedures and a national accounts presentation. This new system was developed by an inter-departmental committee which was asked to determine the coding procedures that would be compatible with these needs, while retaining the existing level of information for publication in the Blue Book.

• 0945

The Chairman: Are there any questions so far? If not, I would like to ask one. It says on page 4:

> I refer to new standard objects of expenditure that are designed to serve the needs of internal accounting procedures and a national accounts presentation.

I repeat, in part, "to serve the needs of internal accounting procedures". Does this mean that the whole accounting procedure will have to be revamped or revised in keeping with the new proposed Estimates.

Mr. Cloutier: The accounting procedure has already been revamped, as you say, and revised to follow this new approach, so that the presentation of the standard objects in the current Blue Book really represent a transitional phase where the inclusion of the accounts reflect the new system.

The Chairman: Could we ask Mr. Long to give us the views of the auditing department with respect to this change.

Mr. G. R. Long (Assistant Auditor-General): Mr. Chairman, we had the privilege of having a presentation by the Treasury Board staff quite some time ago. It appears to us that this change is not going to be harmful in any way and that, in fact, it will be helpful because of greater standardization of reporting. There will be fewer main objects, as I understand it, but all present objects fit into these somewhere and can be retained, and the information will be available.

Mr. Allmand: Mr. Chairman, excuse my ignorance, but I am not too sure what is meant by "standard objects". I see in the next paragraph that we will now have 13 standard objects instead of 34. Could somebody point out what is really meant by standard objects?

Mr. Cloutier: If you turn to the bottom of page 7 of the Indian Affairs and Northern Development booklet you will see the total estimates items of that particular program broken down by standard objects of expenditure. These standard objects of expenditure really fall into three categories: Administration, Operation and Maintenance; Construction and Acquisition; and Grants and Contributions. So that this is another way of presenting the same estimate cycle. If we go to the current Blue Book you will find that each vote is broken down by standard objects of expenditure. In this new form of Estimates we would propose to provide that information, and then provide the same information broken down by activity—and this is shown on page 6 of the same booklet.

Mr. Allmand: Therefore standard objects of the expenditure as against the purpose of the expenditure into different categories.

Mr. Cloutier: That is right, the nature of the expenditure as against the purpose of the expenditure.

Mr. Allmand: Thank you.

The Chairman: Gentlemen, there is in the back of your Blue Estimates Book a large sheet divided into a number of columns. Each column has a number at the top of it. No. 1 is Civil Salaries and Wages. That is commonly referred to as object no. 1.

In the next paragraph you tell us where you are cutting 34 standard and special objects down to 13.

Mr. Cloutier: That is right.

The Chairman: Are there any questions on that?

In order to reduce it from 34 to 13 you must have had to co-ordinate a lot of these and condense them.

• 0950

Mr. Cloutier: That is right, sir.

The Chairman: Could you give us an example?

Mr. Cloutier: Yes, sir. For instance, if we go to the current form of the current breakdown we find that we have a separate object for Freight, Express and Cartage, for Travelling and Removal, for Postage, for Telephones, Telegrams and Other Communication Services. Under the new breakdown all of these expenditures at the primary classification level would appear together.

Now the system of classification of accounts provides for a three tier classification. The second as in the current estimates tier would provide the same information and the third tier would break it down even finer. This is required for internal control purposes and for re-allocations between the various responsibility centres in the Department.

The Chairman: Would you mind giving us a list of those that you are putting under one heading?

Mr. Cloutier: I gave an example: Travelling and Removal, Freight, Express and Cartage, Postage, Telephones, Telegrams and Other Communication Services.

Mr. Major: And this is now under one object.

Mr. Cloutier: That is right, sir, and the name of that new object is Transportation and Communication.

Mr. Flemming: It would still be itemized under the second heading?

Mr. Cloutier: The information would be available under the second heading.

Mr. Flemming: Would it be itemized for purposes of Treasury Board or for our purposes?

Mr. Cloutier: The information would be available when the various departments appear before the Parliamentary Committee examining the Estimates of the particular department.

The Chairman: Mr. Flemming, you are on a very important matter.

Mr. Flemming: It is the breakdown of items that I am concerned with. I am wondering if we as a committee would still have that information relative to each item.

Mr. Cloutier: Under the current proposal the standard breakdown would not appear in the new form of Estimates, sir.

Mr. Flemming: I do not want to pre-judge anything, neither do I want to assume things that do not exist, but it seems to me that the very thing that we are looking for, which is really a close examination of detail, would be denied us under this system.

Mr. Cloutier: The proposal envisages different types of detail, and in this particular regard it envisages also a much finer breakdown that could be made available on request at the parliamentary committee stage. The proposal that is now before you results from the examination of the concern that was evidenced by the various questions that were raised in previous meetings of various parliamentary committees.

Mr. Chairman, perhaps I could suggest that if members of the Committee are interested in this particular point we might have a full explanation of the reclassification of the standard objects of expenditure so that members could see how the operation was carried out. For that purpose I suggest that the Committee might wish to call as a witness the chairman of the interdepartmental committee that produced this work.

• 0955

Mr. Flemming: I have no more comments, except to express my misgivings about not having full details.

The Chairman: Mr. Allmand?

Mr. Allmand: Was this new standard object classification recommended by the Glassco Commission?

Mr. Cloutier: Specifically? No, I do not think so, sir. The Glassco Commission, as I recall it, did have observations on the internal accounting methods of departments and the need to rationalize and standardize these, and this proposal is a result of our examination of those concerns expressed by the Glassco Commission.

Mr. Allmand: In other words, he recommended a rationalization of the whole business and this is how you interpret a rationalization.

Mr. Cloutier: Partly.

Mr. Allmand: What about the Auditor General? What were his recommendations with respect to these standard object classifications? I cannot remember that.

The Chairman: Mr. Long?

Mr. Long: The Auditor General has never made any recommendations on these, Mr. Allmand. The standard objects just divide up your expenditure by telephones, travel and so on. It seems to us the more important thing is the broad program you are carrying out, not necessarily how much you might spend on telephones or freight or express. Our understanding is that while the information may not be given in the estimates, or in the public accounts, the further breakdown is going to be maintained and the information is available at any time it is needed.

Mr. Cloutier: We concentrated on what we took as the result of the observations made by the Glassco Commission and, I believe, from the Auditor General, to provide more information on the purpose of the expenditures and this brings us to the activity breakdown that is essential to the whole proposal.

The Chairman: Mr. Winch and then Mr. Flemming.

Mr. Winch: I would just like a little further clarification of what Mr. Long said. He said that details will be available. I am interested in how. Perhaps I can put it this way, Mr. Chairman. I believe that I agree now with what the Department has in mind on consolidation under objects, but let us say from the old book you put telephone, postage and telegraph together, to me that is communications, so what is meant by communications? I will give an example; does that mean a fair share or a proportionate share of the use of Telex or line 151 on the leased line? You see, just how would you term that under the new set-up?

Mr. Cloutier: The new set-up, you see, is really theoretical. I forget the number of individual items that go to make up the new Standard Objects of Expenditure, but I might refer you to the spread sheet in a pocket in the back of the Blue Book. The obverse is the presentation of the totals by standard object for each department and agency. On the reverse side of this sheet you have, in effect, the definition of each of the Standard Objects of Expenditure.

To answer your particular question Mr. Winch, if we go to the item labelled telephones, telegrams and other communication services...

Mr. Winch: Yes, the other communication services; how would you...

Mr. Cloutier: The definition for this is:

> Includes all costs of communication services by telephone, telegram, cable, teletype, radio and wireless communication (tolls, rates, rentals, etc.) and other communication costs such as courier services provided by outside agencies and communication services performed under contract or agreement.

Mr. Winch: How would you get that detail?

Mr. Cloutier: Pardon me?

Mr. Winch: How would you get the details?

Mr. Cloutier: The details would be made available to parliamentary committees when the departments appears before them.

• 1000

Mr. Winch: Oh, by asking a question.

Mr. Cloutier: It is a question of coming down to a level of presentation that would serve the majority of purposes and yet build into the system the further detail that would be of interest in particular instances.

Mr. Winch: You would get it only by asking a question if you had a particular interest in getting it.

Mr. Cloutier: That is right, sir.

Mr. Winch: I see.

The Chairman: Mr. Flemming?

Mr. Flemming: My question, and perhaps Mr. Winch has asked it partially at least, is at what point is the information available? Is it available to this Committee or is it just available when the estimates are finally before the House?

Mr. Cloutier: It could be made available to this Committee depending on which witness you call. I suggest that with respect to a question concerning the detailed operation of a given department or a given section within

a department the best witness would be an official from that department.

Mr. Flemming: Do I understand correctly that all departments come under this general heading, telephones, telegraphs and communications and so forth?

Mr. Cloutier: The expenditures of each parliamentary vote are broken down by these Standard Objects of Expenditure and further details would be available under each such vote.

Mr. Flemming: Yes, but my point is, is it under a general heading of all departments, or is it segregated?

Mr. Cloutier: The present form of estimates, that is, the majority of the Book itself, shows the detail by vote and then in back of the Blue Book we show this detail by summary for each department, so in effect the total of this rather huge spread sheet adds up to exactly the same amount of budgetary expenditures that make up the blue book.

For instance in the Revised Estimates on page 5 you will see that the total budgetary expenditures are $10,670,930,598. In the bottom right corner of this spread sheet, which again breaks down all expenditures by Standard Objects of Expenditure, you will see total for all departments is the same $10,670,930,598.

The Chairman: Mr. Flemming?

Mr. Flemming: Do we have access to the amount that is paid for telephones, telegraphs, and communications in each department the same as we do now?

Mr. Cloutier: Exactly, sir.

The Chairman: But, Mr. Flemming, you will have that information only if you ask for it.

Mr. Flemming: Oh, I understand, Mr. Chairman, but we may ask for it in the Committee?

Mr. Cloutier: That is right.

The Chairman: Mr. Cafik?

Mr. Cafik: I have a question so that I will understand this more fully. I gather now that the Revised Estimates in the Blue Book, if this goes through, will include for each department 13 standard objects under which all the expenditures of that department will be placed. Is that correct?

Mr. Cloutier: Yes, sir.

Mr. Cafik: This has been asked, but I would like to pursue it a little further; to get the breakdown of each one of those standard objects I gather from what has been said we must ask for that information, but could we ask one simple question, for instance in Public Accounts, that we would like that information in a broken down formal manner presented in a written form for each one of the departments and would we get it?

Mr. Cloutier: I think you are asking at what level of a breakdown.

Mr. Cafik: I gather from this pyramid form that you have you start at the top of the pyramid and you have the 13 standard objects.

Mr. Cloutier: That is right.

Mr. Cafik: Below that you might break it down into perhaps 50 sub-objects and below that perhaps into 300 or 400.

Mr. Cloutier: That is right.

Mr. Cafik: Now, is it possible in Public Accounts for us to do our job properly to ask for the breakdown in a written form for both of these pyramids?

Mr. Cloutier: For all departments?

Mr. Cafik: Yes sir, for whatever department we are concerned with.

Mr. Cloutier: If a parliamentary committee wants it for a particular department it can be made available to the Public Accounts Committee or to any parliamentary committee, and indeed this is the intention.

Mr. Cafik: So any individual committee, then, looking at the estimates for that particular department may, in fact, get the breakdown in a written form as we previously had it.

Mr. Cloutier: Very definitely, and if you go to the secondary level you would have it in greater detail than is available now.

• 1005

Mr. Cafik: Is it true, then, to say that really we are not losing anything by this new form in terms of detail?

Mr. Cloutier: Not at all; that is absolutely true.

The Chairman: I think we had better ask a question. I am afraid I do not agree with that.

Mr. Cafik: I am just seeking information of course, Mr. Chairman.

The Chairman: Yes, well that is what we want.

Mr. Cafik: There seems to be a conflict between what he is saying to me and what was understood previously.

The Chairman: Perhaps we could explain it just for a little more clearly. If you pick up the Department of Indian Affairs—illustration only, it says—on page 197, Vote 1, you will see Travelling and Removal Expenses, $133,-200; underneath it Freight, Express and Cartage; under that Postage; under that Telephones and Telegrams. Now, as I understand it, those four items under the proposed system will appear as one line called, "Transportation and Communications." Is that right Mr. Cloutier?

Mr. Cloutier: That is right, Mr. Chairman.

The Chairman: You will have opposite that x number of dollars. Any parliamentarian, whether he be in the Public Accounts Committee or in any other committee of the House studying estimates, or if he is on the floor of the House discussing estimates, will not know how much money was spent for travel and removal expenses unless he asks the question from some official present. Are we correct up to that point?

Mr. Cafik: Well that does not seem to tie in with what Mr. Long has indicated to me.

The Chairman: Well, I think those are the facts.

Mr. Cloutier: That is precisely the proposal.

Mr. Cafik: It is not true, then, that the Public Accounts Committee can simply ask the Treasury Board for a written breakdown.

The Chairman: Yes. As I said, Mr. Cafik, you can ask for these individual items on the floor of the House or in this Committee or any other committee that is discussing estimates. You have a perfect right to ask for the amount that was spent on those individual items which are now classsified under one heading, or will be classified under one heading.

Mr. Cafik: But as a committee can we not ask the Treasury Board to give us a breakdown of all these items in written form, so that from that point on we just have them in front of us and we can look at them without having to pursue them by individual specific questions in respect of any particular object? That is my question and what I would like answered.

The Chairman: Mr. Cloutier?

Mr. Cloutier: The intention here, sir, is that if a committee is examining the expenditures of a particular department, then the final breakdown for all expenditures of that department could be made available, as you say, or as you propose, in a written presentation.

Mr. Cafik: That would eliminate the necessity, then, to pursue each individual item by a vocal question.

Mr. Cloutier: Oh, yes.

The Chairman: Mr. Howard?

Mr. Howard (Okanagan Boundary): If this is done, then are we not negating the whole process of the Glassco Report? Presumably the purpose of changing the method of presentation was to improve the efficiency of the department. There is no doubt considerable cost involved in preparing all these individual statements of expenses. I am always somewhat appalled at the number of pieces of paper put down in front of me every day, each one of them not just costing the amount that it takes to print it but also involving a great deal of labour in its preparation. Surely there is not much point in changing the method of presentation here in order to modernize and update the system according to the recommendations of the Commission if we then turn around and require all the departments to prepare a detailed breakdown of every expenditure for this Committee. We just reverse the whole procedure at one stroke. Could I have some comments on this?

• 1010

Mr. Cloutier: Yes, sir. Your observation is completely in line with our thinking in preparing this new format. But one must remember that the internal accounting systems of departments do provide for a final breakdown and it is in the books of accounts. What we were contemplating in formulating this particular proposal was that instead of printing in the Blue Book all of this detail to a fine degree for all departments, all the time, thereby increasing the size of the Blue Book

considerably, the departments' own internal accounting systems would be able to provide the information when it was required, for those instances when parliamentarians want and need them for the breakdown.

Mr. Howard (Okanagan Boundary): Mr. Chairman, according to this most recent suggestion you are asking for a blanket provision that it be provided not just for specific instances, but for all departments. Now you are right back to presenting a book that is much greater in size than it ever was in the past.

The Chairman: Perhaps Mr. Cafik would like to explain further what he meant.

Mr. Cafik: Mr. Chairman, I did not make any recommendation that it be provided. I simply was asking whether it would be provided if asked for, or if required. I think that parliamentarians have every right to that information.

The Chairman: The answer is "yes". Mr. Allmand.

Mr. Allmand: Mr. Chairman, is it not true that under the present estimates there is a much finer breakdown than appears? For example, under the item "freight, express and cartage" I could ask how much cartage by truck and how much cartage by piggyback and how much freight. In other words, as it is right now there is a much more detailed breakdown in the books of the departments; as it is, we have rationalized it to a certain extent. What you are really saying is that we are going to rationalize it a bit more and give more general objects.

Mr. Cloutier: The main distinction, sir, is that under the previous system there were these sub-breakdowns, but they lacked uniformity across the service; whereas the new system is a complete service which covers every conceivable type of expenditure, so that each department would classify a given expenditure in the same manner.

Mr. Allmand: I see. Therefore if we were examining Indian Affairs and Northern Development and we came to the part "transportation and communications" we would know that the breakdown for "transportation and communications" under Indian Affairs and Northern Development would be the same, let us say, as for the Department of Finance.

Mr. Cloutier: Exactly.

Mr. Allmand: And for every other department. They would all have the same breakdown and object classification.

Mr. Cloutier: And the same secondary breakdown when required.

Mr. Allmand: So that members of Parliament, once they became experienced in questioning on estimates, would know exactly what those further breakdowns would be no matter what department they had before them?

Mr. Cloutier: Exactly, sir.

The Chairman: Mr. Major?

Mr. Major: Could you tell me what system of accounting you are planning to use to provide this information?

Mr. Cloutier: The mechanical system?

Mr. Major: Yes.

Mr. Cloutier: It varies from agency to agency, depending on the size and complexity of their operation. I cannot think right now of any that would have a purely manual system, but it is conceivable. Certainly not too many years ago those manual systems existed. Now it is a variety of mechanical systems, from the ordinary bookkeeping machine to the most sophisticated computer.

Mr. Major: This is what I am getting at. Is it your plan for the future to computerize all this information so that it will be available for a variety of purposes?

Mr. Cloutier: That is right.

Mr. Major: That is what I am getting at.

Mr. Cloutier: The interdepartmental committee was composed in part of computer experts, who built into the system of classification and accounts—

• 1015

Mr. Major: So you did get computer experts to set up your system in order to implement it.

Mr. Cloutier: Oh, yes.

Mr. Major: And therefore your system will be very efficient once it is implemented.

Mr. Cloutier: This is the whole intention.

Mr. Major: And if it is computerized, when we ask a question or want information on a

certain subject it could be available almost immediately?

Mr. Cloutier: Right.

The Chairman: Mr. Cullen.

Mr. Cullen: This was really my question. Since we are getting into this modern era of the computers I assumed that was the basis for this—that it would be fed into computers and we could probably have the information much more quickly in the future than we have been able to get it in the past.

The Chairman: Excuse me. Mr. Allmand is next, followed by Mr. Major.

Mr. Allmand: I forgot to ask this when I was questioning before. When we examine, let us say, the estimates of a department under this proposed new system, we seem to—or I seem to—have more details than from financial statements of public corporations prepared for shareholders. If I were a shareholder in some public corporation I would get the annual financial statement, but I seem to have more details in these than in a corporation statement. Is this system that you are setting up similar to systems used in private business for estimates and for reporting financial details?

Mr. Cloutier: It is very difficult to generalize when one talks of a private sector, but in presenting this particular format, the experience and advice of outside consultants was sought to make sure that we do gear our procedures to the most efficient and the most modern.

You compared the estimates as we are proposing them under the new format to a corporation annual report. The essential difference between the two, of course, is that this estimate book is an expenditure proposal; it is not a report after the fact. It is also, by its very essence, a request to Parliament for funds. And for this reason it was thought quite advisable to go into more detail, both in terms of substance and in terms of degree, than one would go into in an annual report.

Mr. Allmand: But I was thinking also of the setting up of the standard object, for example if a man experienced in business was to look at these standard object breakdowns. Are these standard object breakdowns similar to those used in business? For example is "transportation and communications" a category that we would find in private business—and also, let us say, "purchase, repair and upkeep"—these types of categories?

Mr. Cloutier: These types of categories are not dissimilar from what you would find in the private sector.

The Chairman: Mr. Major, did you finish your questioning?

Mr. Major: Yes.

The Chairman: Mr. Long, would you have any observations so far from the Auditor's standpoint?

Mr. Long: Nothing additional, Mr. Chairman. As I said we have been shown what the proposal is here and it seemed to us to be a reasonable approach to updating the system of accounting and the way the accounts are kept.

The Chairman: May we ask Mr. Cloutier these questions. I think he has answered some of them. Why do you want to do this? First you said that it would cut 27 pages out of the Blue Book; secondly it should reduce costs a bit.

Mr. Cloutier: It makes for a more efficient internal accounting system as well as providing a breakdown of expenditures that is more amenable to analysis by columns.

The Chairman: Are there any other reasons why you want to do this?

Mr. Cloutier: That is about it, sir.

• 1020

The Chairman: All right, what is on the other side of the ledger, gentlemen? What are your objections to it? We are going to have to report on this very important classification of standards and so on.

I would see one objection to it, in that parliamentarians are going to have to ask for this information. It is not provided as it is now. You are going to have to ask for it. Travel and removal expenses are a very big item. I have always been very much concerned about the cost of travelling of government employees in all departments. It has risen to very, very high levels and this is all going to be lumped into one object and we will not know what travelling and removal expenses are unless we ask for them. It is a big item and we will have to decide whether

we want to see it covered up in one heading or not. Mr. Cullen?

Mr. Cullen: The only objection I see to your comment, sir, is that as a new member I find the books and the present estimates as presented a pretty overwhelming thing, quite frankly. I felt that I had an obligation to learn what the estimates were and how to get this particular information, because, frankly, going through these books the first couple of times is to me, as a layman lawyer and knowing very little about accounting, extremely difficult. So I had to do a bit of searching and inquiring. I do not think we are asked really to do that much more.

Your area of concern is travelling and that sort of thing. Others might have other areas of concern. I think if they have that concern, then they have an obligation to ask the question in the House and certainly to ask for it in Committee and to ask for it right here. I think we are going to get better informed and better educated members because they have to do a bit of inquiring. Someone from your party is going to come to you as Chairman of this Committee and ask: "Well now, where do I find out how much money was spent on travelling by Indian Affairs and Northern Development? They have been all over the Northwest Territories and I want to know where they have been and who has been." It is his obligation to find out and if he cannot get the information from you then surely he would go to the appropriate department and if he could not get it there then he would go to the Auditor General. I think this is something that we should do. I think we should have an interest in this. I would not want it to be covered up, I do not think it should be, and if that is your area of concern then I think you have an obligation to seek it out. Frankly, I like this idea. I think if we could cut down the number of pages then we would be better able to concentrate on this. I am overwhelmed by the size of the books at the present time and anything that we can do to reduce their size without reducing the available information I think is a step in the right direction.

Thank you, sir.

The Chairman: Mr. Flemming?

Mr. Flemming: If we look at Indian Affairs, for example—page 197 to which Mr. Cloutier has made reference, we are able to compare the current year 1968-69 with 1967-68 and under the various headings we are able to see at a glance whether or not the expenditure has increased. Now if it is all covered up in one vote then you have nothing to bring it to your mind. The old saying is that one picture is worth a thousand words.

Continuing, we take the third item that the Chairman has referred to and we find that it is up by $23,000 in 1968-69 over 1967-68, and a proper question for someone to ask would be: "What was the cause of the increase, how much extra travelling did they do?" and so on. Now if you did not have something to bring it to your attention it would seem to me that you would know nothing about it and you would have no reason to ask a question.

Then you go down to Telephones and Telegrams and you find it is $56,900 in 1968-69 and $29,700 in 1967-68, more than double, and you ask what happened here? Is it not the function of the Public Accounts Committee to inquire into these things? Is that not the reason we are here? I do not thing we are here particularly in the interest of streamlining, I think we are here in the interest of finding out anything that we feel is of general public concern and public interest.

The Chairman: Mr. Flemming, this Committee is pretty well versed on Estimates and how to read and study them. Other committees that have Estimates of the House referred to them are not as familiar with Estimates as we in this Committee are. We must bear that in mind and think about it in our revised plans. Mr. Cloutier, maybe you would like to make an observation.

• 1025

Mr. Cloutier: Taking just the items that Mr. Flemming referred to, could I refer the members of the Committee again to page 7 of the Indian Affairs sample booklet. You quite properly said, sir, that in the old form you go to Travelling and Removal Expenses and you see that the proposal is $133,200 as against $110,700 and so on. In the new form we would propose to go quite a few steps further than the present form does, and under the item labelled Transportation and Communication we would propose to give you the proposed Estimates at a total of $198,000, to show you the forecast expenditure for 1967-68, and to actually show you the difference. So that in effect it is presenting you with a

more complete picture. Here we are dealing with the current and the new year but, in addition, we are proposing to show you the actual expenditure for the past years, which is more informative I think by far than what you have in the current Blue Book.

Mr. Flemming: Mr. Chairman, I am not proposing to argue the point at any length. Everything that Mr. Cloutier has said is correct of course and you do see the difference, but what is of concern is that you do not see the items that make it up. It then follows, what reason have you to ask a question on any particular item when it is not brought to your notice. There are probably 13 different things there and all you have is a consolidation; you do have it brought to your attention particularly under a specific heading. Undoubtedly, if the cost one year was up substantially though perhaps any of us would enquire about it, and that information of course would be available.

The Chairman: Mr. Flemming, dealing with your observations and those of Mr. Cullen in the new proposed Estimates, a member would put the question: "Under Transportation and Communication I notice there is an increase of $53,000. Where does this increase occur, in travel or telephone or postage or where?" and at that point an official would bring forth the figures for those four different columns.

Mr. Flemming: Mr. Chairman, following that through, I assume that the official would not have such information with him and that it would not be available until the following meeting.

Mr. Cloutier: It would be the intention, sir, that officials appearing before Parliamentary Committees would have that information.

Mr. Flemming: Because you have so many different departments would it be practical for them to carry such information with them?

Mr. Cloutier: Again, it is a question of how deep do you go.

Mr. Flemming: There are 30 departments so they would have to have all the information for 30 different departments and you would need a few trucks to carry the information.

Mr. Cloutier: That is precisely it. You see, the secondary classification in this system includes between 50 and 60 breakdowns and if 50 or 60 breakdowns were reflected in the Estimates you would end up with a major volume, and this is why we are proposing to reflect only up to the first level.

• 1030

Mr. Flemming: I do not want to take up the time of the Committee. I have no strong views about this, and if it is going to be better I am willing to be convinced. However, I do think that the Committee is surrendering something which is important—what you might call instantaneous comment on something of quite general public interest which, otherwise, might be ignored.

The Chairman: We have had a pretty good discussion on this point. Perhaps the Committee would like to have the Chairman of the inter-departmental committee at some later date elaborate on this and maybe answer some questions that you will be thinking up in the meantime.

Mr. Crouse: I have just one comment to make on this, Mr. Chairman. As a maritimer, I think of the case of a ship at sea being lost by fire. In this case the insurance investigator does not really want to know how many of the crew members left with their shaving kits; what he really wants to know is who was in the engine room when the fire started. We have been told this morning that this is a more efficient internal accounting system, but literally, in my opinion, this is an accounting after the expenditure. I have always been concerned as a member of Parliament, whether I supported the government or was in opposition—and I do not mean this statement to be political—with my inability to have any control over expenditures. Every day we are being made aware of increased expenditures and I am sure we are all beginning to wonder where the money is coming from. If we are to have these increased expenditures which are resulting in unbearable deficits, what concerns me is how do we get around to controlling them. We are auditing and we are giving an accounting, but who was in the engine room when the fire started? Who keeps proposing these things? I look around and I see in Ottawa a piece of land and the first thing I know there is a multi-million dollar building going up. I have never heard about this in Parliament, I have never been asked if I approve or disapprove of it, I only know

that the people back home are going to be asked to pay more taxes to support this. I as a member of Parliament have never been consulted. Mr. Cloutier and Mr. Long can come and give us a good accounting of where the money went and how it was spent, but I am concerned—I have been concerned for 11 years as a member of Parliament—about the lack of control which we as members have over these expenditures. We sit here and discuss these expenditures after they have been made, but is there no way of having closer control of these expenditures before they have gone so far out of line that obviously we have lost complete control.

Mr. Cloutier: This concern, sir, that you are expressing is one that we hope the new form of estimates would go a long way towards alleviating. You are really saying, what is the purpose of the expenditure? It is definitely of importance to know the nature of the expenditures, the kinds of things that we are buying with our money. What are we trying to achieve? What are our objectives in making these expenditures? For this I would like to go to the other side of the presentation here and say that the estimates under the new proposal would be shown by activity; that is, what are the purposes served by these expenditures? If you go to page 6, for instance, of the Indian Affairs booklet, you will find we are proposing to show under an activities structure the same administration program about which we have been talking under the heading "Objects of Expenditure". In other words, the administration program is defined in the text: what are their objectives and what is the program explanation? What are these things? What are the activities? You also have a table that shows a breakdown of the proposed estimates by these activities.

• 1035

In addition, to refer to a particular comment which you made about a building, the new form of estimates would list the proposed major construction items. It would show the amount of money spent to date on these projects, the amount proposed to be spent in the new year, and would also show the amount that would be spent in later years to complete the particular structures.

The Chairman: Mr. Crouse, the explanation Mr. Cloutier has given is a step in the right direction but, supposing a member of the House does not agree with the objective or the program explanation, and the estimated amount of money is higher than the amount he thinks should be spent, where does a Parliamentarian fit into this picture to find out who was in the engine room when the fire started? The only way that we, as Parliamentarians, can control the spending of money is not to approve the estimates. Then we go on from there, and it does not matter what side of the House you sit on, has anybody ever refused to approve any estimates in this or any other Parliament? We pass them all and I maintain that this is wrong. The House, or committees or somebody, should object: "We do not approve these estimates of such and such a department. You must take them back and reduce them by $4 million before we will pass them." In that way we will have some control of the spending of the taxpayer's money.

Mr. Cullen: I am down here as a brand new member, but is not this really the function of the party in power, or the government that happens to be in power at the time, be it, as Mr. Crouse says, his party, my party or any party that we have an obligation to put forth these estimates? Surely these are estimates put forth by the government, and when they go back to the people they have to be able to substantiate them. Believe me, I had some difficulty in the past election answering some of the queries that were raised by the people. However, they did not seem to be unduly disturbed because they elected me. They felt that this was an expenditure well within the means of the government, or maybe beyond, but not too far beyond. Obviously Mr. Crouse was able to convince them differently in his area. Is this not really what Parliament and government is all about? I appreciate it is an oversimplification but surely it is practical. You put your program forward; this is what it is going to cost, this is what we are standing behind. Then the Opposition has its obligation to object as it so frequently, and sometimes forcibly, does.

Mr. Allmand: Mr. Chairman, on the point you raised we always have had and still have the power to reduce or to vote down any proposed expenditure. If the Committee System is improved by the Procedure of the House Committee and I, as a member of the Transport Committee studying the estimates of the Department of Transport, see an increase under one item of $110 million—for

the erection of a structure in Toronto, I can make a motion to reduce that vote by so many million dollars and it will either carry or it will not carry. There is no doubt that government is becoming more and more complex. Government is getting into more and more programs and the only way Parliament can operate efficiently is by the parties having a more organised approach to the estimates. No one member of Parliament can be "au courant" with every expenditure in the House of Commons. We all have to limit ourselves to one or two departments and try to be expert in those one or two departments. A well-organized political party in Parliament should have its caucus broken down so that people who are experts can go into each committee of Parliament, study the estimates in detail and know what to ask having been briefed by their own experts. More help is being given to the Opposition members in the form of briefing by their experts. I think this is the only way it can be done. None of us can ever hope to open the "blue book" and know the probing questions to ask on every department. It has to be a team effort; that is the only way it can be done. It is going to be even worse in the future: we are going to have to become more and more specialized and have more and more advice. The new system of estimates is a good step in the right direction because it should make things simpler, and I will be able to ask better questions and be more effective as a member of Parliament, whether in Opposition or with Government.

• 1040

Mr. Major: I suspect this system is very similar to the system that we use in business. When a certain department asks for information, management must supply it. That is all there is to it. It is very simple. I do not see any problem at all here. It will be a lot quicker. I do not know what system was used before but this is the one to which I am accustomed.

Mr. Chairman, I am sorry but I was late getting here. Mr. Cloutier, what is your function?

Mr. Cloutier: I am Assistant Secretary, Programs, in the Treasury Board, sir.

Mr. Major: In the Treasury Board?

Mr. Cloutier: Yes.

Mr. Major: And what is your first name, Mr. Cloutier?

Mr. Cloutier: Sylvain.

Mr. Major: If we want information on various subjects can we get in touch directly with Mr. Cloutier?

Mr. Cloutier: I would certainly be pleased to supply any information.

Mr. Major: There is no objection to asking directly? There is no problem in calling you directly?

Mr. Cloutier: No. If I do not have the information I would be pleased to suggest where it might be obtained.

Mr. Major: Thank you very much.

The Chairman: All right, gentlemen. We have completed page 4. We have discussed all those matters on page 5. It reduces the "blue book" by 27 pages. On page 6, No. 2, "Supposing Financial Information for Certain Crown Corporations". This Committee over the past number of years has recommended by reports to the House that the House and Parliament be provided with more details concerning Crown Corporation expenditures. Mr. Cloutier you might like to elaborate on this new proposed idea.

Mr. Cloutier: I have nothing to show you yet because, of course, we are in the process of preparing the 1969-70 Blue Book. However, we have communicated, as indicated in the statement, with the presidents of the Crown Corporations that have estimates in the Blue Book, and as a result the Blue Book will include the statement of income and expenditures in support of the operating requirements of these Crown Corporations which are funded through estimates and an indication of a proposed capital expenditure also will be provided for those Corporations. Again, this will be in the Blue Book which we hope to have available for Parliament early in the new year.

Mr. Cafik: Just as a point of information, on this Public Accounts Committee do we have the right to bring witnesses before us from Crown corporations, and are they obligated by statute to answer these questions and to provide information that we require?

The Chairman: That is right.

Mr. Cafik: Without limitation?

The Chairman: That is right. We have had only one refusal that I recall. We had the Central Mortgage and Housing Corporation before us, which is a Crown corporation and not audited by the Auditor General; the first time that this Committee ever brought in a Crown corporation that was not audited by the Auditor General.

During our investigation we asked them for their auditor's report. As you know, an auditor makes two reports; one is a sort of a general report, and the other contains facts and figures leading up to his observations in the other one. They presented us with only one of those auditor's reports and we asked for the other and we were denied. Their reason was that they felt it was confidential and providing it might interfere with their operation somewhat; we were not given that.

• 1045

That is the only time that I recall our being refused anything. We did not press the matter any further. This Committee may wish to do it again, but we will come to that later on.

Mr. Flemming: Mr. Chairman, in connection with the first paragraph on page 7 where the statement is made, to include in the printed Estimates for 1969-70 a statement of income and expenditure. Just for clarification purposes, I presume it is a statement of estimated...

Mr. Cloutier: Oh, yes, sir.

Mr. Flemming: My second question is: Is this a new procedure when they propose in their estimates to contain their estimated expenditure for capital.

Mr. Cloutier: Oh, yes, sir.

Mr. Flemming: Is that new?

Mr. Cloutier: Oh no; the present requirements with respect to a Crown corporation, of course, are laid down in the Financial Administration Act. It involves the presentation of a budget to be approved by Governor in Council prior to being tabled in the House of Commons. This will continue, sir, as in the past. The inclusion in the Estimates of information as outlined in the statement will be quite in addition to this, and will reflect a more complete explanation of the items which Parliament is asked to vote through the Estimates.

Mr. Flemming: It seems to me that in the case of Crown corporations, unless their capital expenditures are submitted in the Estimates as is proposed, a government is in great difficulty in balancing its budget and doing various other things that it wishes to do, considering the availability of funds and considering all the things that go with large expenditures.

There is nothing to stop the CBC from spending $200 million to $300 million except getting the Estimates through Parliament, and submitting them to Parliament seems to me to be most important, so I am relieved that there is an indication that all capital requirements will be included in the Estimates and passed by Parliament before they are undertaken by the corporations. I think that is tremendously important.

The Chairman: Mr. Cloutier, what will be provided in the new revised form of Estimates in the way of information concerning the CBC? I think this is one we will be looking at very carefully in the House.

Mr. Cloutier: I cannot speak with finality on this at this time because, as I mentioned earlier, we are preparing the material that will be printed in the new book, but the intention is to show for the CBC all their revenues, either from a commercial source or from the Parliamentary grant, and to show their disposition of these revenues according to their main activities. We would also show in the CBC the disposition of any loan for capital purposes that is granted to the CBC.

Mr. Cafik: Would a request be made of the Crown corporations to present their budgetary expenses along the same lines and in the same format as the Treasury Board is proposing to do with other departments?

• 1050

Mr. Cloutier: This is the intention, to show these in the same manner as it is ...

Mr. Cafik: And using the same 13 standard objects and the same pyramid approach to things?

Mr. Cloutier: For the Crown corporations the arrangements are slightly different because the moneys voted by Parliament to the corporations are either grants or loans, and they are classified as such for purposes of public accounts. The Standard Object of Expenditure breakdown is not ordinarily available from Crown corporations.

Mr. Cafik: To proceed one point further, is the only control Parliament has in respect of the budget of a Crown corporation either the granting or denial of the grant or loan? Is that the only direct control we have in a financial way?

The Chairman: Yes, I would say so. Mr. Flemming?

Mr. Flemming: Let us take the CBC, for instance. Suppose they asked for $200 million for capital expenditures; unless they break it down into items then you really have to give it to them, as my friend across the table says, or else you have to refuse. You might be completely in favour of 90 per cent, but there might be a 10 per cent item that you had pretty strong views was not needed, and you were going to register your opposition to it. You could not do it if you are going to vote for it in an aggregate sum; you just could not do it.

Mr. Cafik: May I pursue this one point further? In approving a loan or a grant, do we have any control over the use of that grant or is it just a straight grant of $100 million? Is it earmarked for a specific purpose and they must, by law, use it for that purpose?

The Chairman: I think Mr. Long would answer that one.

Mr. G. R. Long (Assistant Auditor General): Well, I have to try to set an example, Mr. Chairman. I do not think you have been getting very much in the way of details. For example, the CBC operating grant is one figure. You give it to the CBC and they carry on and I think the construction is somewhat the same.

The Chairman: I think Mr. Cafik's question is do we give an appropriation to CBC of $200 million and say, there it is, $200 million, now you go ahead and spend it any way you like.

Mr. Cafik: Yes, or is it for a specific project and if we disagree with the project we can turn back the request?

The Chairman: Well in the new estimates, Mr. Cloutier, there will be—

Mr. Cloutier: There would be some breakdown of the purposes for which the Corporation would use this money.

Mr. Cafik: You mentioned that the Governor in Council has something to do with it. Does he appropriate the money prior to its going to Parliament?

Mr. Cloutier: No, no. The Governor in Council under the Financial Administration Act approves the budgets of the Crown corporations and tables them in Parliament. There are some Crown corporations that operate fully out of their own funds without coming to Parliament every year for appropriations. These are not reflected in the estimates simply because they are not estimate items; they do not require appropriation by Parliament. Some corporations operate with Parliamentary grants and the CBC is an example.

In the Revised Estimates for 1968-69 you will find at page 449 for the CBC Vote 30, an operating grant of $151 million. In addition to this $151 million the CBC has available to it certain commerical revenues that it obtains through its operation. These are not now reflected in the Blue Book. The proposal is that you will have in the new form of estimates, a picture of the total operating performance of the CBC with a breakdown of the various activities they engage in.

Mr. Cafik: We would be able to see, then, the sharing that Parliament has in terms of loans or, whatever it is, in relation to the over-all picture. That is what you are trying to give us.

• 1055

Mr. Cloutier: Exactly, sir. We understood from previous recommendations of the Public Accounts Committee that this was what the Committee wanted.

The Chairman: Mr. Cullen, do you have a question?

Mr. Cullen: Yes. You mentioned Crown corporations, and I am thinking in my area of Polymer Corporation which has shown a profit varying between $5 million and $10 million. Is there any control of that? For example, I am thinking that if they had a profit of $10 million it could be applied, say, to a deficit. Do they decide whether the money is going to be, in essence, a book entry with the government? If they make, say, a $6 million profit do they say: "I think next year we should have a capital expenditure on buildings"? Do we have any control over that corporation for example? That money could be used on the deficit referred to. Is there any policy control.

Mr. Cloutier: I am afraid, sir, that I could not answer your specific question other than by a general statement. The Act incorporating Polymer would, I would imagine, specify the disposition of any surpluses.

Perhaps Mr. Long could elucidate what I have just said here.

The Chairman: Mr. Long?

Mr. Long: Well, Mr. Chairman, Polymer Corporation is operating just as any corporation. There are shareholders; the shares are held by the Minister and I think this is where the control is. The shareholders would have something to say if they thought dividends should be declared and were not.

I am not sure of the current record of Polymer but for a number of years they did pay a dividend to the federal government. However, I think this would be pretty well in the hands of the Minister as the shareholder of the Corporation.

The Chairman: All right. Well will take one more question, Mr. Allmand, and then we will adjourn.

Mr. Allmand: Mr. Chairman, I just want to clarify a matter that Mr. Flemming put forward. He suggested that in the estimates of CBC there might be an estimate for construction of $200 million and when we asked for details of it, within that global amount there might be one construction project we thought was extravagant in the amount of $200,000 and that we could not do anything about it—we would have to vote the total amount, or not vote it at all.

Can we not move in the Committee of the Whole in the House or in the Committee to reduce a vote of $200 million by $200,000? If that were carried and the estimates were reduced by $200,000, legally they would be obliged to forget about that particular project, but could they not then take the balance of the money and use it for the project and forget about other things?

There are two questions; first, can we not reduce a vote by a certain amount of money? I thought we could.

The Chairman: The answer to that is, yes.

Mr. Allmand: If we do not like one of the projects we can move that a certain vote be reduced by so many dollars?

The Chairman: Even one dollar.

Mr. Allmand: I see. Then my second question is, after such a vote can a department or Crown corporation take it upon themselves to transfer money from one thing to another after the estimates have been passed and go ahead with what they wanted to do despite our vote?

The Chairman: I think Mr. Cloutier could answer your second question about the transfer of moneys between votes.

Mr. Cloutier: Well, there is, of course, no transfer of moneys between votes. The Parliamentary appropriation cannot be varied except through Parliamentary authority.

Mr. Allmand: Let us say within a vote, Mr. Cloutier. If there had been $200 million for many construction projects and we voted to reduce the total vote by so much because we did not like one project, could that Crown corporation switch around projects within that Vote so they could go ahead with the particular project despite the fact that we had indicated we did not want it by reducing the vote?

The Chairman: Mr. Cloutier?

Mr. Cloutier: I think the powers given to the Board of Directors of a Corporation would allow them that authority. On the other hand, whether they would deem it advisable to do so, is a question.

• 1100

Mr. Allmand: I am inclined to think they would be flying in the face of political and public opinion if they did.

The Chairman: They could transfer the money within a vote; I do not think there is anything to stop them from doing that.

Mr. Cloutier: Yes, because you see with respect to Crown corporations it is a grant; whether it is $151 million or $149 million it is still a grant.

The Chairman: Mr. Cafik?

Mr. Cafik: I have one question. Is there any way that the Public Accounts can insist upon the changing of a Vote? In order to get around this problem, if they had Vote 5, $200 million for a whole series of construction projects, could we send it back and say that we would like that broken down into 6 different votes so that this specific project we do not want becomes Vote 9 rather than one of a group being Vote 5? Could this be done?

Mr. Cloutier: I think theoretically it could be done. Another approach to the particular problem would be to provide a restriction in the vote wording. This is just an example, but you could say—and this is certainly not the language a lawyer would use—a grant of so much provided that no moneys are used for this purpose. This would be, of course, within the powers of Parliament and then it would be binding on the corporation, because the grant would be a conditional grant.

The Chairman: Mr. Flemming?

Mr. Flemming: Mr. Chairman, my question I think will not take too much time of the Committee. Mr. Cloutier told us that any information we wished from departments of government would be available at the request of the Committee, and also I presume the same thing applies to Crown corporations.

Mr. Cloutier: Crown corporations, sir, do not come under the same degree of control from the Treasury Board.

Mr. Flemming: I realize that, but as a matter of policy I doubt they would furnish the information. My second question is, would it have to be a vote of the Committee to ask for certain information, or could any member of the Committee ask for and receive information without a formal vote?

Mr. Cloutier: I think I will defer to the Chairman; this is really the internal operation of the Committee.

The Chairman: If you are a member of any Committee studying estimates, be it of a corporation or a government department, you can through that Committee request any information or papers or persons to appear.

Gentlemen, the meeting is adjourned. At the next meeting we will start with the elimination of salary ranges on page 7, No. 3.

HOUSE OF COMMONS

First Session—Twenty-eighth Parliament

1968

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: Mr. A. D. HALES

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 5

THURSDAY, NOVEMBER 28, 1968

Revised form of Estimates

WITNESSES:

Mr. S. Cloutier, Assistant Secretary of Treasury Board; Mr. A. M. Henderson, Auditor General of Canada; Mr. G. R. Long, Assistant Auditor General.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1968

29376—1

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. A. D. Hales

Vice-Chairman: Mr. T. Lefebvre

and Messrs.

Bigg,	Cullen,	Noble,
[1] Borrie,	Flemming,	Nowlan,
Burton,	[3] Isabelle,	Rodrigue,
[2] Cobbe,	Laflamme,	Rondeau,
Cafik,	[4] Leblanc (*Laurier*),	Thomas (*Maisonneuve*),
Crouse,	Major,	Winch—20.

(Quorum 11)

Edouard Thomas,
Clerk of the Committee.

[1] Mr. Borrie replaced Mr. Rock
[2] Mr. Cobbe replaced Mr. Ethier
[3] Mr. Isabelle replaced Mr. Howard (*Okanagan Boundary*)
[4] Mr. Leblanc (*Laurier*) replaced Mr. Allmand

on November 27, 1968

ORDER OF REFERENCE

WEDNESDAY, November 27, 1968.

Ordered,—That the names of Messrs. Isabelle, Leblanc (*Laurier*), Borrie and Cobbe be substituted for those of Messrs. Howard (*Okanagan Boundary*), Allmand, Rock and Éthier on the Standing Committee on Public Accounts.

ATTEST:

ALISTAIR FRASER,
The Clerk of the House of Commons.

29376—1½

MINUTES OF PROCEEDINGS

THURSDAY, November 28, 1968.
(6)

The Standing Committee on Public Accounts met this day at 9.40 a.m., the Chairman, Mr. A. D. Hales, presiding.

Members present: Messrs. Bigg, Borrie, Burton, Cafik, Cobbe, Cullen, Flemming, Hales, Isabelle, Leblanc (*Laurier*), Lefebvre, Major, Noble, Rodrigue, Thomas (*Maisonneuve*), Winch (16).

Also present: Messrs. Forrestall, Richard.

In attendance: Mr. S. Cloutier, Assistant Secretary of the Treasury Board; Mr. A. M. Henderson, Auditor General of Canada; Mr. J. G. Glashan, Director of Estimates and Supply Procedures Division, Treasury Board; Mr. G. R. Long, Assistant Auditor General.

The Committee continued its review of APPENDIX A "Remarks prepared for the President of the Treasury Board relating to a revised form of Estimates" and questioned the witnesses.

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

Edouard Thomas,
Clerk of the Committee.

EVIDENCE

(Hansard reporters present and reporting)

Thursday, November 28, 1968

The Chairman: Gentlemen, we will now come to order. This morning we have with us a few new members. To recapitulate, we are studying the new proposed estimates as submitted to this committee by Treasury Board. Mr. Cloutier, to my right, is from Treasury Board and is here to answer questions and make explanations. Mr. Henderson, the Auditor General, is also here, as is his assistant, Mr. Long. They are prepared to answer questions related to the audit department.

You have in front of you two booklets. We have been dealing with the Department of Indian Affairs, and the little booklet dealing with that is in front of you. Would you at this time, though, please pick up the little book which says on the front "Illustration". This morning we shall study these two booklets and ask questions about them. Would you please turn to page 196 in the book marked "Illustration". You will see that heading No. 3 refers to elimination of salary ranges.

Mr. Cafik: Mr. Chairman, I take it you are referring to the old one and not the new one?

The Chairman: This is the old one. We will now begin by talking about the elimination of salary ranges.

Mr. Cullen: On a point of information, Mr. Chairman. Do the items we have covered so far have the endorsement of the Auditor General, or have objections been raised?

The Chairman: That matter will be dealt with later. Mr. Long was at the last meeting and he made notes. We will call on the Auditor General or Mr. Long to give their observations on how this all fits in with their operation. Are there any other questions? If not, would you please begin, Mr. Cloutier.

Mr. Cloutier: Mr. Chairman, in accordance with the procedure adopted at the last meeting I suppose I ought to read the paragraphs in the statement that refer to this subject.

We propose to eliminate the various salary ranges now appearing in the estimates and indicate instead the numbers of continuing full-time employees in each major occupational category. The kind of detail now provided is rather meaningless since there are continuous changes between ranges in the course of the year as a result of economic salary revisions and the reclassification of staff.

The inclusion of numbers of employees in each category should provide a better appreciation of the types of personnel engaged in carrying out the purposes of individual programs.

I might say that this change would result in a reduction of some 70 pages in the current blue book. In this case also, should more detailed information be required during estimates consideration, it would be made available by the departments concerned. We propose, of course, to retain the manpower allocation and utilization summary which now appears at the end of the current blue book.

The Chairman: Are there any questions?

Mr. Leblanc (Laurier): Perhaps this question has been asked before. Could someone say what is the cost of one page of the blue book? If we save, say, 70 pages, how much would be the saving in money? Have you a figure?

Mr. Cloutier: It is being calculated for me now in rough form; I do not have a figure in mind at the moment.

I have just been given a figure of $60 a page.

Mr. Leblanc (Laurier): So we would save 70 times $60?

Mr. Cloutier: That is right.

The Chairman: Are there any other questions on this paragraph? If not, I presume that vote 1, departmental administration, will disappear, the salaried position and so on.

Mr. Cloutier: That will remain at one line for each heading among the salary ranges. You have one line for executive categories, one for the scientific and the professional

personnel, and one for administration and foreign services.

Mr. Lefebvre: That is on page 8, is it?

Mr. Cloutier: This part of the department concerns changes that were introduced in the current form of the blue book for 1969-70. In essence, it is very close to what you have on page 14 of the new format; the breakdown that appears is something like that.

The Chairman: That is on page 14, at the bottom. Was any thought given to adding an appendix to the new blue book, if I may call it an appendix, listing the salary ranges for executive, scientific and professional categories, just as we have, more or less, at the moment?

Mr. Cloutier: Certainly.

The Chairman: There is a page in the back listing the salary ranges for each classification.

Mr. Cloutier: That could be done. But again those ranges would be those that are in existence at the time of the printing of the blue book. They do change in the course of the year. We could easily indicate the total salary range in a given category from minimum to maximum.

The Chairman: Does the committee feel that it would be of interest to members of parliament to know the salaries?

Mr. Cafik: I think that the suggestion is worth while. It will not be very costly if you are only talking of two pages covering one department added at the back of the blue book. I think it is a first class suggestion.

Mr. Cloutier: This is a suggestion that we made and would be happy to adopt. We have not gone so far as to develop the kind of information that would have to be included in a foreword so as to explain the mysteries, if you want to call them that, of the book.

There is on the first page of the proposed booklet a foreword that purports to explain briefly all of the things we are discussing in this committee. It will be very easy to put a similar foreword in the front of the entire book so as to cover the point that the Chairman raised, and also to include other types of interpretative information.

For instance, to a certain extent there is a kind of jargon that attaches to the business of estimates. In order to make the book as informative and useful as possible we hope to identify most of this jargon and to explain exactly what is meant.

The Chairman: We will still have in the one book the number of people in each of these classifications?

Mr. Cloutier: Yes, sir.

The Chairman: I see you refer to them as "total man years."

Mr. Cloutier: This is one of the jargonistic expressions that I think we could explain in such a foreword. The total man year concept is the total manpower utilization concept whereby a department is given an allocation of so much human resources to carry out its program. This manpower allocation can be used either through the employment of full time employees, or it can be used through the employment of casual employees who are brought in for a few weeks, or even term employees who are brought in for a few hours during the day.

The concept of total man years is a global one. You will see in the column next to it, which is headed "Allowable Strength on March 31, 1969", the number of full time employees. So that parliament would be given a clear picture as to what the continuing size of the public service is, or is estimated to be, at the end of the next fiscal year.

Where a department is given so many man years with which to operate a program it does its recruitment throughout the year and it is impossible, or at least it is not practical to conceive of its establishment being full strength throughout the year. In other words, before the new year if a department is given authority to hire ten new employees, continuing employees, it is often impossible and often not necessary that all of these ten new full time employees be hired on the first of the year. They will be hired throughout the year. The figure we are referring to, allowable strength at the end of the year, means the maximum number of full time employees allowable.

Mr. Major: Mr. Cloutier, what are the criteria that you establish to arrive at a man year? Do you start from man hours?

Mr. Cloutier: The criteria that we use to justify the manpower allocation to any programs varies, of course, program by program. It is ideally related to a work measurement technique. To give a rather simple explanation I take the example of the processing of family allowance cheques. You know how

many family allowance cheques you have to process each month. You know the machinery you have, and you know the number of men that must be employed to operate that machinery, so that the number of man years allocated to that particular operation is a function of the number of cheques you have and the number of machines you have. These criteria must vary from operation to operation.

In an operation of the type I have described it is rather mechanical or mathematical. In other instances more reliance must be given to judgment, human judgment.

Mr. Cafik: Mr. Cloutier, I notice the bottom section on page 14 which is a example of the new change. In the 1968-69 section we have two columns, total man hours and allowable strength at March 31, 1969. In 1967-68 and 1966-67 each of them have three columns, showing the actual strength as of September 30 in those respective years. When we get the new bluebook would 1968-69 contain an additional column indicating the actual strength at September 30, 1968?

Mr. Cloutier: Yes, sir. This sample really applies to the year 1968-69, and those estimates were prepared in the fall of 1967.

Mr. Cafik: I understand the reason why it is not in the sample, but when we come out with our new bluebook that column will actually be in it?

Mr. Cloutier: Yes. The booklet we would hope to have available for parliament in February would apply to 1969-70, so that where in this book you see 1968-69 that would be 1969-70, and where you see 1967-68 that would be 1968-69, and under that heading we would have the actual strength at September 30, 1968.

Mr. Cafik: Pursuing this a little further, in the 1969 estimates, if they are being prepared now, you would have the actual strength as at September 30, 1968?

Mr. Cloutier: Yes.

Mr. Leblanc (Laurier): Is there any particular reason why you are using that date, September 30?

Mr. Cloutier: Yes, sir.

Mr. Leblanc (Laurier): Because the period goes from March to April. Just how do you arrive at the date September 30?

Mr. Cloutier: This is all tied in with the process of preparing estimates. Departments have to have their estimates submissions in the Treasury Board by October 31. This happens to be the last month before that date, so that it would not be possible to have a later date in the bluebook. It also happens that September 30 is the mid-point in the year.

The Chairman: I think the matter we are interested in is the number of persons or number of positions in any department rather than the man years. I think we can understand that a little clearer, and we can get that in the second column where it says "allowable strength, March 31, executive"—that means four persons, and each figure in that column represents persons?

Mr. Cloutier: That is right.

The Chairman: I think this will be the important column to the members. Before we proceed with the next paragraph it might be advisable for the committee to hear from Mr. Henderson with observations on each paragraph as we go along. For instance, with regard to the elimination of salary ranges do you, Mr. Henderson, see any problems so far as the auditing part is concerned in this change?

Mr. Henderson: Not so far as the audit part is concerned, Mr. Chairman, but if I may observe in my capacity as adviser to the committee I think the question is one for the members to decide whether this is or is not a reduction in the information previously made available to them. It might be advisable if I asked Mr. Long to go through some notes that he put together since the last meeting, if you desire to catch up with each individual paragraph. That might be a practical way of assisting the committee.

The Chairman: To bring us up to date in each department.

Mr. Cullen: I think that would be tying up two departments. I suggest we hear Mr. Cloutier and then hear the Auditor General before we make our observations. Otherwise Mr. Cloutier is going to have to say here and both of them will be tied up when they could be used effectively elsewhere.

The Chairman: Any other views on this?

Mr. Flemming: It is going to take all day, anyway. I do not want to disagree with anybody but I am sure they have put today aside, anyhow, and we would not want to be deprived of the opportunity to hear them.

The Chairman: We are only here until 11 oclock.

Mr. Flemming: That is all the more reason we should hear Mr. Long.

The Chairman: Any other views?

Mr. Cafik: Although it may seem inadvisable to tie two people up at the same time, the comments of the Auditor General might well be queried by Mr. Long and I think a little interplay between the two might be helpful to the committee.

Some hon. Members: Agreed.

The Chairman: Then we shall go back. There are only a few observations to be made by Mr. Long and then I will take each paragraph as we continue. On what paragraph will you comment, Mr. Long?

Mr. Long: In the paragraph you called at the last meeting on Tuesday, I think it was on page 7 of Mr. Drury's text, there was a reference to the carrying out of one of the recommendations of the committee about putting in information with respect to Crown corporations which are dependent on estimate items for their financial resources. I had intended to remind you at that point that though this does meet the committee's recommendation, at the time the committee was dealing with this matter there was discussion about financial information about all Crown corporations.

You still will not have any information about corporations which are wholly dependent on their own resources and which do not need to go to parliament for money, and I think the committee should have these particulars.

On the subject of recommendations, the committee did have in there a recommendation that a brief note be included in the estimates explaining major increases in the size of staff establishments in all government departments and Crown corporations as well as other public instrumentalities requiring financing by parliament. I have not been able to find anything in the revised form of the estimates to indicate there is to be any explanation of such increases in establishments.

The Chairman: You are quite right in bringing our attention the fact that we did make this recommendation—Mr. Lefebvre will recall it—that a note be included saying why the increase in staff was necessary. Do you propose anything along this line, Mr. Cloutier?

Mr. Cloutier: In the illustration which is before the committee there is no verbal explanation of these increases. The main reason at this time is one of logistics. As has been explained to the committee previously, the operation of putting these booklets together at the same time as the original blue book is a mammoth job for which no additional staff has been allowed either in the departments or in my own branch.

We considered that to add this additional item of information would complicate the logistics of preparing these booklets at the same time as we are preparing the original blue book. For the year 1970-71 when we hope to be preparing only the new form of estimates I think it would be quite possible to provide a brief explanation of major changes in establishment. However, as Mr. Drury indicated at the opening sitting, we would be very pleased to receive the views of the committee in this regard.

Mr. Henderson: Members will recall that when this subject was discussed several years ago the committee suggested that because of the great importance of staff increases—and you must remember that additional staff is the biggest single cost you are facing in the housekeeping costs of government—where the number of bodies or positions showed an increase of any size—I think the rough idea was something like 5 per cent, if my memory serves me right—the treasury be asked to put half a dozen words or so at the bottom of the page showing what caused it. I thought that was a very good suggestion at the time. It has never been implemented or dealt with and I think it is a very proper question to ask at this time. If this were done members would have a better comprehension of what it is they were being asked to approve.

Perhaps it is not very important in the case before you, now. The figure rises from 310 to 312, or 315—in this instance I see it goes to 322. But there are some instances where the increase is considerably greater and I think an explanation in a few words as to the raison d'être is something to which hon. members are entitled.

Mr. Cafik: I cannot imagine what could be said in a few words other than "They were needed" or "A larger workload required additional staff". Could you suggest an example of what might be said which might be meaning-

ful and which would not take a paragraph or two?

Mr. Henderson: Yes. For example: "Due to the introduction of medicare" or "Due to the introduction of a new program..." That would be meaningful and it would not take a paragraph or two. It would, however, be a sufficient lead if members wished to ask further questions in debates. Otherwise the increases might escape attention. Having in mind the type of text it is proposed to include in this report it seems to me this would be a good opportunity to get an explanation, brief remarks, half a dozen words or so, saying why the staff of a department had increased.

Mr. Cafik: Would it not be just as useful and perhaps not so difficult to do, if the treasury board were to provide a paragraph in the preamble indicating any change in the function or workload of a department, or any increase in its duties? It would amount to the same thing.

Mr. Henderson: Do you not think it would be helpful if they went on to say "...which would necessitate the employment of 50 more people"?

Mr. Cafik: Yes, I agree.

Mr. Henderson: I think the programmed explanation of major changes in policy or function is a step forward.

The Chairman: Thank you, Mr. Henderson.

Mr. Winch: It is somewhat unusual for one who has come in only five minutes ago to ask a question—

The Chairman: We will accept it.

Mr. Winch: I did let you know I would be late, Mr. Chairman. I had to cut a radio tape this morning, which is damned important to an M.P. reporting to his constituents.

The Chairman: Go ahead, Mr. Winch.

Mr. Winch: I was interested in what Mr. Long had to say when he referred to page 7 on the subject of Crown corporations and the provision of information. Could I ask Mr. Henderson or Mr. Long whether this refers, also, to cases where a Crown corporation is a subsidiary as, for example, in the case of Air Canada which operates under the Canadian National Railways. Does this mean the provision of full details even when a Crown corporation is in a subsidiary position?

Mr. Henderson: I think that question should be dealt with by Mr. Cloutier.

Mr. Cloutier: There is no item in the estimates for Air Canada.

Mr. Winch: It is a Crown corporation.

Mr. Cloutier: A subsidiary of a Crown corporation. We must go back to the legal ruling of the vote concerning provision for recuperation—a sum equivalent to the amount of the deficit of the C.N.R. So the actual financial transaction between the C.N.R. and Air Canada would not be divulged in this manner.

Mr. Winch: It is therefore a matter of policy that although this corporation is a subsidiary of a Crown corporation, what is set out in this paragraph on page 7 would not include Air Canada.

Mr. Cloutier: That is right.

Mr. Winch: May I ask that this be noted, because I think it is something we might wish to discuss in committee later.

Mr. Lefebvre: Dealing here with the number of employees per department, we have had news over the past few months that there is a freeze on government positions. According to this, on page 14, allowable strength on March 31, 1968, was 3,217; allowable strength on March 31, 1969 is 3,414, an increase of approximately 200. Could we be told, because the public is quite interested in this, when the freeze takes place? Is it only in 1969-1970, or is this figure of 3,414 subject to review and liable to be reduced? Could we have an explanation of the general policy which will be followed to implement this freeze on government positions which has been announced?

Mr. Cloutier: The estimates blue book for 1968-69 does not reflect the effects of the freeze. It is our expectation that the 1969-70 blue book will show in detail the decrease in total man years and this decrease will be in effect as a consequence of the freeze which is on now.

Mr. Lefebvre: Is there an attempt being made by quite a few of the departments to increase their staff right now so that when the freeze does come into effect they might be overloaded for a year or so but take up the slack when the freeze is in effect? I am not sure of the position myself. Perhaps you could advise me what the position is.

Mr. Cloutier: That slack, if if it does exist, is being taken out in the 1969-70 blue book.

Mr. Lefebvre: Is it 10 per cent across the board?

Mr. Cloutier: I think the freeze was established on March 6, 1968. At that point the departments were advised that their establishment was frozen at the level of their actual strength on that date, adjusted for outstanding offers of employment which had actually been made prior to March 6. Adjustments to these levels will be made in exceptional circumstances when the effectiveness of a program will be seriously affected otherwise.

In toto, the freeze is still on. Nevertheless, to react and to be flexible to the varying requests of individual departments and agencies, there have been areas of give and take. The total effect of this will be shown in the 1969-70 blue book.

Mr. Winch: May I ask a question arising out of what has been said. Am I to understand that in no way does the freeze apply to the fantastic increase of employees in the offices of the Prime Minister or ministers?

Mr. Cloutier: These, sir, have been offset. Where there have been increases, they have been offset by decreases elsewhere. In other words, where a department asks for relief from the freeze in any given segment we proceed to examine closely the other segments of the department to see whether it is possible to offset, through internal manipulation, the increased manpower. In other words, we would try to reduce the actual manpower used in other parts of the department in order to accommodate an increase elsewhere.

Mr. Winch: I do not understand that, I am afraid. I have been speaking of the Prime Minister and cabinet ministers. There is no question of a freeze or control of staff for the Prime Minister or cabinet ministers. Is that correct?

The Chairman: I think Mr. Cloutier said that they examined the rest of the department, and any increase in one part of the department would be offset by economies in the rest of the department.

Mr. Winch: Then, savings made in the regular work of a department could be offset when the Prime Minister or cabinet ministers add to their staffs?

Mr. Cloutier: This is a question of internal priorities. There must be an assessment of whether there is that flexibility in internal priorities. In other words, where that is not present the Treasury Board is faced with the decision of whether to allow an increase in a given area.

Mr. Lefebvre: Does this also apply to the staffs that have been offered to members of opposition parties? Or are they, in some way, to be offset? Are those staffs included in any plans to offset?

Mr. Cloutier: This has been covered by a supplementary estimate which was tabled a few weeks ago. I understand these staffs are not to be part of the public service. At least, at that time that decision had not been made. I think former ministers were provided for. Amounts for their staffs were not provided for under salaries.

Mr. Cafik: Would they come under the House of Commons staff?

Mr. Lefebvre: Yes. Would they be listed as House of Commons staff?

Mr. Cloutier: I am sorry; the amount is provided for as salaries. We do not have a man-year equivalent against these salaries. At the time this item was put forward it was not decided whether this would represent individual salaries, contracts or reimbursement for work received through other means.

Mr. Cullen: On a point of order, Mr. Chairman. Is this an area we ought to be discussing at this time? It strikes me that Mr. Cloutier is suggesting that estimates should be in a particular form. We are now pursuing the question of staff increases. The matter is a key one, but I wonder if this is the time to pursue it.

The Chairman: That point of order will be noted. We are entering the field of policy here, and it is not for Mr. Cloutier to answer on policy. He has handled questions which have arisen well. Yet I think everyone will agree that we have wandered rather far afield in our questioning.

Mr. Winch: Mr. Chairman, may I ask a supplementary question to the question that has just been raised. I appreciate the way you have been answering, Mr. Cloutier. I think we had been referring to research assistants. Will those research assistants be made available just to leaders of parties, or to rank and file members, such as I am?

The Chairman: That is a question on policy, surely.

Mr. Borrie: May I raise a point, Mr. Chairman. I think this matter was covered by house leaders in the house and I do not think it should be brought up at this time.

The Chairman: Are there any more questions?

Mr. Cafik: Mr. Chairman, I have two questions, the first being on the freeze which was implemented as of March 6, 1968. As a net result of that freeze is it expected that the total manpower of all government departments will be less after that date than it was previous to that date? Will that be reflected in our new estimates book? Or, will the manpower of all departments remain the same? What is the expected result of this freeze?

Mr. Cloutier: I cannot give a precise answer, for the simple reason that my branch is now in the midst of preparing estimates for next year. It is expected that the global man-year authorization that will be included in the 1969-70 blue book will be lower than the global man-year utilization in the current fiscal year.

Mr. Cafik: May I now draw your attention to the bottom section of page 14 of the booklet dealing with Indian affairs and northern development that we talked about previously. Is it possible for a column to be inserted down there indicating the percentage of increase or decrease in allowable strength or total man-years? I do not think that would require any more pages to be inserted in the booklet; an additional column only would be required.

Could we not have a column indicating what percentage of increase or decrease there is under classifications such as executive, scientific, professional, etc?

Mr. Cloutier: If it is the wish of the committee that it be done, that could be done, certainly.

Mr. Cafik: I think it might be useful to have some way of showing the percentage of increase or decrease under these categories.

Mr. Cloutier: Of course, the figures would be rounded off. You might have a situation in a technical category of having an increase of one man who would be added to 25 others.

The Chairman: Mr. Cafik has made a suggestion that the committee very likely will put forward. You are speaking of page 14, Mr. Cafik?

Mr. Cafik: I am speaking of page 14 where, at the present time, three columns are shown for the preceding year and two columns for the present year. I am referring, of course, to the total man-years that are allowable under this. I suggest that we insert a column here which will indicate the percentage of increase over the previous year in terms of either (1) the increase of man-years or (2) in terms of allowable strength. This should show the percentage of increase, decrease, or both. Of course, the committee must decide this but I think it is worth considering.

Mr. Noble: May I ask a further supplementary question? Over what period of time is this man-year freeze to last? Is it to be for a period of years? How long will it be enforced?

Mr. Cloutier: A statement was made in the house that the freeze would continue in the years 1969 and 1970. The estimates that are now being prepared continue that policy.

Mr. Long: No period of years is stated. It could be changed at the end of another year.

Mr. Cloutier: I do not think there is a need to show that at one point the freeze is to come off. In fact, I should be surprised if that is ever said. The simple fact is that the freeze is being adhered to in the preparation of estimates for 1969-70.

The Chairman: Mr. Henderson or Mr. Long, have either of you any observations to make on the subject of elimination of salary ranges? I ask that with the thought that there would be an appendix to the new blue book showing the salary ranges it is proposed to leave out.

Mr. Long: I thought of making the point at this time that the committee should look carefully at those categories we are referring to to make sure that they are meaningful categories to the committee. Of course, I am referring to the categories now being used by the Public Service Commission to reduce the number of classes, and they are quite general.

My second point relates to the proposed appendix the Chairman referred to. As I understand it, the appendix would give the salary range of persons coming under the category of, say, "administration, foreign service". In the present blue book the salaries of persons in that category range from $6,000 a year to $21,000 a year. I do not think that under this proposal you will have any idea of how many people come under any fairly narrow range of salary.

Mr. Winch: Could I ask a question, Mr. Chairman. I want to refer to the matter of salary ranges and to what appears in the estimates. I hope my question is in order. In any event, I want this matter clarified. Perhaps I cannot speak for other hon. members on this committee but I would say that almost 50 per cent of my correspondence these days deals with salary ranges and categories. I wonder if

Mr. Cloutier, Mr. Henderson or Mr. Long could say whether it would be of advantage for this committee to know how categories and salary ranges are tied together. How does this all appear in the estimates?

The Chairman: I think that suggestion ought to be handled at some later date, when we have officials here to explain the various categories. I take it that this is your thought?

Mr. Winch: Yes. I want to know how this all ties in with what we have before us, and how that appears in the estimates.

Mr. Cafik: I do not see how we can make use of salary ranges in any purposeful way unless we know what the salary ranges are for similar kinds of functions in the public sector of the economy. In the old estimates there is no background information in this area. Perhaps, taking Mr. Winch's idea further, we ought to look into this matter and find out what the salary ranges are for similar functions in the public service. Also it would be useful if we knew the value of fringe benefits in the public sector. Fringe benefits are as important to employees in the public sector as they are to civil servants. Unless we know what fringe benefits are available to employees who come within any salary range and compare those benefits with similar employees in the public sector we cannot make any meaningful judgment.

The Chairman: That is a very large area to consider, and a great deal of investigation on the subject will have to be done.

May we now proceed to page 8 of the prepared statement and deal with clarification of grants and contributions. I shall ask Mr. Cloutier to read the next part to us.

Mr. Cloutier: May I read from the text, Mr. Chairman. As members of the committee are no doubt aware, it is an accepted principle of parliamentary practice that the making of outright grants is a prerogative of parliament. This is reflected in Canadian estimates in such vote titles as "Grants and Contributions *as detailed in the Estimates.*"

However, the situation is now such that we do not have any rational distinction between outright subsidies on the one hand (such as the grant to the Boy Scouts as shown on page 445 of the Revised Estimates for 1968-69) and payments made by the federal government in pursuit of programs already authorized by legislation. For example, the Occupational Training of Adults' Act authorizes payments by the government for several purposes, such as for training allowances and for capital assistance. These payments are made pursuant to agreements entered into with the provinces, under the authority of legislation. These agreements always call for the auditing of accounts to be presented by the recipients of the payments. Present vote titles however (such as manpower and immigration, vote 10, at page 304 of the revised estimates for 1968-69), do not allow the transfer of an excess provision that might arise under one agreement to meet deficiency arising under a different agreement. Such excesses or deficiencies may occur as a result of the difficulty of forecasting with precision at the time of the printing of the estimates, levels of anticipated expenditures which depend entirely upon the extent of participation in the program in question. To achieve such a transfer of funds, it is now necessary to include an item in supplementary estimates, regardless of the fact that authority to enter into the agreement already exists and that sufficient funds may be available within the vote as a whole.

On the other hand, there are vote wordings which permit the transfer between contributions without the requirement for a supplementary estimate. An example of this is shown at page 104 of the revised estimates for 1968-69 where the wording of vote 50 for energy, mines and resources allows transfers between the ten contributions that are presently listed pursuant to the Canada Water Conservation Assistance Act.

We propose that restrictive vote titles be used only in those cases where no parliamentary authority for the expenditure exists and where no accounting or auditing is made of the expenditure in question. Under this change, parliament would retain its fundamental right of determining grants that are clearly unconditional disbursements, and the government would have added flexibility in carrying out the wishes of parliament and making payments required as a result of agreements authorized pursuant to acts of parliament. In no case, of course, would the total of a vote in the estimates for grants and contributions be exceeded without further parliamentary action.

The Chairman: Mr. Cloutier, would you explain that part? I think I am lost at this point.

Mr. Winch: I wonder whether I might ask a question of the same time. It is said that no auditing is done. I know of no expenditure of the federal government that the Auditor Gen-

eral does not examine. Would you deal with that too, Mr. Cloutier?

Mr. Cloutier: Yes. When parliament gives a grant to an association it is an outright grant, and no auditing of the use made of the grant it done. In other words, there is no auditing of the books of the organization that receives the grant. That is what I refer to as an outright grant. This is now, and will continue to be, specifically provided for in the estimates.

Mr. Winch: I am sorry; perhaps there is a misunderstanding. In addition to the amounts covered by legislation, it is always the case over the years that some grants are made which are not foreseen. How are they covered? For example, grants are made by order in council. How are they made, under what authority, and how does the Auditor General check into them?

Mr. Cloutier: If we are dealing with an outright grant, the grant is always covered in the estimates, either in the main estimates or supplementary estimates. The problem here that we are seeking to resolve is with respect to contributions, or with respect to payments, following the making of which there is an audit done by the department making the grant, by the audit services division of the Comptroller of the Treasury, or by the Auditor General. That is, an audit of the books of the receiving organization.

The Chairman: Could you just give us an example of that, Mr. Cloutier? I mean the federal government making a contribution to an ogranization.

Mr. Cloutier: Payments made to the provinces in relation to occupational training for adults. These are payments made to the provinces under an agreement entered into with each province under the authority of the occupational training for adults legislation. Although these payments are made to the provinces, there is an audit of the provinces' books of account, if you wish to call them that.

Mr. Winch: Is the audit made by the Auditor General?

Mr. Cloutier: No, by the provincial auditors.

Mr. Cafik: On page 9 there is the statement that the agreements always call for the auditing of accounts to be presented by the recipients of the payments. So I gather that the province presents the accounts for audit to the federal government?

Mr. Henderson: There is a wide variety of arrangements in this regard. The Senate finance committee were interested in this and a schedule was prepared, but unfortunately I do not have it with me.

The provincial auditor certifies the payment and this money is disbursed, and then the audit services branch of the Comptroller of the Treasury will either go in and verify it or we will. We do not wish to duplicate our work, naturally. In some cases the department itself does the work.

If you are interested in seeing some precise cases, the Senate finance committee minutes of last week contain this information, because they were asking me a lot of questions about shared cost programs.

Mr. Winch: The Chairman asked for an example and I would like to ask, through you, Mr. Chairman, about a case where the federal government pays out millions and millions on hospital insurance, say. Do you as Auditor General accept the audit made by British Columbia, for example, or do you as Auditor General check the audit?

Mr. Henderson: The contracts that are written by the federal government generally contain the provision that right of access is reserved to the federal government to have its auditors check, whether it be the Auditor General, the Comptroller of the Treasury or the internal audit staff of the department. If we know that the provincial auditor, when he so to speak certifies payment to Ottawa, is carrying out an audit, then naturally we would have every confidence in him and we do not want unnecessarily to duplicate work. If it is a matter of simply certifying the payment without any work behind it being done, then we would carry out our responsibility under it. We do it on a test basis.

You have a very good example in my reports in the case of winter works and in the case of unemployment assistance. In the case of unemployment assistance the law, as I have complained for years, is so ambiguous that we have an awful time trying to ascertain whether the payments have been made pursuant to the statutes enacted by parliament. This is being superseded today by the Canada Assistance Act.

Mr. Winch: Was it because you were not satisfied about winter works that you made a check?

Mr. Henderson: We found that abuses were creeping in. The provincial auditors and our-

selves discovered this. The provincial auditor works for the province and the Comptroller of the Treasury staff are now working for the federal government.

Mr. Winch: So these abuses have been brought to your attention by the provincial auditor?

Mr. Henderson: Yes, in a great many cases they have.

Mr. Lefebvre: While we had the winter works program, Mr. Henderson, were you allowed to go into the different municipalities in the provinces to check the books and verify the audits, or did you have to do this through the provincial auditors only?

Mr. Henderson: We did it with the concurrence and knowledge of and by arrangement with the provincial auditor. In some cases he made his working papers available to show us the work that he did, and that proved to be satisfactory. In other cases he had made such a limited test that he suggested the area we should examine. It is a question of the application of—

Mr. Lefebvre: Was it your staff or somebody else's staff that went into the municipal offices?

Mr. Henderson: Not in every case was that done. I have a small staff only and our work is basically to conduct a test check. I do not pretend to cover it all. I make the best check I can with the staff available.

Mr. Lefebvre: I do not mean that you checked every municipality's books, but you did go into the books of some municipalities?

Mr. Henderson: Yes, sir.

The Chairman: I have one question, Mr. Henderson. I was interested by your observation that you accept the audit of the provincial auditors. Do you meet the provincial auditors and lay down the type of audit you would like them to do and the fields into which you want them to go, or do they work pretty well independently?

Mr. Henderson: We are in touch with them pretty regularly. Only last fall sometime we had what was the first meeting of the provincial auditors and the federal Auditor General. We had a most useful discussion of their practices and ours. I hope that this can be repeated.

The Chairman: It sounds a very useful suggestion to me.

Mr. Cafik: Just on a point of information, Mr. Chairman, page 9 rather implies that money is given to the provinces by agreement, and that the provinces are obligated to use such money for the purpose for which parliament assigned it. I have the impression that this is not always true, that there are cases where the provinces get money under an agreement for one purpose and then use it for a totally different purpose. Is this true or do I have a false impression?

Mr. Cloutier: There are situations where the type of payments that you are referring to are made, and these are fiscal transfers. This does not apply to the contributions to which I am referring here. The contributions to which I am referring in this document apply strictly to payments for which there is an accounting.

Mr. Cafik: And the provinces must use the money for the purpose allocated to it?

Mr. Cloutier: Yes, in these instances. The level of payment is geared precisely to the evidence that is submitted by the province, which in turn is subject to audit by the federal government so as to ascertain that the province has actually made the expenditure on the purposes for which it was assigned.

Mr. Calik: So that really we are talking primarily about open-ended agreements here?

Mr. Cloutier: Not necessarily.

Mr. Cafik: Not all of them are, of course, but many are?

Mr. Cloutier: Yes, some of them might be.

Mr. Henderson: I think it is fair to say that neither Mr. Long nor I is clear about what the minister has in mind in the two paragraphs read by Mr. Cloutier. I should like to take up several points with him.

The Chairman: Then you make me feel better, Mr. Henderson. I did say that I was lost but I feel better now.

Mr. Winch: Before we leave this point, Mr. Chairman, I am sorry to say that the matter has not been completely clarified for me. I was not referring to grants or moneys that are made available under legislation. What I have in mind is that fact that during the course of a year something arises that is not contemplated by the legislature or by those who draft applications for grants. For example, these applications may concern the Olympics, sports, almost anything, even the Halfway House about which I have some

knowledge. The minister or cabinet decides to make these grants and they were not previously covered by legislation.

Now, my point is: How are these expenditures covered in the public accounts, in the estimates or by the Auditor General?

The Chairman: I think Mr. Cloutier answered that a moment ago when he said it was covered either by statute or by supplementary estimate. But it must be covered one way or another in the house. Is that right, Mr. Cloutier?

Mr. Cloutier: Yes. If the cabinet decides to make the grant at a stage that is between main estimates and supplementary estimates, and the amount involved is relatively small, payment would be made out of an allocation from the contingencies book. But the grant will appear in the next supplementary estimates that are tabled.

Mr. Winch: So if the House of Commons did not pass those supplementary estimates, the minister would pay the money himself?

Mr. Cloutier: The amount would be recoverable because parliamentary authority for it would not exist.

Mr. Winch: You mean at the time the grant was made?

Mr. Cloutier: Yes.

Mr. Cafik: If I may pass on to page 10, the second paragraph proposes that restrictive vote titles be used only in those cases where no parliamentary authority for the expenditure exists and where no accounting or auditing is made of the expenditure in question. That seems to me to be the operative part of everything we have been told this morning.

Mr. Cloutier: That is right.

Mr. Cafik: If I interpret that correctly, what you mean is that in the event of a straight grant being made, say to the Boy Scouts or to some non-governmental agency, that grant is restrictive in the sense that that is a fixed amount that cannot be transferred?

Mr. Cloutier: That is right.

Mr. Cafik: In all other cases where grants are going for this program, that program or any other program, the suggestion is that they be written up in such a way that if a grant is not used in this particular vote it can then be transferred to another vote?

Mr. Cloutier: Not between votes.

Mr. Cafik: Well, within the vote?

Mr. Cloutier: Yes, that is right, within the grant vote. If for instance, you have two or three contributions the total amount—

Mr. Cafik: Is fixed?

Mr. Cloutier: —is fixed, but there might be flexibility between these two or three contributions.

Mr. Cafik: That is precisely the intent of everything that has gone on here this morning?

Mr. Cloutier: That is correct.

Mr. Winch: When the House of Commons deals with the estimates it is set forth that there is so much, let us say, for the Boy Scouts and so much for something else, but do I gather then that if the cabinet or the minister decides on a change in between is that not thwarting what was the understanding and the will of parliament?

Mr. Cloutier: No, sir, because the Appropriation Act applies to the total of the vote, except for those outright grants and except also for any restrictive words in the vote title. I think I may give an example—

Mr. Cafik: If I may ask a supplementary question I think it might clarify something.

The Chairman: Mr. Cloutier is going to give an example.

Mr. Cloutier: I am looking at vote 45 in agriculture.

Mr. Cafik: What page is that?

Mr. Cloutier: This is on page 33.

Mr. Winch: Of the revised estimates?

Mr. Cloutier: Of the revised estimates. The vote wording says, "Grants, contributions and subsidies as detailed in the estimates." This is a standard wording for such votes.

Mr. Winch: It says "as detailed."

Mr. Cloutier: That is right. If we look at the items under this particular vote you find we have, "Compensation for animals slaughtered in accordance with the terms of the Animal Contagious Diseases Act," "Payment of compensation at the rates determined in the manner provided... to owners of animals affected with diseases coming under that act..." and "Contributions to the provinces, in accordance with regulations... to owners of animals that have died as a result of rabies." Then we have other cases of animals that have died as a result of anthrax and we have a contribution to the construction of a

veterinary college. Then we have a fee, which is a grant, and the total vote comes to $1,766,600.

Because the wording of the vote, which is the operative direction of parliament, includes "as detailed in the estimates", the three contributions listed at the bottom of page 33 cannot be transferred from one to the other. If at the close of the year more animals have died from rabies than can be covered by the $21,000 provided in the estimates, because of those restrictive words in the vote heading this means that an item must be provided in the next set of supplementary estimates to add an additional amount of, say, $2,000 or $3,000. What we are proposing is that because all of these payments are audited, if we run short on the rabies side the Treasury Board could transfer moneys from the first item to the third item under the vote without bothering parliament to get specific approval from it. This is a very good example because, as I recall it, the last set of supplementary estimates included an amount for animals that died of some disease, a few thousand dollars, whereas within the total vote there had been enough money to make the payment.

The Chairman: That was very clear and precise, and I thank you very much, Mr. Cloutier. Before we get confused I would like to ask the Auditor General if he sees any problem in a change such as this?

Mr. Henderson: No, I think this is reasonable, but I do have a question I would like to ask Mr. Cloutier. Included under this vote covering animals dying of rabies and anthrax, $1,766,600, is the contribution towards the cost of constructing and equipping a veterinary college at the University of Saskatchewan, $1,050,000. Do you mean that if you have been able to save on compensation for animals that have died and the cost of the construction of the hospital goes higher, you would be able to transfer money from the other items to make up the difference?

Mr. Cloutier: As I recall it, this item is in the order of a grant. This really points up the problem to which I was referring. We have not got a guiding principle in this area where there is clear delineation, where there is auditing and not auditing so that this type of payment would be classified as a grant.

Mr. Cafik: And should not be in this category?

Mr. Cloutier: And should not be in this category. If you look at the new form of estimates, for instance at page 16 of the new booklet for Indian Affairs, we would hope to delineate very clearly under the headings what are grants and what are contributions. Does that answer your question, Mr. Henderson?

Mr. Henderson: I think that is a very good explanation, Mr. Chairman. It clears it up in my mind.

Mr. Lefebvre: When the federal government gives a grant to a society or group or anything like this, do I understand you to say that we do not verify the accounts of this society? If they are eligible for a grant of $100,000 they get a cheque for $100,000 and that is it?

Mr. Cloutier: That is right if it is a grant.

Mr. Lefebvre: We have no control on the way they spend it and they don't have to account to anybody for spending it?

Mr. Cloutier: That is so. But before a recommendation is made to the government to make the grant, in most instances, and indeed I would venture to say that perhaps in all instances, at the departmental level there is an examination of the budget of the organization to which the grant is proposed to be made, to satisfy ourselves that the kind of moneys being sought are indeed required for the operation of the organization, and also that the purposes of the organization are in keeping with the objectives of the department making the grant.

Mr. Lefebvre: Do any of these societies that get federal grants ever offer, without being asked, to send us an account of the money spent during their fiscal year?

Mr. Cloutier: Most of these grants have to be reviewed every year. I am thinking of one particular organization which, when they apply for the grant, they send us their budget or plan of operations for the year and they try to convince us that what they want to do is really in keeping with the programs and objectives of the department to which they are applying.

For instance, one organization that comes to my mind at this point concerns a grant that was made—I think it appears in the revised estimates for the first time this year—to the Audubon Society. That society's purposes are very much in line with the programs of the wildlife service. In that instance the Audubon Society provided the department with budgets and explanations of what they were doing and why they wanted this addi-

tional money. When the application for that grant came to the Treasury Board we called for the documents from the department. We looked at them and discussed them with the department. We satisfied ourselves that this would be money well invested and that the reputation, past practices and accomplishments of the organization warranted this additional expenditure of federal funds.

Mr. Lefebvre: Do you know offhand the total amount of moneys given by the federal government in grants such as these on which no accounting is given to the federal government?

Mr. Cloutier: At the moment it would be very difficult for me to say so precisely because the system we have, you know, is not clear. Under the proposal that we are putting forward it would be relatively easy to pick out these outright grants in total by department and in total for the government.

Mr. Lefebvre: Could it amount to millions of dollars?

Mr. Cloutier: Oh, yes.

The Chairman: Mr. Lefebvre, I think I might interject that if it is a charity organization the Department of National Revenue would scrutinize it very carefully before moneys were granted.

[*Interpretation*]

Mr. Leblanc (Laurier): Thank you, Mr. Chairman. I would like to get one or two points straight, in French, with regard to what has been said so far. We were told that the total estimates for expenditures in respect of grants or contributions could not be exceeded without further approval by Parliament. This means that in the case of specific appropriations which constitute part of a Department's estimates, any one grant may be exceeded so long as the total is within the limits set. This means also that if the approved total is exceeded, the additional amounts requested are in respect of the Departmental total and not for any particular item.

Mr. Cloutier: Here the distinction has to be made between the word "grant" and "contribution"; grants would be invariable and are as they appear—the budget of expenditures while contributions would be subject to modifications.

Mr. Leblanc (Laurier): Contributions?

Mr. Cloutier: Yes, the contributions only. The grants would remain fixed.

Mr. Leblanc (Laurier): What distinction do you make, Mr. Cloutier, between a grant and a contribution? How do you define the two expressions?

Mr. Cloutier: A grant is a gift purely and simply. There is no audit of the books of a body receiving a grant while the payment of a contribution entails such an audit to ensure that the organization in question did in fact use the funds for the purpose they received them.

Mr. Leblanc (Laurier): Thank you.

[*English*]

The Chairman: You have a question, Mr. Cullen?

Mr. Cullen: Actually I think most of it has been answered. I was concerned about grants being made and no auditing being done, and whether this was an annual matter. I suppose this is under review by the individual departments?

Mr. Cloutier: That is right.

Mr. Cullen: So that when some of these organizations would come back asking for more money they would have to justify it.

The Chairman: It is now 11 o'clock and we will adjourn. Thank you very much for your interest, gentlemen.

OFFICIAL REPORT OF MINUTES

OF

PROCEEDINGS AND EVIDENCE

This edition contains the English deliberations and/or a translation into English of the French.

Copies and complete sets are available to the public by subscription to the Queen's Printer. Cost varies according to Committees.

Translations under the direction of the Bureau for Translations, Secretary of State.

ALISTAIR FRASER,

The Clerk of the House.

HOUSE OF COMMONS

First Session—Twenty-eighth Parliament

1968

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: Mr. A. D. HALES

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 6

TUESDAY, DECEMBER 3, 1968

Revised form of Estimates

WITNESSES:

Mr. Sylvain Cloutier, Assistant Secretary of Treasury Board; Mr. A. M. Henderson, Auditor General of Canada; Mr. G. R. Long, Assistant Auditor General.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1968

29380—1

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. A. D. Hales

Vice-Chairman:

and Messrs.

Bigg,	[3]Éthier,	Noble,
[1]Boulanger,	Flemming,	Nowlan,
Burton,	[4]Forget,	[6]Rock,
Cafik,	[5]Guilbault,	Rodrigue,
Crouse,	Laflamme,	Rondeau,
[2]Cyr,	Major,	Thomas (*Maisonneuve*),
		Winch—20.

(Quorum 11)

Edouard Thomas,
Clerk of the Committee.

[1]Mr. Boulanger replaced Mr. Cullen on December 2, 1968.

[2]Mr. Cyr replaced Mr. Allmand on December 2, 1968 who had replaced Mr. Leblanc (*Laurier*) on November 29.

[3]Mr. Éthier replaced Mr. Cobbe on November 29, 1968.

[4]Mr. Forget replaced Mr. Lefebvre on December 2, 1968.

[5]Mr. Guilbault replaced Mr. Howard (*Okanagan Boundary*) on December 2, 1968 who had replaced Mr. Isabelle on November 29.

[6]Mr. Rock replaced Mr. Borrie on November 29, 1968.

ORDERS OF REFERENCE

FRIDAY, November 29, 1968.

Ordered,—That the names of Messrs. Howard (*Okanagan Boundary*), Allmand, Rock and Éthier be substituted for those of Messrs. Isabelle, Leblanc (*Laurier*), Borrie and Cobbe on the Standing Committee on Public Accounts.

MONDAY, December 2, 1968.

Ordered,—That the names of Messrs. Cyr, Forget, Boulanger and Guilbault be substituted for those of Messrs. Allmand, Lefebvre, Cullen and Howard (*Okanagan Boundary*) on the Standing Committee on Public Accounts.

ATTEST:

ALISTAIR FRASER,
The Clerk of the House of Commons.

29380—1½

MINUTES OF PROCEEDINGS

TUESDAY, December 3, 1968.
(7)

The Standing Committee on Public Accounts met this day at 9.46 a.m., the Chairman, Mr. A. D. Hales, presiding.

Members present: Messrs. Bigg, Boulanger, Burton, Crouse, Cyr, Flemming, Forget, Hales, Guilbault, Major, Nowlan, Rodrigue, Thomas (*Maisonneuve*), Winch—(14).

In attendance: Mr. Sylvain Cloutier, Assistant Secretary of the Treasury Board; Mr. A. M. Henderson, Auditor General of Canada; Mr. J. G. Glashan, Director of Estimates and Supply Procedures Division, Treasury Board; Mr. G. R. Long, Assistant Auditor General.

The Committee continued the review of APPENDIX A "Remarks prepared for the President of the Treasury Board relating to a revised form of Estimates" and questioned the witnesses.

At 11:00 a.m., the Committee adjourned to the call of the Chair.

Edouard Thomas,
Clerk of the Committee.

EVIDENCE

(Recorded by Electronic Apparatus)

Tuesday, December 3, 1968

•0947

The Chairman: Gentlemen, we shall open our meeting.

First of all, I would like to welcome some new members that are with us this morning. We hope we can make our meetings interesting enough that you will be here permanently rather than for just an exchange of a meeting or two. To bring you up to date, we are in the process of studying the proposed form of the new estimate book as submitted to us by Treasury Board.

We will commence this morning on page 13 at the English copy and page 14 of the French edition of the remarks prepared by the Honourable C. M. Drury, President of the Treasury Board, relating to the revised forms of estimates. Please also have before you this book, Revised Estimates, Indian Affairs and Northern Development, for illustration only and open it at page 5.

Before proceeding I think Mr. Cloutier would like to make a clarification of some remarks made at the last meeting. Mr. Cloutier?

Mr. S. Cloutier (Assistant Secretary, Treasury Board): Thank you, Mr. Chairman. In the evidence I gave the Committee last Thursday, I believe I stated that all grants to organizations are specifically listed in the details of the estimates Blue Book. On reflection I realize that this is a too sweeping statement and I would like to qualify it if I may.

In some cases where there is a great number of recipients of small grants which are all made for the same purpose, the individual organizations receiving the grants are not listed. For example, on page 200 of the current Blue Book for 1968-69, in the current form of estimates for the Department of Indian Affairs and Northern Development, there appears the following line entry:

> Grants to individuals or organizations for the development or advancement of Indian culture.

for an amount of $44,700. Similar treatment is given to grants for citizenship promotion in the vote covering the citizenship program of the estimates of the Secretary of State at page 445 of the revised estimates for 1968-69, and another example is the scholarships and grants in aid of research in vote 25 of the National Research Council estimates, page 553 of the revised estimates for 1968-69.

• 0950

In line with the proposal before you, these amounts would be included in the grants part of the new form of estimates and would be set by Parliament and could not be changed, except through parliamentary authority.

The point of clarification is that I think I said last Thursday all organizations were individually listed, whereas in some cases such as those examples I have stated, because there are a great number of recipients and because these recipients are not all known at the time of the preparation of the estimates, the estimates are presented in that manner.

Mr. Winch: I believe I asked at the last meeting and in order to be certain, if grants are made which are not in the estimates, do they come completely from contingency funds? Is there any time when they do not come from contingency funds?

Mr. Cloutier: Yes, sir. In these cases that I have mentioned, there are amounts specifically provided in the estimates for these grants and these grants would be made from those items in the estimates to the maximum of the amount provided for that purpose in the estimates. If that amount proves to be insufficient in the course of the year—as I explained last Thursday—it might be supplemented through the contingency vote, subject to the thus supplemented amounts being approved through supplementary estimates which would again show the purpose of the other grants.

Mr. Winch: May I then ask a question of Mr. Henderson? How does your Department check on grants that are made out of contingency funds? How do you check through your Department on grants that are not shown in estimates?

Mr. A. M. Henderson (Auditor General): Would you mind if Mr. Long answered that?

Mr. G. R. Long (Assistant Auditor General): Mr. Winch, we regard as necessary prior parliamentary approval of grants. To put in a plug for our next report, you will find a paragraph there about grants made from the contingency fund which we consider to have been improperly made.

Mr. Winch. Oh, so that will be in the next report?

Mr. Long: Any grants made in that manner, in our opinion, are not in accordance with the parliamentary procedure which requires that Parliament give prior approval to all grants. One thing that has bothered us is the groups of small grants that Mr. Cloutier mentioned just a few moments ago. There is not individual parliamentary approval in that case. We have done research on it and studied it and are still thinking about it, but it would almost seem as if there needs to be some formal recognition of perhaps the minimum below which parliamentary approval would not be required.

Mr. Winch: I will then follow that up, because I think it is a most important phase. If there is not prior approval but a grant is made, and then at a later date it is covered by a supplemental, where do you stand as auditors in that situation?

Mr. Long: We simply report it to Parliament and usually point out to you that you were not advised that it had already been made when the supplementary went through.

The Chairman: I think we will leave this point.

Mr. Winch: I think perhaps you could follow that up, Mr. Chairman, because I know you are interested.

The Chairman: Mr. Winch, we will follow this up when the Auditor General's paragraph comes before us. I understand it is in the 1968 report.

Mr. Henderson: That is right, Mr. Chairman.

The Chairman: We will follow it up in that report.

Mr. Major: I have just one question with regard to this. Who authorizes these grants in specific departments?

Mr. Cloutier: I take it you are referring to these small grants that are not specifically listed?

Mr. Major: Yes.

Mr. Cloutier: These grants are usually authorized pursuant to regulations approved by the Treasury Board which would provide the limits within which the department itself could authorize the grant or, if the grant is larger than a given amount, it would have to be authorized by the Treasury Board formally.

• 0955

Mr. Winch: Mr. Chairman, may I ask just one question.

The Chairman: Mr. Winch and then Mr. Crouse.

Mr. Winch: My question is for clarification. Do I understand correctly, Mr. Cloutier, that what happens now is that without prior authority the Treasury Board gives authority for a grant on the understanding that in the future they will bring in a supplementary to cover what they have done without authority? Do I have that right?

Mr. Cloutier: I would not put it quite that way, Mr. Winch. I would rather say that the Treasury Board authorizes an expenditure to be made from the contingencies vote. Now, the wording of the contingencies vote authorizes the Treasury Board to approve the expenditure of funds from that vote for minor and unforeseen expenses. It does not prohibit expenditures in the form of grants. Now, all expenditures except salaries items that are financed through the contingencies vote...

Mr. Winch: Then why does it require a supplementary vote?

The Chairman: Mr. Winch, let him finish.

Mr. Winch: I am sorry.

Mr. Cloutier: All expenditures made from the contingencies vote, except salary items, have to be approved by Parliament in the supplementary estimates. This is the normal procedure that applies to every expenditure, except salaries items, made from the contingencies vote including grants. Let me put it this way: There is parliamentary authority for the Treasury Board to authorize these expenditures.

Mr. Winch: Then why does it require a supplementary vote?

Mr. Cloutier: This is provided, I think, in the wording of the contingencies votes.

Mr. Bigg: Is the contingencies vote the one we just passed for $70 million?

The Chairman: That is the one.

Mr. Henderson: Mr. Chairman, one of our points is that when the supplementary estimate is laid before you to recoup the contingency vote, you should at least be told that the contribution or grant has in fact been paid. It appears from the wording of the vote that that is not the case and you approve it without realizing that it has already been paid. I see nothing wrong with this procedure, provided you are told this at the time you are asked to give it approval.

The Chairman: All right. We shall now proceed with page 13 in English and page 14 in French.

Mr. Cloutier: Mr. Chairman, the recommendations that we will be referring to from now on, I think, all stem from the recommendation of the Royal Commission on government organization, the Glassco Commission, which recommended that the form of estimates be revised so that the votes more clearly describe the purpose of expenditures, that more comparable and more complete supporting information be provided and that unnecessary detail be eliminated, and also that departmental estimates be prepared on the basis of programs and activities and not only by standard objects of expenditure.

The first proposal which appears at the top of page 13 is, I think, exemplified by the booklet that you have, the illustration of the revised estimates for 1968-69 of the Department of Indian Affairs and Northern Development. Members will note that on page 5 there appears a statement of departmental objectives.

Mr. Winch: When you say page 5, do you mean this book?

Mr. Cloutier: I mean the larger book, sir; the revised form, the new form of estimates, not the current form. Members will note that on page 4 there appears a statement of departmental objectives which are explained in terms of the programs of the department.

If I may go on, on page 6 where a detailed breakdown...

The Chairman: Just one moment Mr. Cloutier. I wonder if there are any questions on page 5, or will we be coming back to that?

Mr. Major: Mr. Chairman, I suggest that Mr. Cloutier proceed and then we can ask him questions.

The Chairman: Thank you, Mr. Major.

• 1000

Mr. Cloutier: On page 6 where a detailed breakdown of the Administration Program begins, you will note the statement of the program objectives followed by a narrative description of the program itself outlined in terms of those objectives. The program is broken down into a number of activities that are the means by which the objectives, as set out, are to be achieved. This approach is designed to assist members of Parliament in identifying the purpose of the Administration Program, thereby aiding in their examination of the expenditures proposed under it.

The same approach for each of the other three programs is followed throughout the sample. In this regard, I might remind the Committee that the current form of estimates does not include any narrative material concerning the department nor, for that matter, any of its programs or activities.

The Chairman: Mr. Cloutier, may I ask at this point whether we could not have the program objectivities and program explanation on a separate page in the existing Blue Book, or existing Estimates, as we know it now? Could that be done?

Mr. Cloutier: Certainly, it could be done, but the whole presentation, you see, of the current book does not break out Vote 1 in terms of the various activities. All that we have in the current Blue Book is Vote 1 broken down according to the standard objects of expenditure. This presentation would give you both.

If you look at the table at the middle of page 6, it would give you the breakdown by activities, followed by the program objective and the program explanation in terms of those activities, and then it would give you the program by object of expenditure, in much the same way as you have it now, so you have more information, better presented and explained in terms of narrative information.

Also, if you go to page 8, you would have the breakdown of the manpower allocation

and utilization of that program in what we think is a more informative presentation than what is available now in the current Blue Book, so I might say that you have the same information plus more details for that one program.

The Chairman: Mr. Major and then Mr. Winch.

[*Interpretation*]

Mr. Major: Could you tell us what you mean by "man-years"? I do not understand this. It seems to be a bit too general. Would it not be possible to clarify this point.

Mr. Cloutier: I shall be glad to try, sir.

Mr. Major: If you will allow me, Mr. Cloutier, on page 8, you mention: Executive total man-years. I do not understand what you exactly mean.

Mr. Cloutier: By total allowable staff strength, is meant the number of people the department can take on staff up to the 31st of March 1969.

Mr. Major: You use different terms to explain this.

Mr. Cloutier: Well, I will admit that the various titles used in this booklet must be slightly confusing. However, as this was discussed in the Committee a few meetings ago, we hopefully thought we could include as a preface to the budget book a glossary of the words used, definitions if you wish, of the precise meaning of all these abbreviated terms.

Mr. Major: Then, people will get acquainted with this.

• 1005

[*English*]

The Chairman: Now Mr. Winch, and then Mr. Thomas.

Mr. Winch: Mr. Chairman, I think I am following up a little on the previous question. It referred to page 8 of the illustration only document that we have been referred to. I notice that in 1967-68 the allowable strength was 296 but the man-years were 301. To look at 1968-69 the allowable strength is put at 317 and the total man-years is 322, so my question is, first, who establishes the allowable strength; who authorizes an extension beyond the allowable strength?

Mr. Cloutier: These figures are established by the Treasury Board in the course of its examination of the departmental estimates. The allowable strength was allowed to . . .

Mr. Winch: Increase.

Mr. Cloutier: . . . increase between 1967-68 and 1968-69 by a figure of 41 in this case, following detailed justifications provided by the Department to the Treasury Board and the Treasury Board authorized this increase and this total new allowable strength at March 31, 1969 in the course of its examination of estimates. The results of that authorization by the Treasury Board are illustrated in the estimates.

Mr. Winch: But the allowable authorization is always under the actual number of man-years.

Mr. Cloutier: Well, no; it could be the other way around, sir.

Mr. Winch: I am just going by page 8.

Mr. Cloutier: Yes. In this case, you see, there is casual employment; people who come in for two weeks, or three weeks, or three months and these short periods of employment go towards making up a man-year. Normally, if we are dealing with a program where there is no casual employment at all and only permanent employees, you should expect to find the total man-years figure at a lower level than the total allowable strength at year end.

The reason for this is that while the department may have authorization to go up to 317 in that program at the end of the year, it will not have all these people on staff for the whole year. Some of them will be taken on strength after the first month, some might be taken on strength at the eleventh hour and the difference between the total man-years and the allowable strength in such a case would be simply a reflection of the actual utilization of manpower.

Mr. Winch: Knowing you are going to have casuals, why do you not include that in your allowable strength instead of putting it on later? You know there is going to be a number so why is that not included in the man-years in the estimate?

Mr. Cloutier: It is included in the man-year figure but we came to the conclusion that the number of casuals that happen to be on strength at a given point—let us say we are talking of March 31 or September 30—is not

all that significant. What really is significant is the number of permanent, full-time, continuing employees. You see, the casuals come and go. You have a terrible rush of work and you do not have enough permanent employees to cope with it within the time that it has to be completed, so you have the flexibility to hire casual employees to get on with it.

Mr. Winch: Well, then, I just want to clarify it. Let us take the Post Office Department as an example.

Mr. Cloutier: Yes, sir.

Mr. Winch: In Vancouver right now, through the Department of Manpower and Immigration, they are taking on approximately 4,000 additional employees for Christmas. I am just saying that when you make up the estimates you know that you are going to take on 4,000 extra—I am just using Vancouver as an example—so why is that not included in the estimate of the allowable man-years? That is the point I am not quite sure of.

• 1010

Mr. Cloutier: It is included in the man-years figure, sir.

Mr. Winch: It is included?

Mr. Cloutier: That is right. It is included in the man-years figure but it is not segregated.

Mr. Winch: But they are still casual; they are employed for only three weeks.

Mr. Cloutier: That is right; they are casuals, you see, for instance, against this 317 allowable strength of full-time employees—I do not know precisely for this particular program—my guess would be that the man-year equivalent of this figure of 317 might be something like 300 man-years. In other words, while the department has the approval to have up to 317 full-time employees by the end of the year, if we look only at that type of employees they will represent the figure of about 300 man-years of work. Now, you find here that the man-years are 322, so that implies the department in that program can utilize up to 22 man-years of casual labour at various times of the year depending on the seasonal pattern of its work.

The Chairman: Mr. Thomas?

[*Interpretation*]

Mr. Thomas (Maisonneuve): Mr. Cloutier answered my question in his reply to Mr. Winch. Thank you.

[*English*]

The Chairman: I wonder if I could ask a question here, Mr. Cloutier? Under the allowable strength column, and we have a government freeze on, why would the total not be the same in those two columns; 296, and it should be 296 instead of 317?

Mr. Cloutier: The employment freeze took place, as you will recall, early in 1968 after these estimates were prepared. We are really looking at the document that has been ready to present to the Public Accounts Committee for about a year.

The Chairman: To follow that up, if we had, say, 1969 and 1970 and the freeze were still on, that figure should remain constant.

Mr. Cloutier: Theoretically it should. On the other hand, I cannot say, simply because I do not know at this moment, what has happened in that particular program. You will recall that when the employment freeze was announced, the government said that total employment would not increase but that variations between departments would be allowed provided the total man-years did not increase.

The Chairman: Are there any further questions? If not we will proceed.

Mr. Cloutier: Mr. Chairman, if I may I would like to continue reading from the document before the Committee.

As I reviewed the vote structure appearing in the current Estimates, I recalled to the Committee that it had agreed in 1963 to reduce the number of votes in the Estimates so that generally speaking each departmental program would show one Vote for each of the categories administration, capital and grants. The purpose of that change was to provide Parliament with a better appreciation of the cost of any given program and the elements that went into its makeup.

The Chairman: Mr. Cloutier, would you mind explaining administration, capital and grants before we proceed?

Mr. Cloutier: May I refer the members of the Committee to pages 12 and 13 of the illustration? You have here an illustration of the Indian Program which, under the proposal, would become one vote and that vote is made up on the one hand of "Administration, Operation and Maintenance" which is the heading on page 12 immediately to the right of the "Activity". These are administration

expenses. Then the next series of columns under the heading Construction and Acquisition are really capital items, construction and acquisition of large capital items; and the third breakdown is immediately on page 13, Grants and Contributions, which is a third element of the program. And finally the next set of columns under the title Total Budgetary Expenditures is the sum of the first three.

• 1015

The amounts voted as expenditures are detailed in the Total Budgetary Expenditures column. The last column is Loans, Investments and Advances, which are not budgetary expenditures; they are loans items that are proposed for approval by Parliament.

The Chairman: I wonder if Mr. Henderson and Mr. Long would like to make an observation at this point on that breakdown as to its effect in the auditing. Is this going to work out all right?

Mr. Henderson: Mr. Chairman, we have some views on this, but it might be more helpful to the members if Mr. Cloutier were to continue with his explanation because the end result is going to be a reduction of over 100 votes in the number that will come before the members of the House. I think it is important that you understand his line of thinking before we comment, if I may suggest that.

The Chairman: Thank you, Mr. Henderson.

Mr. Cloutier: Then I will resume reading from this document.

> In line with the concepts of program budgeting and responsibility accounting under which each program is considered as a unit, made up of these three different elements, we are proposing to take the next logical step in the development of a rational vote structure and to consolidate into a single vote the three votes presently being shown for each program.

In other words at the moment there is one separate vote for administrative expenses; there is one separate vote for construction and acquisition or capital and there is usually one separate vote for grants and contributions. I have said usually there are three separate votes. On the other hand we have a number of situations where the capital element and the grants element are relatively minor in relation to the total expenditures and these items would be found in an administration vote. In other words the situation is not clear and is not consistent from one department or one program to the other.

What we are proposing is to display these three types of expenditures quite clearly and quite consistently in each vote and, of course, in those cases where there are three separate votes relating to the same program, to combine these three votes under a single one.

Mr. Winch: I think we all appreciate the idea to make clear what is taking place when we get the estimates, but because the witness refers to page 18 of this document "Illustration Only—Indian Affairs", in the presentation to make it clear to the members of the House of Commons as to what the proposed expenditures are, could I refer you to, on page 13 where you have Total Budgetary Expenditures and a forecast—this is an example, $123,854; actual expenditures $105,553. Could I ask if in the estimation it is normal—and I am just trying to think it through; I am not good at mathematics—whether it is up or down, and 18 per cent—I am just using that as a rough figure because it seems to strike me it is around 18 per cent—is 18 per cent considered on presentation a good average between estimation on estimates and expenditures? What is above or below? It is just that one point of 18 per cent which I gather...

Mr. Cloutier: The Total Budgetary Expenditures column here indicates a change of $18 million between the forecast expenditure for 1967-68 and the proposed estimates for 1968-69. I would not want to generalize and say that an 18 per cent increase is considered normal. However, these figures would represent a decision made by the Treasury Board that the purposes, the objectives of this particular program if they were to be met in a satisfactory manner would require an additional expenditure of that order, so that again I think we are talking of only one program.

• 1020

Mr. Winch: I am sorry, but perhaps you can go into it some other time. But to me—I hope I am not wrong here—something is haywire when the House of Commons is faced with estimates and when we go back and study we find—just using this one example—an 18 per cent difference. What is the position of the members of the House of Commons? I am trying to figure out what they are actually dealing with. This 18 per cent to me seems rather fantastic.

Mr. Cloutier: If you look at the manner of presentation of these estimates as against the current form of estimates, you will find—if I may use the figure $18 million, rather than 18 per cent—that this $18 million increase is in the Total Cost of Program. If you read up from that figure you will see where the increase has taken place. You will find, for instance, that the service provided by other departments, that is the accommodation, the accounting services the pension contributions and so on, account for $4.5 million of that increase. You will also find that an increase of $7.9 million has taken place in the education activity of that program and you will find, to mention only the major items, that an increase of practically $5.3 million has taken place in the development activity of that particular program.

Mr. Winch: Why was that not forecast?

Mr. Cloutier: We are dealing with two separate years, sir. This is the increase between 1967-68 and 1968-69. This is the forecast that is put before Parliament that says that in the year 1968-69 these additional amounts will be required for the education of Indians. In other words the government is recommending to Parliament that $7.9 million, practically $8 million, more be spent in the year 1968-69 for the education of Indians than has been spent in previous years, and similarly that an additional $5.3 million be spent for the development of Indians, because again we are only dealing with the Indian program.

Here I would like to emphasize that this type of insight is not available in the current Blue Book unless you take your pen and paper and do a lot of work. In other words, if you look at this and want to see what the increase is, there is $7.9 million. When the department is before the parliamentary committee it would be quite in order, it would be quite normal for a member of Parliament to say, "All right, you want to spend $8 million more on education; where?" Now if you go to the left of these columns you will see that for Education, for instance, there are no grants; in the Construction and Acquisition, in the capital side, the Department is proposing to spend $1½ million more than it did the year before, and that in the Operation and Maintenance side it is proposing to spend $6½ million more.

That you have before you, so that this gives you, I think, a better base on which to examine these estimates and to get the additional information that you may want from the witnesses of the Department of Indian Affairs when they come before this or any other estimates committee.

The Chairman: Mr. Cloutier, I think you are trying to prove, and I think you have proved at this point...

Mr. Winch: That is the reason I wanted it clarified, Mr. Chairman.

The Chairman: ...that by combining administration, capital and grants into one vote, we are still going to get as much information, or maybe a little more than we are getting now. Is that the fact?

Mr. Cloutier: This is the objective.

• 1025

The Chairman: I think we, as members of the House, are very much concerned about combining any three items into one for fear we might lose some information that we think we are entitled to get. I think this is what the Committee is on guard against as we go along. Is that correct, gentlemen?

Mr. Winch: Yes, that was the reason for my question, Mr. Chairman.

Mr. Bigg: That was mine too. Although they are going to be combined into one vote we are going to have more detail available at a quick glance than we had before. Is that correct?

Mr. Cloutier: And presented in a manner that helps, rather than just a lot of figures that really have to be massaged three or four ways before you can get the gist, the essence.

The Chairman: I think it is only right to think or to believe that if you cut 236 votes down to 136 votes some information is going to disappear and we want to make sure that it does not.

Mr. Cloutier:

> Together with this, we also propose that non-budgetary requirements (that is loans, investments and advances) be shown with the appropriate program. Pages 10, 12 and 13 of the sample new form of Estimates for Indian Affairs and Northern Development illustrate how this treatment would be reflected in the Estimates for the Indian Program of that department.

And here I would like to refer you to the column to the right side of page 13. You will

find that opposite the Development Activity there is a proposed estimate shown of $1.4 million as a loan item or an advance against the Development Activity. In the current Blue Book that same loan appears, but it does not even appear with the other details of the department; it appears at the very end of the Blue Book, so that unless you know that there is a loan associated with that program, there is nothing in the departmental section that would refer you to the end of the book. And yet if you are considering the Indian program which is, in effect, the effort of the federal government in its discharge of its responsibilities towards the Indians, it is very much part of that program and should be considered as a whole.

The details of this particular loan would be available on the other pages of the proposal.

Mr. Winch: On Loans, Investments and Advances, is that a required estimate vote of the House of Commons?

Mr. Cloutier: Yes, sir, it is. This is a loan that is made with the authority of Parliament; it requires the authority of Parliament to be made.

Mr. Major: Why would a loan be involved in this type of operation? Where would it come from?

Mr. Cloutier: If you go back to page 10 you will find that indeed these are two loans; one is Vote L35

> To provide that the total amount of outstanding advances at any one time with respect to loans to Indians under Section 69 of the Indian Act, notwithstanding subsection 5 thereof, shall not exceed $2,400,000; additional amount required $400,000.

Mr. Major: These are loans through the Indian Act.

Mr. Cloutier: That is right; these are loans through the Indian Act.

Mr. Major: They do not go through the Department.

Mr. Cloutier: No, no; these are advances to the Indians.

Mr. Winch: Mr. Chairman, that is not the point that I wanted clarified. On page 10 you have Vote L40 to increase to two million dollars. On page 13 under Loans, Investments and Advances, you have $1.4 million. Do I therefore gather that although this one is two million dollars this is only an amount to bring it up to two million dollars, that you already have . . .

Mr. Cloutier: We already have authority for the balance.

Mr. Winch: So the reason for two million dollars and one million dollars of the $1.4 million on page 13 is that this is the amount to bring it up to two million dollars. Is that correct?

Mr. Cloutier: That is correct. In other words, the first one million dollars is already loaned. This amount is put to good purpose. The Department estimates that it will have other good projects to finance in the course of the year and they will need an additional one million dollars. Now they cannot have that additional one million dollars without parliamentary authority, and this is why this is a loan item.

• 1030

Mr. Winch: Thank you.

The Chairman: Mr. Flemming and then Mr. Bigg.

Mr. Flemming: Are these all hypothetical situations or are they actual situations?

Mr. Cloutier: Oh, no. This booklet, sir, is as accurate a reflection of the Indian Affairs section of the current Blue Book as could be made.

Mr. Flemming: The reason I questioned it is that it says illustration only, and I just wondered.

Mr. Cloutier: You see, the Appropriation Act will be based on this document, not on this, and in order to eliminate any confusion we said "illustration only".

Now, as has been mentioned earlier, it is our hope for the year 1969-70 to continue having the Blue Book as the official document upon which the Appropriation Act would be based, and to have in addition, for use of members in Committees, these samples. Now in the year 1970-71, when the transition will have been further along and when we will have had a chance to insert in this new form of estimates the recommendations that this Committee will be making, we would hope to have our estimates only in the new form. An Appropriation Act would be based on these documents.

Mr. Flemming: In the making of loans to Indians is it contemplated that they will be made to the Band or the individuals?

Mr. Cloutier: This is a question that I will answer from my understanding of the situation rather than from my knowledge of it. There are instances where loans are made to individuals—a fellow who wants to set up a business for instance, and there are loans that are also made to Indian organizations, Indians Bands and so on.

Mr. Flemming: Thank you, Mr. Chairman.

The Chairman: Mr. Bigg?

Mr. Bigg: Although this procedure is presumed to simplify everything, is there going to be a preamble in the Blue Book itself which will explain to amateurs like myself who do not know anything about accounting and so on how to use these two documents effectively? I have not a clue myself on when to look at the end of the estimates for grants not shown and so forth and even—though you put them in one neat little column—the details do not appear in this column. If I want further information what instruction is there to tell me where to go in rapid order?

Mr. Cloutier: I would expect, sir on the basis of observations made in Committee, that the Committee would recommend that there be provided a foreword...

Mr. Bigg: A kind of a little handbook.

Mr. Cloutier: ...which would explain how to navigate through this maze.

Mr. Winch: Excellent.

Mr. Flemming: I have just one question which perhaps will be a little bit too general in its application at this moment. If you think it is, Mr. Chairman, then I would be glad to wait.

What is the approximate cost of this proposed new system? Is it going to cost a good deal of money or will it be a nominal sum?

Mr. Cloutier: I am afraid, sir, that I could not give you an accurate figure at this point simply because we have not yet gone through a first cycle.

Mr. Flemming: I appreciate that.

Mr. Cloutier: And even after having gone through the first cycle, since we are really developing this thing, I am afraid that our actual experience for the current year might not be representative of what it would be in the future. If you just look at the narrative text that is provided, you will note that there will undoubtedly have to be many revisions and corrections made—in French we say "le système est rodé"—before the system is debugged, if I could use that word.

The Chairman: I think you have brought up a point, Mr. Flemming, that the Committee will want to know the cost of this whole change-over before making recommendations.

Mr. Flemming: Yes, that is the reason I questioned it.

• 10.35

The Chairman: Mr. Major?

[*Interpretation*]

Mr. Major: Mr. Chairman, I see there are new members on the committee including myself. I got here late. Would it be too much to ask at another meeting to give us a run-down on your plans? This might be useful because there are new members who do not know about them.

Mr. Cloutier: Mr. Major, we began examining the proposals this morning. We have gone through all the proposals for the new form of the estimates. The subjects discussed today really covered the changes made in the current year's budget book and the further changes to be made for 1969-70 under the present form. We began only this morning to study the new proposals. But if I can usefully go over what we did or answer any questions which you might put, I am of course in your hands.

Mr. Major: I had hoped to expedite matters but if you feel that should be done first let's go ahead and do it.

Mr. Cloutier: I am in your hands.

[*English*]

The Chairman: Mr. Major, it makes no difference whether you are a former member or a new member, it is completely new to all of us, and I think the procedure we are following is satisfactory.

Mr. Major: Mr. Chairman, I am not being critical; I am just pointing this out for the benefit of new members.

The Chairman: Be assured that I or anybody else that has been on the Committee

before are in the same position as you are, as far as this is concerned. It is completely new to us all.

Mr. Major: Thank you, Mr. Chairman.

The Chairman: Now, this paragraph is a very important one.

Mr. Cloutier: Mr. Chairman, this paragraph reads:

> This change in the vote structure, if it commends itself to your Committee would have resulted in a reduction of some 100 Vote items from the current 236, had it been applied to the Estimates for 1968-69.

In other words, the number of votes will have been reduced by 100, but as I have tried to convey in my earlier remarks, the same information and more would be available to members of Parliament in the new form of estimates.

Item (d):

> The Estimate for each program is displayed by activities broken down into the usual categories of operating requirements, capital requirements and grants and, where applicable, into non-budgetary requirements.

That is, the loans, advances and so on.

> Against the operating requirements for each, there is shown the proposed man-years of employment allocated for each activity.

This is really the first column of that large table. You will see proposed man-years 1968-69 broken down by the activities.

The Chairman: I am sorry to interrupt here, Mr. Cloutier, but I did not think fast enough. In one of the paragraphs you just read you said, and I quote:

> . . . a reduction of some 100 Vote items from the current 236

would it be possible for Treasury Board to present to the Committee, in tabular form we will say, three votes, name them and bracket them all into one, another set of votes combined into one vote, and so on until the 100 votes have been used up? We would like to see how this has been condensed. We do not want this information today but perhaps you could let us have it for our next meeting.

Mr. Cloutier: Yes, Mr. Chairman, I can undertake to provide the Committee with such a table. I would like to emphasize though that this table is not definitive by any means. Indeed no irrevocable steps have been taken in the implementation or in the putting into effect of the new form of estimates.

• 1040

Mr. Bigg: Mr. Chairman, would fewer samples not be sufficient? Three or four good examples of how this will work might be sufficient.

Mr. Cloutier: Well gentlemen, you have in here an example of what would be done.

If I may refer to page 192 of the small booklet which illustrates the revised estimates of Indian Affairs for the year 1968-69—which is really a reprint of that section of the Blue Book which relates to that Department, you will find about two-thirds down the page the title Indian Affairs. There you have Vote 5, Vote 10, and a statutory item—really two votes that would have to be voted separately in Parliament. The total of these three is $135,974. Now if you go to pages 12 and 13 of the new form you will find under the column Total Budgetary Expenditures the total estimates item displayed at $135,974. So that in this particular case we would be combining Votes 5 and 10 into a single vote which would be called The Indian Program.

The same thing applies to the other segments of the Indian Affairs Department. If we go to page 20 of the new form sample and deal with a northern program, you will find that the total estimates items there add up to $76,200,000. Now if you go to the old form booklet and just read on from Northern Program you will find Vote 20—Administration, Vote 25—Construction and Acquisition, a statutory item for $1.5 million, Vote 33 and Vote 34, all of which total $76,200,000. So that in this particular case the one new vote for the one program would combine Vote 20, Vote 25, Vote 33, Vote 34 and so on.

The Chairman: You have just mentioned the very thing that the Committee is interested in.

Mr. Boulanger: Mr. Chairman, I do not understand your concern for the details of this group of 100 votes because we have practically all the information before us now. Am I not correct?

The Chairman: Yes, that is quite true, Mr. Boulanger, but I did not know it was there until he explained it to me. Now I have the picture. He has shown us where three votes have become one.

Mr. Boulanger: If you will permit me to continue, Mr. Chairman, there is no doubt about these things not being all accounted for. It just seems more difficult for us to follow because it is a new procedure. However, if you issue information booklets, as one member suggested, I think that will probably clear everything up for us. I suppose this would be easier than trying to get more details on these 100 loans, as you asked, Mr. Chairman. I am quite sure we will get it that way.

• 1045

The Chairman: We will leave it with Mr. Cloutier and if it involves too much work, do not bother with it. You have given us an example here.

Mr. Boulanger: You know, when you ask public servants to do extra work, it always means a lot of money.

The Chairman: Yes, that is right.

Mr. Cloutier: The sense of the proposal is illustrated in these two documents and as no monies can be expended without their having been covered in one of the Appropriation Acts, it was our interpretation of the Glassco recommendations that it made more sense for Parliament to examine and declare its acceptance or otherwise of a total program rather than doing it in bits and pieces. For instance—and this is probably projecting the example to the ridiculous—it would not make much sense if Parliament were to approve an administration vote and refuse to accept the capital vote, because the chances are that the expenditures under the capital vote would be controlled by the administration, so that you end up by approving too much staff and too many other expenditures that would be required and which are tied in with the others.

You have a similar situation with grants. Let me give you an example. In the grants and scholarships administered by the National Research Council there is an item, if my memory serves me correctly, of between $60 and $70 million. The grants vote that we have in the estimates, which I think is Vote 25 under NRC, only provides for the grants. The administration of that grant...

Mr. Boulanger: It only provides for what?

Mr. Cloutier: For the grants, but the expenditures related to those grants, the men who have to receive the applications, examine them, adjudicate on them and decide whether the applications are worthy of the grant or not, are provided for in the administration vote, so this is why we feel it makes more sense to bring these together and show them under an activity structure. You can see that we are asked to provide $70 million for these grants, and under administration you can see the number of man years and the total expenditures that will be related to the administration of those grants. If you do not like the total package you can reject or approve it as a whole, because one hangs on the other.

The Chairman: Mr. Bigg.

Mr. Bigg: These will be available to the Committee to look at before the thing is done?

Mr. Cloutier: Our aim for the current year is to have the Blue Book ready. I am hedging here. Although I am saying our aim is to have the old form Blue Book ready for tabling early in February, I must apologize to the members of the Committee because this is the first year that my staff has had to produce both sides, and we have not increased our staff in order to do this, so we do not see how it will be humanly possible to have both sets ready at the same time.

Mr. Bigg: No, I did not mean that. I meant when this is in effect.

Mr. Cloutier: When this is in effect you will definitely have the whole thing.

[*Interpretation*]

Mr. Boulanger: From the time point of view, we will have the Blue Book a few months earlier than usual?

• 1050

Mr. Cloutier: No, we expect to table the Blue Book in the House at approximately the same time as before.

Mr. Boulanger: So, it will get there about the same time.

Mr. Cloutier: No, frankly, that was not one of the purposes that we had in mind for the good reason that already, by tabling in the House the book of estimates in early February, the book of estimates for the year to come, we are anticipating on the new year by one and a half to two months.

The farther ahead we anticipate the more difficult it becomes to produce accurate and realistic estimates.

Mr. Boulanger: I understand. In other words, you have been doing all this without having anybody extra on your staff?

Mr. Cloutier: Yes. That is so.

Mr. Boulanger: It is almost as good as the miracle at St-Bruno.

Mr. Cloutier: We haven't yet got to the end of this miracle. That is why I say that it is possible for the new books to be available perhaps a week or so after the Blue Book itself.

[*English*]

The Chairman: I think it is quite evident that a tremendous amount of work and study has gone into the preparation of these new proposed estimates.

Mr. Winch: Mr. Chairman, because of what you just said and the most marvellous information we got from Mr. Cloutier, and I hope this is not irrelevant because I think it is important, but hypothetically—it is not hypothetical to me, I like the presentation, the idea—if this Committee were to support and recommend this, it will also have to consider costs. Because it must be considered by the Committee, I would like to ask, Mr. Chairman, if it would be possible for Mr. Cloutier in the next few days, working on the supposition that the Committee approves this new presentation, to give us an idea of the approximate cost of the new presentation as prepared...

The Chairman: Mr. Winch, Mr. Flemming asked that question not too long ago.

Mr. Winch: I know, but I wonder if he could tell us the approximate cost, because Mr. Cloutier said that at the moment he did not have any idea of the cost.

The Chairman: Mr. Winch, they agreed to do it. It has already been looked after. I am sorry I asked that last question. We got off the track a little bit.

All right, gentlemen, we have a few minutes left.

Mr. Cloutier: I would like to go to paragraph (e):

> e) There is also added to the estimate of the cash requirement for each program the value of services received from the department itself or from other departments.
>
> In the case of the Indian Program illustrated on page 12 of the sample new form, the value of services provided by other departments includes: accommodation provided by Public Works; (this includes only the cost of office accommodation for which the Department of Public Works is responsible. For specialized accommodation such as laboratories, warehouses, schools, hospitals, etc., the cost is shown against the entry "Accommodation provided by this Department");

In this respect I would draw your attention to what I think might be an error in the current Blue Book. The last entry refers to "Services provided by this Department". I think that entry might more appropriately have been labelled "Accommodation provided by this Department", as is shown on page 20 for the northern program and on page 29 for the conservation program.

The Chairman: Mr. Cloutier, in our present Blue Book we have the approximate values of major services at the head of each Department. In what way does that differ in the new setup?

• 1055

Mr. Cloutier: If you will look at page 196 of the current form for the Department of Indian Affairs you will see a list of the major services. This list applies to the total department, with no breakdown between each program. Again we felt that this was interesting but not very informative, not as informative as it might be if we are considering the task of estimates on a program basis. So, in the new form we are proposing to show these costs against each applicable program.

The Chairman: Mr. Winch.

Mr. Winch: May I ask one question on a point of clarification. I certainly like the idea of showing by department the cost of rentals or accommodation, although it comes through the Department of Public Works. Does the entire cost show in the Department of Public Works estimates, that is, the allocated cost for each department?

Mr. Cloutier: In the case of the Department of Public Works, I do not think this data is a reflection of the actual estimates of the Department of Public Works; it is the value of the accommodation. If the Department of Public Works built a building 20 years ago, the cost of that building is gone. It was voted and passed 20 years ago. However,

that building is still in use and there is a value attached to it. That is what this figure is.

Mr. Winch: Let us take rentals, of which we have a number of millions in Ottawa. I should know this, but I am sorry to say I do not have it. Does the rental show as a straight vote for all departments in the Department of Public Works as rentals? This is for information.

Mr. Cloutier: In the Department of Public Works there is an item for rental of office buildings. However, the figures that we are talking about now include both the rental costs and the accommodation value of the office space which is provided by government buildings.

Mr. Winch: Mr. Chairman, may I direct a question to Mr. Henderson.

In your auditing procedure do you check on the correct rental for a department, even though it is paid by the Department of Public Works? I do not know if I am getting my question across.

The Chairman: I think Mr. Henderson understands.

Mr. Winch: In order to have a true auditing picture as to costing—and this is related to the fact that it goes through the Department of Public Works—do you check on the amount which a department shows as its true cost of rental?

Mr. Henderson: No. We cannot do that under the present system, Mr. Winch, because a great many of the rentals come to rest in the Department of Public Works and that is where they stay, even though it may be an eintrely different department. You may remember that it was because of this situation that in 1960-61 this Committee made the recommendation that the approximate value of these major services be shown. I think I recommended this in my report and you supported it. That is why a very genuine effort was made at that time to at least show them on an approximate basis, because one of the criticisms levelled at government has been that they never have true costs, and in many areas we do not have true costs in the government here at all. There are a lot of factors we do not take into account. This was the best step that could be taken at that time, and if I understand the plans of Treasury Board correctly they hope to eventually translate these costs to where they belong in the actual departments. However, it is a rather tricky matter, as Mr. Cloutier is explaining, to determine what the proper rental should be for this building in which we are now working, for example, in order to determine the cost of. . .

Mr. Winch: My point there is as an auditor. As an auditor. . .

Mr. Henderson: We can only check the payments. . .

Mr. Winch: As far as possible you want to have the true costing of the operation of a department, so this is an advance. . .

Mr. Henderson: Oh, very much so.

Mr. Winch: . . . and whether it is done directly or through Public Works, it at least gives them an indication.

Mr. Henderson: If you do not work toward and achieve true costs, then what are these Estimates worth to you, when you come to approve them?

[*Interpretation*]

Mr. Boulanger: Mr. Chairman, the principle of bookkeeping will certainly continue as before, as Mr. Winch was saying.

[*English*]

• 1100

I had a hard time following what you are getting at.

Mr. Winch: I am sorry, but my microphone is as close to me as yours is to you. My point was that the Auditor would like to have presented to Parliament as true a picture as possible of the costs of a department, and, therefore, although the majority of rents are paid through Public Works, my point is that this is a good advance because it shows for a department the approximate cost of rentals against the department although it may be paid by Public Works. It gives a truer picture of the cost of a department.

The Chairman: Gentlemen, we will now adjourn, and I think the good point is that this is the adoption of another suggestion made by the Public Accounts Committee in bringing this information into better perspective in the proposed Estimates.

OFFICIAL REPORT OF MINUTES OF PROCEEDINGS AND EVIDENCE

This edition contains the English deliberations and/or a translation into English of the French.

Copies and complete sets are available to the public by subscription to the Queen's Printer. Cost varies according to Committees.

Translations under the direction of the Bureau for Translations, Secretary of State.

ALISTAIR FRASER,

The Clerk of the House.

HOUSE OF COMMONS

First Session—Twenty-eighth Parliament

1968

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: Mr. A. D. HALES

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 7

THURSDAY, DECEMBER 5, 1968

Revised form of Estimates

WITNESSES:

Mr. Sylvain Cloutier, Assistant Secretary of Treasury Board;
Mr. A. M. Henderson, Auditor General of Canada.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1968

29485—1

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. A. D. Hales

Vice-Chairman[1]*:* Mr. T. Lefebvre

and Messrs.

[2] Allmand,	Cyr,	Nowlan,
Bigg,	Flemming,	Rock,
Boulanger,	Forget,	Rodrigue,
[3] Buchanan,	[4] Gibson,	Rondeau,
Burton,	Major,	Thomas (*Maisonneuve*),
Crouse,	Noble,	Winch—20.

(Quorum 11)

Edouard Thomas,
Clerk of the Committee.

[1] Mr. Lefebvre replaced Mr. Laflamme on December 3, 1968.
[2] Mr. Allmand replaced Mr. Cafik on December 4, 1968.
[3] Mr. Buchanan replaced Mr. Ethier on December 4, 1968.
[4] Mr. Gibson replaced Mr. Guilbault on December 4, 1968.

ORDERS OF REFERENCE

TUESDAY, December 3, 1968.

Ordered,—That the name of Mr. Lefebvre be substituted for that of Mr. Laflamme on the Standing Commitee on Public Accounts.

WEDNESDAY, December 4, 1968.

Ordered,—That the names of Messrs. Allmand, Buchanan and Gibson be substituted for those of Messrs. Cafik, Ethier and Guilbault on the Standing Committee on Public Accounts.

ATTEST:

ALISTAIR FRASER
The Clerk of the House of Commons

29485—1½

MINUTES OF PROCEEDINGS

THURSDAY, December 5, 1968.
(8)

The Standing Committee on Public Accounts met this day at 9.45 a.m., the Chairman, Mr. A. D. Hales, presiding.

Members present: Messrs. Allmand, Bigg, Boulanger, Buchanan, Burton, Crouse, Cyr, Flemming, Forget, Gibson, Hales, Lefebvre, Nowlan, Rodrigue, Thomas (*Maisonneuve*), Winch (16).

In attendance: Mr. Sylvain Cloutier, Assistant Secretary of the Treasury Board; Mr. A. M. Henderson, Auditor General of Canada; Mr. J. G. Glashan, Director of Estimates and Supply Procedures Division, Treasury Board; Mr. G. R. Long, Assistant Auditor General.

Moved by Mr. Thomas (*Maisonneuve*), and

Agreed,—That Mr. Lefebvre be the Vice-Chairman of this Committee.

Moved by Mr. Lefebvre, and

Agreed,—That Mr. Allmand be appointed to the Sub-committee studying Governor General's Special Warrants.

The Committee continued the review of APPENDIX A "Remarks prepared for the President of the Treasury Board relating to a revised form of Estimates" and questioned the witnesses.

The Committee agreed to the Chairman's proposal that the Sub-Committee on Agenda and Procedure prepare the draft report to the House of Commons relating to the revised form of Estimates.

At 11.06 a.m., the Committee adjourned to the call of the Chair.

Edouard Thomas,
Clerk of the Committee.

EVIDENCE

(Recorded by Electronic Apparatus)

Thursday, December 5, 1968

• 0944

The Chairman: Gentlemen, we have a quorum.

[*Interpretation*]

Mr. Thomas (Maisonneuve): Mr. Chairman, I would like to put forward the name of Mr. Tom Lefebvre as vice-chairman, as we have not yet appointed one. Is there a seconder?

Mr. Boulanger: I shall be glad to second the motion in view of our colleague's excellent record and conscientiousness.

[*English*]

The Chairman: Gentlemen, moved by Mr. Thomas, seconded by Mr. Boulanger that Mr. Lefebvre be Vice-Chairman of the Public Accounts Committee. All in favour? I may explain first, the reason for this motion is that Mr. Lefebvre had been transferred to another committee inadvertently, and without those transferring him realizing that, if they did so, he would cease to be Vice-Chairman. So when he is transferred back to our Committee, we have to have a motion to reinstate him. This is the motion before the Committee at the moment.

All in favour?

• 0945

Motion agreed to.

The Chairman: Carried. Tom Lefebvre, you are back as Vice-Chairman.

Mr. Lefebvre: I will also ask for explanations from the Privy Council President's office on this occurrence.

The Chairman: Thank you. I would also ask at this time if someone would nominate Mr. Allmand back on the Subcommittee studying the Governor General's warrants. He also was transferred from the Committee, but has been transferred back. He is not here at the moment, but this has been cleared with him.

Mr. Winch: Has that also been checked with the Privy Council?

Mr. Lefebvre: I will make the motion.

The Chairman: All in favour?

Motion agreed to.

The Chairman: Gentlemen, we will proceed on page 17 in the English text, page 18 of the French text, with our study of the proposed new format for the Estimates. Mr. Cloutier will be our witness and will proceed at this time.

Mr. S. Cloutier (Assistant Secretary, Programs Treasury Board): Thank you, Mr. Chairman. Going back again to the document before you:

> For each program, we propose to provide a table showing the total cost of the program by standard object of expenditure, again broken down into the three main elements of Administration, Capital and Grants.

This is shown in the illustration booklet that you have, on page 14 for instance, for the Indian Program.

If I may go to the next proposal:

> Details of the manpower allocation among the major occupational categories (and its utilization) are shown for each program as the committee can see at page 14 again of the sample new form of Estimates. The total man-year utilization in the first column of the table is of course identical to the total shown against the activity breakdown of the program, which was discussed at a previous meeting. One important feature of this table is the allowable strength or allowable number of continuing employees at year-end which is shown for both the current and new years. In addition, a three-year comparison of staff members is offered instead of the two-year comparison in the current form of the Blue Book.

On this point, Mr. Chairman, I might point to an error in the French text where the comparison is stated as being three years in the

present form of Estimates, where it is actually only two years.

Manpower Allocation and Utilization Summary appearing at the end of the current Blue Book would of course be retained.

0950

The Chairman: Are there any questions on that section? This is very important. I think all members of Parliament like to know the strength of the staff in all departments, and this gives you the information you are looking for. For instance, on page 14 we would take the second line, Scientific and Professional Sep. 30, 1966 there was 1,629. The following year that had decreased by one. Then you can compare 1968, and it had jumped to 1,750. So there is information for three years as to the number of people on staff. This is a little more than we have had in the past; is that right, Mr. Cloutier?

Mr. Cloutier: Yes, sir; in the past you have had only a two-year comparison.

The Chairman: Mr. Nowlan?

Mr. Nowlan: Mr. Chairman, first on page 16 of the Remarks, the reference is to page 12 in the English text. You are taking a different example, but it applies equally for page 12 as for page 14, does it?

Mr. Cloutier: No, I was reading, sir, from the second paragraph of page 17 where the details of the...

Mr. Nowlan: You are reading from page 17?

The Chairman: Part g) on page 17.

Mr. Nowlan: That clarifies that.

Mr. Cloutier: In the booklet you have four of these tables relating to the four programs of the Department of Indian Affairs. The first one really is on page 8, the second one is on page 14, the third on page 23 and the fourth on page 32. I was just using page 14 by way of illustration.

Mr. Nowlan: Yes, I was following page 14 but I was on the wrong page of the Remarks, which was a minor problem. What I would like to ask, in this explanation—and I missed one of the sessions and was here for part of another one so this may have been covered—but what I thought this new form would do, would be to show if there were other departments involved in, say, Indians Programs, even though they may not have been under the Department of Indian Affairs, but were either for Health or Welfare or Education that at some stage you could in effect assess the total program, even though it may have been covered under different departments, am I right?

Mr. Cloutier: You are entirely right. It is our intention to provide an over-all summary in the new form of the Estimates which would attempt to relate like items with like items; in other words, which would attempt to bring out under the heading of Indian Affairs work, the expenditures by the Department of Indian Affairs, the expenditures by the Department of National Health and Welfare in Indian health, as well as the expenditures of the Department of the Secretary of State in Indian integration and so on. Unfortunately, I am not in a position now to give you a sample of this summary because we are still in the midst of the preparation of this new approach to Estimate presentations.

Mr. Nowlan: Thank you. I asked the question because—and I appreciate that thing is just a draft—I thought, from the example you just gave, that this would only refer directly to the Department itself; it would not refer to the executive or the scientific and professional personnel in other departments which had programs related to Indian Affairs, to take this page 14.

Mr. Cloutier: No, this booklet would contain, in effect, all of the appropriations which would be found under the name of the Minister of Indian Affairs and Northern Development. The summary that I am speaking about would provide you with a road map, so to speak, with which to find your way through the book to where you could expect to find the details of the other activities relating to Indians performed in other departments.

• 0955

Mr. Nowlan: I appreciate that, but on this details of manpower allocation, will that summary also show the total man-years, which, for instance, for 1968-69 is four, on page 14, and by taking the total of other related departments, will it show that the executive might in actual fact be 12, or six, or eight?

Mr. Cloutier: This is rather more difficult because this manpower allocation table relates to a total program whereas those por-

tions of the work of another department having to do with Indians may not be a total program. It may be just an activity in another program. So that, this level of detail could not be produced in the Blue Book of Estimates. It could be made available by the Department concerned when it appears before an estimates committee.

Mr. Nowlan: So the new Blue Book, in fact then, will have a more detailed breakdown and a road map provided by this summary, but it will not have set out in any table the fact that there are 500 men in Indian Affairs plus 200 in Health and Welfare and 100 under the Secretary of State.

Mr. Cloutier: Not in one table.

Mr. Nowlan: All right.

The Chairman: Mr. Thomas and then Mr. Lefebvre. Mr. Thomas?

[*Interpretation*]

Mr. Thomas (Maisonneuve): Mr. Chairman, Mr. Cloutier, just now you made a correction on the lower part of page 18 of the French text. I do not want to change anything but you say that: "This is a comparison covering three years..." shall stand?

Mr. Cloutier: If you wish, I will read the sentence of the French text as it should have appeared. I am reading in the lower part of page 18 and the beginning of page 19:

> In addition, a three-year comparison of staff numbers is offered instead rather than a two-year comparison only in the present form.

Mr. Thomas (Maisonneuve): Thank you, Mr. Chairman.

[*English*]

The Chairman: All right, Mr. Thomas. Mr. Lefebvre?

[*Interpretation*]

Mr. Lefebvre: I want to ask Mr. Cloutier, on page 14:

> "administration and foreign services..."

Do we have Indian Affairs officials working outside Canada?

Mr. Cloutier: I do not think so, Mr. Lefebvre. The title of the category "administration and foreign services" contains approximately, if I remember well, 18 or 19 occupational groups: some of these are lawyers, accountants, economists. One group, in particular, consists of External Affairs officers who are in this category.

So this is merely for the sake of consistency that we have used these occupational titles. But, in answer to your question, I do not think that the Department of Indian Affairs and Northern Development have any staff in that group.

Mr. Lefebvre: This is going to create problems, because you read on page 14:

> Administration and foreign services

That gives me the impression that these officials are working in other countries; could we use a different term for this?

Mr. Cloutier: I think that following a discussion at a previous meeting, the members of the Committee gave me to understand that they would like to have an introduction to the budget, an explanation of the terms used and then this term "administrative and foreign services" would then be defined.

Mr. Lefebvre: In each pamphlet?

Mr. Cloutier: No, not in each pamphlet, but in the estimates book.

Mr. Lefebvre: Thank you.

• 1000

[*English*]

The Chairman: All right, we will proceed.

Mr. Cloutier: Members will also note at page 15 of the sample new form of Estimates that construction and acquisition projects with a total estimated cost—regardless of the year of expenditure—in excess of $250,000, are shown in a separate table for each program.

This would provide members with considerably more detail than is currently available in the present form of the Blue Book on the construction and acquisition projects of the Department of Indian Affairs, for instance, since we are talking from this sample.

The Chairman: Mr. Cloutier, would you like to take one example and follow it through? This is rather complicated to me.

Mr. Cloutier: Let us take the first item under "Development", "Draining and Improving Agricultural land—Walpole Island Reserve". The figures you see here indicate that the total estimated cost of that particular project is $300,000. The expenditure to 1967-68 on that project has been $180,000. On that same project, in the year 1968-69, which is the year of the estimates illustrated in this booklet, it is proposed to spend $10,000 on

that same project, and it is also estimated that that same project will not be completed until a further $110,000 has been spent.

The Chairman: So that would make the total cost $410,000.

Mr. Cloutier: No, it would be $300,000.

The Chairman: That $110,000 is included in the $300,000.

Mr. Cloutier: That is right. So the total cost is the total cost past, present and future.

The Chairman: Mr. Winch.

Mr. Winch: This interests me because of the question I asked yesterday in the Committee on External Affaires and Defence, in which I noted that last year the federal government paid $500,000 as a grant towards the cost or the rental of a civil aviation organization in Montreal, and it is $500,000 again this year. Do I gather, using that as an illustration where there was $500,000 last year and $500,000 this year on this building in Montreal, that we will then have a picture at to what is the total cost and how long it will go on, or have I misunderstood you?

Mr. Cloutier: I am not familiar with the particular case that you are referring to, Mr. Winch. I think you said "grant". And if...

Mr. Winch: I said grant towards the accomodation of civil—that is a new building, I understand, in Montreal.

Mr. Cloutier: This is civil aviation? I am not aware...

Mr. Winch: It is the principle that I am interested in. It was $500,000 last year, and $500,000 this year.

The Chairman: Mr. Winch, if you will keep your question relative to this particular project that we have just had explained, I think this will apply to what you have in mind.

Mr. Winch: It was the principle that I was interested in.

The Chairman: Mr. Cloutier, we will keep the questions on this particular item here. Are there any questions on that particular item? Underneath it says, "New Projects", $300,000. That is the total, I take it.

Mr. Cloutier: That is the total that will be spent, or what is proposed to be spent, in 1968-69, and what these particular new projects would cost in the future years.

The Chairman: Mr. Nowlan.

Mr. Nowlan: Where do the supplementary estimates show up when the estimate of $300,000 for this project is spread out over a period of time. For many reasons in actual fact the $110,000 will not be enough to complete the project, as we have seen sometimes in the past? Will it show up in next year's draft that it is not $110,000, but $140,000?

• 1005

Mr. Cloutier: You are referring to the "Draining and Improving"?

Mr. Nowlan: Your example.

Mr. Cloutier: Yes, all right. If this project has proceeded according to schedule, in the following year the item would read: total estimated cost, $300,000; expenditures to 1968-69, $190,000; then the year for which the estimates are presented would show the amount to be spent in that year, and the balance would be shown against future years. At that point, if there has been an escalation in the cost, it would be apparent by comparison of the two books.

Mr. Nowlan: Yes, by comparison of the two books, but you will not actually see it on this page. There will not be your total estimated cost when this thing first appeared in the Blue Book. This year it is $300,000. That is the first time it appears.

Mr. Cloutier: That is right.

Mr. Nowlan: Five years hence it might be $500,000, but by looking at that book five years hence, would it not be a nice bird's eye view to see in a bracket that when this thing first appeared it was $300,000? This is my point, rather than going back five years and looking through the Blue Books. You get so much paper, it is hard to keep even Blue Books after several years.

The Chairman: In other words, Mr. Nowlan, your thought is that it would be advantageous for members to know if there had been an escalation in the estimated cost, and put that in brackets beside it.

Mr. Cloutier: In relation to the total costs.

Mr. Nowlan: Yes. Without, I would think, changing the form too much. But five years hence when some of these things come up, a member in the Committee might not ask any

questions if this looks all right on the surface. But if he sees it has gone from $300,000 to $600,000, there might be some legitimate questions. It would tend to make someone responsible for the original estimate. That is all I am wondering.

The Chairman: Mr. Nowlan, I think those of us who have been on Public Accounts for a while will realize that we see quite a few brackets appearing and we might run out of space to print some of it, too.

Mr. Nowlan: The only relevant bracket is the original bracket, the original estimate, and it must be some responsible estimate to finally appear in the Blue Book. I do not mean a bracket each year.

The Chairman: I think it is an excellent idea.

Mr. Nowlan: I just throw it out.

The Chairman: This could be accomplished by an extra column there, or by brackets as you suggest. But I think it is an excellent idea because the members would know at first glance whether that project had stayed within its estimated cost or not.

Mr. Nowlan: This is right.

An hon. Member: That is an excellent proposal.

Mr. Buchanan: Mr. Chairman, that just means the column ahead of "Total Estimated Cost", showing original estimates.

The Chairman: That is right.

Mr. Nowlan: It may be the same thing. It may not be, too.

The Chairman: They might even have it showing less than the estimated cost?

Mr. Winch: No, please, I cannot stand a heart attack.

The Chairman: All right, are there any other questions? If not, we will proceed.

Mr. Cloutier: Well, the last section of the proposal is one that we have discussed before, and I am reading again from the document at page 18.

> Having in mind the principles described earlier in relation to grants and contributions, where the distinction to be made between outright subsidies and payments made pursuant to agreements was outlined, we propose that for each program there be a listing of each grant and of each contribution that is to be made under the program. An example of this is shown at page 16 of the illustration booklet.

• 1010

The Chairman: Would you take another case here and just follow it through?

Mr. Cloutier: Well, there again, you have the first item. You notice that this table is divided into two separate sections; the "Grants" which are outright assistance or subsidies, and the "Contributions" which, along the remarks that we made earlier, involve an auditing of the payments made.

Take the first one for instance. "Grant to the Trustees of Skookum Jim Memorial Hall in Whitehorse". I confess right away that I have no idea what this hall is. The figures here show the proposed estimates for the year of the Estimate Book, and the forecast expenditure in the immediately preceding year, and so on.

The Chairman: And that is an outright grant, and will not have to be repaid in any way.

Mr. Cloutier: That is right, sir.

Mr. Winch: Mr. Chairman, could I just ask one question?

The Chairman: Mr. Winch.

Mr. Winch: There is one question here on the section dealing with grants. It gives us the information as to what you call outright grants. As it is, it does not give the information as to whether or not this grant is coming out of the band or the tribal funds. Basically we have never been shown the amount of money which is held by the government in trust, either for the tribes, the bands, or the reserves. Would this give the additional information as to whether it is a grant from their own funds in trust or a government grant?

Mr. Cloutier: The details shown in these estimates pertain only to the items on which the appropriation acts would be based, and, of course, the band funds do not come under this definition.

Mr. Winch: It has to be a straight government grant, otherwise it would not be here.

Mr. Cloutier: That is right

Mr. Winch: Yes, I should have thought of that.

Mr. Cloutier: Now, under the "Contributions", you have various items here where the purpose of the contribution is shown, and again the only change really from the current presentation of these items is that they are clearly identified as contributions.

The Chairman: Mr. Crouse.

Mr. Crouse: Mr. Chairman, under the heading of "Grants", I am just a little bit curious. The name intrigues me—"Skookum Jim Memorial Hall"—as it does all of us, but I am a little curious as to who determines the amount of a grant? Why $1,200,000, for example, for that hall? Why was this not $1 million, or why was it not $2 million? Who reaches the decision on how much money is granted?

Mr. Cloutier: On a point of correction, I have just been reminded that this is $1,200.

Mr. Crouse: I am sorry. I was looking at thousands of dollars on the preceding page and I just presumed that it continued on. But the principle is what I am inquiring about. Who reaches that determination?

Mr. Cloutier: Well, I cannot speak specifically for this grant, but the normal approach to the approval of a grant is that the Department would make a submission to the Treasury Board outlining the reasons why it thinks it would be a good thing to make a grant for that organization.

There are various methods of justifying a grant. A grant of $1,200, I would imagine, would not require a very large amount of substantiation, but usually grants to organizations are given to assist the organization to meet its objectives, which objectives are in line with the programs of the Department.

Normally, the request to the Treasury Board would be accompanied with details of the operating budget of that organization, showing how they spend their money, to what end, showing how they finance themselves, and in effect requesting that the balance between what they have and what they need, be provided by a grant.

This submission is examined by my staff in consultation with departmental staff and is presented formally to the Treasury Board for a decision of whether the Ministers of the Treasury Board are of the opinion that this is a worthy cause, so to speak. Following approval of the Treasury Board, this item would be put in the Estimates for parliamentary approval.

• 1015

Mr. Crouse: Thank you.

The Chairman: In this connection, Mr. Cloutier, the heading reads, Forecast Expenditure 1967-68, $1,200. Well, would that be the year that grant was accepted?

Mr. Cloutier: Not necessarily, sir. Some of these grants may have been going on for many years. If the grant is a new one in the year to which the estimates relate, then you would have a blank space under Forecast of Expenditure and this would indicate that this is a new grant.

The Chairman: I see, and then they propose to use that grant in 1968-69.

Mr. Cloutier: That is right. It would be paid out in 1968-69.

The Chairman: If you take the item below it the grant is $36,200 and they propose to spend $52,700...

Mr. Cloutier: No, not quite, sir. These two columns relate to different years. These two figures indicate that in the year 1967-68 the Forecast Expenditure is $36,200, but in the year 1968-69 to which the Estimates relate the expenditure is estimated at $52,700.

The Chairman: Well, if it is a grant where does this money come from? That is quite a jump.

Mr. Cloutier: This is money that Parliament is asked to appropriate for this purpose.

The Chairman: All right. Are there any other questions?

Mr. Nowlan: I want to ask about the item concerning Indian agriculture. I was trying to see where you combined the different departments under one heading because this is what I thought was one of the main purposes of this new draft. Would that grant related to fairs to promote Indian agriculture be an actual dollar figure in the Department of Agriculture?

Mr. Cloutier: No, sir.

Mr. Nowlan: It is actually under Indian Affairs?

Mr. Cloutier: That is right.

The Chairman: Mr. Winch, you may proceed.

Mr. Winch: Mr. Chairman, I am not quite certain how to ask this question—I hope it is in order—but it is something that always has intrigued me. Now, this new set-up is basically estimates, but there is a thought in mind of something additional to give information. Sometimes when a member wants information he has to have questions put on the Order Paper and it may take a long time.

Has any thought be given in your desire to supply as much condensed information as possible to including—now, I am going to refer direct here—the millions that are held in trust on behalf of Indians so that we know the status of that? Does that come into it in any way or could it be applied to the revised plan you have, because the House of Commons just does not know.

For example, yesterday on economic aid under External Affairs, under the establishment in the 1965 statute there was set up $50 million. Last year we added $50 million and this year we have been asked to add $67 million and that is all set.

Now, do you see what I have in mind? Is any thought being given to supplying information when we are dealing with the Estimates so that we know the status of the funds which, in this instance, apply to the Department of Indian Affairs and Northern Development?

I do not know whether that is explainable or whether it is a fair question, but I would be interested in knowing whether any thought has been given to it.

• 1020

Mr. Cloutier: The funds of the Department of Indian Affairs and Northern Development are voted annually to the Department. This Estimates presentation would propose to give a considerable amount of detail, and certainly more detail than appears now in the Blue Book, with respect to the expenditures that are proposed for the new year. It also proposes to indicate the forecast expenditure for the immediately preceding year as well as the actual expenditure for the year before that.

If you turn to page 12, for instance, where you have the total programs displayed for you, you will see that in any one of these larger columns such as administration, operation and maintenance, the first column is proposed estimates for 1968-69; the second column is forecast expenditure for 1967-68 and it is forecast, because at the time that we are preparing this book the year is not yet completed. The third column is a change between these two and the last or fourth column is the actual expenditure in 1966-67, so that you get a view of the movements of the funds in three years.

Mr. Winch: In view of your explanation I think I can put the question in a more direct or comprehensive form. Has any thought been given to showing in the Estimates not only the actual estimated expenditure by the Department which requires a vote of Parliament, but also to showing the estimated expenditure of Indian Affairs and Northern Development from their trust funds as well?

Mr. Cloutier: These trust funds, in my understanding, do not belong to the Department of Indian Affairs and Northern Development. They belong to the bands.

Mr. Winch: Yes, but they can only be expended by the Department of Indian Affairs and Northern Development. Do you see my point now? They can only be expended by the Department of Indian Affairs and Northern Development although they are held in trust. Therefore, we have no picture here of that amount of money being expended by the department.

Mr. Cloutier: To answer your question, since these funds do not relate to the appropriations that are voted to the Department and since the Estimates Blue Book is essentially a document that, if you wish, supports the request of Parliament for these appropriations, the document would properly be limited to this information.

Mr. Winch: Then perhaps, Mr. Chairman, it might be well for the Committee, to keep this in mind when we discuss matters concerning publication along the line that I have suggested for all trust funds.

The Chairman: All right, Mr. Winch, I think it is a matter we could discuss later. We will keep that in mind. Mr. Boulanger?

Mr. Boulanger: I have nothing at this time, Mr. Chairman.

The Chairman: All right. We will then proceed.

Mr. Cloutier: Mr. Chairman, I think we have reached the end of our detailed proposals.

I would be very happy to answer any other questions that members might have.

The Chairman: Gentlemen, the Committee is free to ask general questions of Mr. Cloutier. I am sure you have many questions on this new proposed format for Estimates.

Mr. Winch: Mr. Chairman, I have a question on procedure. First of all I want to compliment Mr. Cloutier on what I think is the most wonderful way his presentation has been made and the complete way he has answered our questions.

On procedure, I was just wondering, having had this, the four questions that were asked directly on it, whether we might hear from the Auditor General on his review and analysis of this proposal so that we can tie the two together.

The Chairman: Mr. Winch, we propose to do that, but we want to finish this section in questions of Mr. Cloutier and then we will proceed with Mr. Henderson's observations.

I would like to ask Mr. Cloutier whether to produce this new book involves an enlargement of his staff or the staff of the Treasury Board, or is the staff going to remain the same?

Mr. Cloutier: No, Mr. Chairman, we do not anticipate increasing our staff as a result of the introduction of this new form of Estimates. As I mentioned at an earlier meeting we are having a considerable number of problems right now, because we are putting through, so to speak, two sets of Estimates, the old and the new. The preparation of these documents is of sufficient complexity that a newcomer to the business would really be of no help. You know, you learn this by doing it.

This year we just doubled up and hope to be able to put these booklets to the parliamentary committees rather soon after the main official Blue Book is tabled, but next year we are hoping not to produce the usual form of the Blue Book and only go on this one. Therefore, we are confident that our present manpower allocations will be sufficient to carry it out.

• 1025

Mr. Crouse: I have a supplementary question. Is it a fair assumption, then, to state that this change will not increase the cost of putting out our Estimates books next year. Is that correct?

Mr. Cloutier: This question, sir, was raised at the last meeting and I undertook to obtain for the Committee some cost estimates of the printing of the new form of estimates. Unfortunately I have not got this information with me this morning. I expect to have it by the time the next Committee meeting is held.

The Chairman: I think possibly, Mr. Crouse, at the next meeting if Mr. Cloutier has this information from the Queen's Printer about the cost of printing, rather than sending it to us in letter form perhaps he would bring a report and be prepared to answer questions on it. Do you think that would be possible?

Mr. Cloutier: Very good, sir. I would be pleased to do so.

The Chairman: Mr. Nowlan?

Mr. Nowlan: I would like to ask two questions basically. I apologize for not being here last time, especially when Mr. Reisman finished his evidence, because I was very interested in the speech he made in Toronto before the Canadian Tax Foundation. Many questions led from that, but one in particular which I think Mr. Cloutier would be more than competent to answer and perhaps has answered earlier is whether he can show me in the draft form where the different departmental functions under different departments have been drawn together, even where those activities—to use Mr. Reisman's words—are carried out by two or more departments?

Mr. Cloutier: In the sample that you have before you there is no attempt to do so.

Mr. Nowlan: The only place is this summary that you mentioned earlier?

Mr. Cloutier: That is right, sir. This booklet, in effect, relates to the Department of Indian Affairs and Northern Development and consists of details relating to the Department and the agencies responsible to the Minister of Indian Affairs and Northern Development, so that it stands on its own two feet in that regard.

The complete Blue Book will be made up of 26 or 28 such booklets, accompanied by the usual summaries that you now find in the Blue Book and an additional summary which would attempt to bring together the expenditures of other departments.

Mr. Nowlan: Fine. My next question refers to Mr. Drury's earlier remarks that:

> This new system was developed by an interdepartmental committee...

Is that correct?

Mr. Cloutier: No; I think at that point Mr. Drury was referring specifically to the development of a new system of coding expenditures, a new system of standard objects. I cannot talk about the development of the proposal before you from first-hand knowledge because it really started quite a while before I joined the Treasury Board, but it was developed, I understand, initially by the staff of the Treasury Board, was discussed by the staff of the Treasury Board with the assistance of a consultant who had done some work for the Glassco Commission so that we could bring to this developmental work the kind of thinking that had gone into the recommendation of the Glassco Commission. It was discussed with departments, and, indeed, we have been waiting for quite a while to have the opportunity of making this presentation to the Public Accounts Committee.

• 1030

Mr. Nowlan: Where did those discussions take place? I will come to this in another question, but when did this change in the form of Estimates develop?

Mr. Cloutier: It started in 1964 and 1965.

Mr. Nowlan: And is it just that all the discussions and processing and interdepartmental discussions have taken this time to get to this Committee?

Mr. Cloutier: Actually, we have been ready for about two years; we come every two years before the Public Accounts Committee. I should like to add that in the last year and a half we have considerably refined what we had at that point.

Mr. Nowlan: That leads me to my last question and it does not intend to be a provocative or partisan question, but I would like Mr. Cloutier to answer it if he could, and I think he has answered it by the fact that this draft form of Estimates is presented to this Committee, it is suggested, on a completely functional basis with no political overtones in it, in this way, that it is to be part of a massive reform of the rules of Parliament. This is presented as a completely functional approach to Estimates and has no relation at all to any other changes that might be involved in Parliamentary reform.

Mr. Cloutier: Absolutely, sir. I referred earlier to the fact that the developmental work on this started in 1964.

Mr. Nowlan: You did, and you answered the question about that.

I ask that, because I think it is very interesting and constructive. If it was a functional decision and started in 1964, no one can say when the new rules are proposed that this is a political change to help compensate for what members might lose in other reforms.

The Chairman: I think that is clear.

Mr. Cloutier: Mr. Chairman, if I may make one comment on this, this new form had its origin really in the recommendations of Glassco and, as I recall, the first volume of Glassco was published in October 1962.

The Chairman: Mr. Cloutier, to put this on a practical basis, suppose we, as members, are going into the House this afternoon to discuss the Estimates of the Department of Public Works, and assuming that the new format is complete and in operation, what would I take with me to the House to discuss these Estimates? Under the present conditions, I would take this one.

Mr. Cloutier: That is right.

The Chairman: So I set that aside and I take with me now...

Mr. Cloutier: One sure thing is that the new book would be published as a single book. The new book would be published as a single book containing the details for all departments. You recall that Mr. Drury, when he was before you, invited the observations of this Committee as to the desirability of having separate Blue Books available. If the decision of the government is to produce the one volume, which would contain everything, and these separate booklets which would relate only to the affairs of given departments, then a member entering the House or a committee for a discussion of Estimates would have the option of either bringing in the total book or just the booklet relating to that department.

Mr. Allmand: Has any consideration been given to having a booklet like this for every department, but put out in such a way that they can be put in a loose-leaf folder? We

could have them all together in a folder. We have other examples of this now.

Mr. Cloutier: I think that Mr. Drury invited the observations of this Committee on that point also, sir.

• 1035

The Chairman: If we had these all bound together in one book, and bearing in mind that they would be in bilingual form, then what size of book are we going to have?

Mr. Cloutier: This is again the question of whether to publish the book of Estimates in the two languages in separate books, as is done currently, or to produce it the same as bills with one page in English and one page in French. That is another topic on which Mr. Drury invited the observations of the Committee. In terms of size I would, with your permission, Mr. Chairman, deal with this when I talk about the cost. This is one problem that is currently under investigation.

We have thought over how we could make this book bilingual, and while this examination is not yet complete, the thought is that these tables that you see on pages 12 and 13, for instance, of the sample, on these pages that run across the two pages, French and English titles and details could be provided with the English on the left side and the French on the right side for the rest of the material. It is very difficult to anticipate what kind of book it would make, because of the different lengths of paragraphs in the two languages, of the need, for instance, to reproduce in the two languages the tables that appear only on one side of the page. There is also a very considerable problem relating to the physical preparation of the book, and the printing. Right now we put the English book together at an earlier date, and the translators start working on it at the proof stage. Then when the English book is printed by the Printing Bureau, they start on the French Book. The job of proofreading is done totally for the English book and then totally for the French book. We have not yet sorted out the problems of working on the two sets at the one time and still leaving the deadline for tabling. So, I cannot give you a final answer on this as to whether or not it would be feasible.

The Chairman: I invite comments on this. Mr. Lefebvre and then Mr. Allmand.

Mr. Lefebvre: This has to do with what Mr. Allmand brought out. Would there not be quite a saving, Mr. Cloutier, if it was produced in loose-leaf form so that you would have a book for each department and, as well, without any extra cost a book of the complete government expenditures, rather than printing two types of books, one similar to what we have now and the new ones?

Mr. Cloutier: Have just one bound copy?

Mr. Lefebvre: Yes, have just the loose-leaf like these here, but bound together in one book.

Mr. Cloutier: In one loose-leaf book.

Mr. Lefebvre: Yes, and if you are studying one department, you can take either the whole book or just the one department. Rather than print one huge book plus the pamphlets.

Mr. Cloutier: I hope to have a cost estimate on this for you next week. I would like to point out just very empirically at this point that the cost of a loose-leaf binder is much higher than stitching and gluing on a paper cover.

Mr. Lefebvre: Yes, but there still would be only one printing?

Mr. Cloutier: Once the type is set up and once the machine is rolling, it is not that much more expensive to have a slightly larger run.

Mr. Lefebvre: We can wait until next week when you will have the figures and can give us all the different arrangements that could be made.

Mr. Cloutier: I will try to. We will have rough estimates.

The Chairman: Mr. Lefebvre, suppose we have one English book and one French book: is there any problem with the bilingualism?

• 1040

Mr. Lefebvre: Not any real problem, but it is so convenient with the new form of the bills having both English and French on one page that I think eventually it would be nice to have this in all government publications. This is the handiest form ever seen and I know there have been a lot of comments since the new bills have come out, that you do not have to check to see which copy you have. Sometimes if a member is speaking in English and he has the English bill in front of him, and he makes a certain point, the people who have translated these legal terms are

trained for it, and if you have the French copy in front of you you might not get the same interpretation.

The Chairman: I can understand that.

Mr. Lefebvre: If you can follow what he is saying with the English text and if he is speaking French as well, then there is very little chance of it being misinterpreted, because this bill has been translated by the government translators and it has been checked by the justice department, or whoever is in charge, and if you try to translate it on your own very often you can make a misinterpretation of a legal term or something of this nature.

Mr. Nowlan: I can appreciate that for bills and statutes and law, but just from what Mr. Cloutier mentioned about the technical problems of trying to sort out how to do it for figures and so on, I really wonder if this is not an area where, because of the bilingual character of the country, we are not creating problems, rather than having it the simplified way we had before, let alone a simplified form like this in English and in French, and a loose-leaf binder. I can appreciate anything about the statutes, but here you are using these things in Estimate debates; as long as the figures are valid and they are in English and French the same, the narrative can be discussed perhaps differently; some of the words might be a little different, but it is not the same as talking about law. I just wonder whether this is not an area where you are making more complications than we have to.

The Chairman: I am pleased to have these comments, because we are going to have to make up our minds and make a report on our studies of this, so it is good to have these comments now.

Mr. Allmand: If it becomes general practice to print pamphlets of every department like this so that we have all these in our offices either in loose-leaf form or in addition to the Blue Book, and we have them in both in French and English, it is not too difficult to bring, if we are studying the Department of National Health and Welfare Estimates, to the committee or to the House two pamphlets, one in French and one in English, so that we can follow them. These two big Blue Books, one in French and one in English, are rather burdensome. It is a good thing, whether we just put these out in a loose-leaf form, or whether we put out a bound Blue Book, to also put out individual pamphlets like this for every department so a member has them in his office. We know that we are studying the Estimates of a certain department on a given day, and we can just bring these pamphlets instead of the big Blue Book. These fit in a briefcase very easily.

I agree with Mr. Lefebvre, that sometimes, especially for members who are French speaking, they like to follow the language in both English and French. Of course, if they have two small pamphlets, it is easy; but it is not so easy lugging around two big Blue Books all the time.

I wanted to ask another general question which may have been asked before. If so, I will refer to the printed proceedings when we receive them. Is there any statute, law, regulation or standing order which deals with the presentation of estimates, or is it merely within the discretion of the government?

The Chairman: I do not think that was answered, Mr. Cloutier.

Mr. Cloutier: My understanding, sir, is that the Financial Administration Act provides authority for the Treasury Board to deal with the matter of estimates. I do not know whether this is as a result of a standing order or other regulation, but certainly, by tradition major changes have been introduced but only after this kind of a discussion has taken place with the Public Accounts Committee.

• 1045

Mr. Allmand: I see, but if we recommend the adoption of this system it will not be necessary to amend any regulations or standing orders?

Mr. Cloutier: No. My understanding is that this would not be required.

Mr. Winch: It was done on the recommendation of this Committee after consultation and without any reference to Parliament. I think the members spent about two months on this a few years ago.

The Chairman: We had a subcommittee that worked on it.

Mr. Winch: We had a special subcommittee on it.

The Chairman: That is right. Is there anything you want to add?

Mr. Cloutier: If I may, I would like to read from the Financial Administration Act and quote the words that are relevant in this connection. Section 5 of the Financial Administration Act reads:

> The Treasury Board shall act as a committee of the Queen's Privy Council for Canada on all matters relating to...

I will now go down to subsection (c), which reads:

> financial management, including estimates, expenditures.

and so on.

Mr. Allmand: That is all there is. It is a form of law.

Mr. Cloutier: That is right.

The Chairman: Now, gentlemen, we have been asking Mr. Cloutier questions. I will give him an opportunity to ask the Committee what he would like us to say in respect to some of the questions he has. Do you have any questions that you would like the Committee to study?

Mr. Cloutier: No, sir. I think the opportunity the Committee has given me to deal in detail with each of our proposal has served our purposes. I would merely refer again to the request by Mr. Drury for the observations of the Committee on the manner in which this book should be presented in terms of it being a bound book or a pamphlet and in terms of a bilingual presentation under one cover or two covers?

The Chairman: Mr. Crouse?

Mr. Crouse: Mr. Chairman, I am a little confused as to the advantage of having it in one bound book as well as in separate books, as we have in the example. If we decided to have the departmental estimates brought before us in this form why would it be necessary to go to the expenses of printing it in bound form as well? We have to be aware of the costs associated with this new proposal, and this should weigh heavily on our minds when we finally decide what we are going to do. I am wondering why it would be necessary to have the separate form as well as the bound form. Would not one or the other suffice?

Mr. Cloutier: On that particular point, one consideration that comes immediately to mind is that for a great number of libraries in the country the bound volume would be the ideal solution. For a number of officials in the government the bound book again would make more sense than having separate pamphlets. For Members of Parliament, this is really for you to comment on. For departmental officials in very many instances the pamphlets would be sufficient.

Mr. Crouse: Would the pamphlets in binder form, Mr. Chairman, in our libraries not be exactly the same as a bound book, in that if all the pamphlets are in a binder anyone referring to it would have the estimates before them. Is this not correct?

Mr. Cloutier: The probable size of the book would require quite a hefty binder.

Mr. Crouse: Agreed.

Mr. Cloutier: And binders are expensive.

• 1050

The Chairman: Do you suppose you could have a sample of the size of the book when you come to the next meeting?

Mr. Cloutier: I hope to have more precise information on this next Tuesday, sir.

Mr. Lefebvre: I think Mr. Crouse brought up a very valid argument, if I can call it an argument. I do not think we can really make up our minds on this, Mr. Cloutier, unless we have the costs. These costs should not be too rough because as you know, a lot of government expenditures have started off with rough costs and ended up many, many times the original estimate. This is something we would like to try to avoid in the future if possible. I really do not think I could make up my mind—I do not know about the other members—until we get a very good estimate of the cost of the various forms that have been suggested here today.

The Chairman: Thank you, Mr. Lefebvre. We will leave it at that point. Mr. Allmand?

Mr. Allmand: In making up one's mind, in addition to costs I think we would also like to have a good idea how high a pile of these things would be if there were pamphlets like this for all the departments, so that if it was necessary to put them in a binder we could judge what it would be like.

The Chairman: That is what I had in mind, Mr. Allmand, when I suggested a sample book.

Mr. Allmand: I think that is a good idea, Mr. Chairman. If a binder was not considered practical, as a matter of course as a member of Parliament. I would still like to have pamphlets like these in my office. I could keep them in those green covers that we have and I could take them out each time I was studying the estimates of a particular department. I find these very convenient when I go to a meeting like this or to another committee meeting.

The Chairman: Thank you, Mr. Lefebvre?

Mr. Lefebvre: Mr. Cloutier, could you give us an idea how many people in the government receive the present form of the estimates and what saving it would represent if, for instance, the staff in the Department of Indian Affairs were only to receive the new pamphlet having to do with Indian affairs?

Mr. Winch: Instead of this.

Mr. Lefebvre: Instead of the whole book, which he would no longer need if he is only interested in Indian Affairs. In that case he should get only the pamphlet on Indian Affairs.

The Chairman: Mr. Lefebvre, your point is well taken in that there must be many departments that would be interested only in their particular department and not in the great big book.

Mr. Lefebvre: Thousands and thousands of them.

Mr. Cloutier: I will try to get an estimate on that also.

The Chairman: Fine. I apologize, Mr. Henderson. I see it is now 10.55 a.m. Would you like to make a statement now or wait until the meeting on Tuesday?

Mr. A. M. Henderson (Auditor General): I am entirely in your hands, Mr. Chairman. I would like about 10 or 15 minutes of your time because I have some important things to say to you.

Mr. Crouse: Agreed.

Mr. Henderson: However, I am entirely in your hands.

Mr. Winch: There is also this point, that I think after hearing Mr. Henderson for 15 minutes without doubt a number of the members will want to ask questions. I think it is better if we are able to ask the questions immediately following the presentation and while it is still clear in our minds.

The Chairman: You will not have time to do both this morning.

Mr. Winch: No, that is the point.

Mr. Crouse: Mr. Chairman, it seems a shame to have Mr. Henderson before us and not utilize the time that is available. I think we should be thrifty with our time as well as with our money.

The Chairman: Would you like to make your statement now and have the questions at the next meeting, Mr. Henderson?

Mr. Henderson: That is perfectly satisfactory. Whatever the Committee desires, Mr. Chairman. I put a few notes together, and if the Committee members would like to have them I would be happy to give out copies in mimeographed form which you could retain and it would facilitate the discussion later.

The Chairman: Agreed?

Some hon. Members: Agreed.

Mr. Henderson: First, I would like to say to you that my officers and I are generally in agreement with the revised format of the Estimates developed and now proposed by the Treasury Board. They are intended to supplement, as you know one of the important recommendations of the Glassco Commission, namely, that the form of the Estimates be revised so that the votes more clearly describe the purpose of expenditures and that more comparable and complete supporting information be provided and that unnecessary detail be eliminated. Accordingly, the Commission recommended that departmental Estimates be prepared on the basis of programs and activity instead of only standard objects of expenditure.

• 1055

We have been very interested in the questions that have been raised by you concerning information heretofore given, particularly that which will be removed from the revised Estimates, such as the salary range detail shown in the present Blue Book. Again, there is a question in your minds which came up this morning, whether the categories which are to be shown for the staff figures, such as Executive, Scientific and Professional, Administrative and Foreign Service, Technical, Administrative Support, and Operational, are

in fact going to be meaningful to the members of the House. You may have some reservations about these changes. Nevertheless I think the advantages of the new format outweigh these possible disadvantages.

However, there is one type of information which you now get but which you will not get under the proposed new form of Estimates. I am referring to the information given at the beginning of the "Details of Services" of each department in your Blue Book and described "Approximate Value of Major Services not included in these Estimates". You are now given the value of each of these services for the entire departments, but under the new form of Estimates you will not be given any value for the individual services although you are to be given the total value for all services for each program. I think you should have the more detailed information which is somewhat comparable to the Standard Objects information you are given with respect to the moneys which are to be voted.

Another and more important question in my mind, Mr. Chairman, to be raised right now is whether the Treasury Board is prepared to give recognition to the worthwhile recommendation your Committee made four and a half years ago, and which you will remember from the follow-up report is still outstanding, namely, that brief notes be included in the Estimates explaining proposed major increases in the size of staff establishments of all government departments, Crown corporations and other public instrumentalities which are requiring financing by parliamentary appropriations. I think you should ask the Treasury Board why this kind of simple information cannot be provided to the members of the House. This is an established recommendation of this Committee. It is four and a half years old and there has never been any reply.

On the other hand, and I must be perfectly fair, you will be pleased to have noted the reference made by the President of the Treasury Board to the inclusion of supporting financial information about Crown corporation requirements, which is going to be placed in future Estimates presentations. I was particularly happy to see this, because it represents the implementation of one of your recommendations which was also made four and a half years ago.

There is then the all-important question of the cost of preparing this revised form of Estimates, not only the cost to the Treasury Board itself but also the cost the revision is imposing on the departments who now have to furnish this information in such detail. I think this is something the Committee will want to bear in mind in its final consideration of this whole subject and perhaps it will want to bring it to the attention of the House in its report. You must recall that this has been in the course of preparation for many years. It involved the employment of management consultants, additional staff and a very considerable cumulative expense over the years, and it is not only in the Treasury Board at its present size but it is also to be found in the administrative staff sizes of the various departments. This is something I have been touching on in my reports to the House for the past several years. Perhaps these points Mr. Chairman, can best be dealt with by a subcommittee, if it should be your intention to form one.

I will now turn my attention to the one single proposal which, if this Committee were to recommend it to the House, would, in my view, be a backward step in the history of parliamentary control of public expenditure in our Parliament. It is the proposal made by the President of the Treasury Board that there be a further reduction of 100 votes made from the present figure of 236 votes.

• 1100

As your adviser, I must remind you that by reducing the number of votes you reduce the number of opportunities Members of the House have to discuss appropriations, and comments made by the Members on appropriations will consequently have to be spread over a broader target. Take the illustration referred to in this Committee by the Assistant Secretary, Mr. Cloutier, namely the Indian Program of the Indian Affairs and Northern Development Department on page 12 of your booklet. That is the "Illustration Only" booklet. Here you see that the proposed Estimate 1968-69 under Total Budgetary Expenditures is nearly $142 million divided nearly $87 million for Administration, Operation and Maintenance; over $34 million for Construction and Acquisition; and over $20 million for Grants and Contributions. You see that spread across the page.

Some Members of the House of Commons may be very much in favour of the Indian Program but they may feel that far too much is being spent on Administration and not enough on Construction—or vice versa. The Members' criticisms then become associated with the whole program rather than that portion of it which they feel could be improved.

As the Estimates are presented to Parliament in the present Blue Book, you know that if you pass them the expenditure on Administration of the Indian Program can amount to $86,887,000 and not a penny more unless a supplementary estimate is placed before Parliament. Under the proposed consolidation of votes, additional hundreds of thousands of dollars could be spent on Administration at the expense of Construction—and vice versa.

I think I should point out to the members at this time that the proposals before you are not a package deal to be accepted or rejected in toto. The number of votes does not have to be reduced and you could have this same form of Estimates and still have the program divided into two or more votes.

I think the members here should give most careful consideration to this, Mr. Chairman, before recommending to the House that they surrender 100 of their present 236 voting opportunities. As I will recall to you in a moment, the members of this Committee agreed in 1964 to a Treasury proposal to reduce the number of votes from 495 to 236. At that time the Revised Main Estimates (1962-63), which you had before you were $6,048 million. Today these same Revised Main Estimates (1968-69) are over 70% higher—at $10,670 million. So with spending at this level, why should you give up 100 of your remaining 236 voting opportunities and thereby weaken Parliament's control of spending? That is my question.

Some members here will recall how Treasury Board came before a subcommittee of this Committee in 1964 to discuss what was termed a consolidation of existing votes at that time—similar in many respects to the proposal you have before you today. You were told at that time that the Royal Commission on Government Organization had pointed out that the Main Estimates 1962-63 included 495 votes, or over three times the number employed in the United Kingdom Parliament, and the Commission added, and it was quoted to you: "Rationalization and a reduction of the number of votes would make the definition, planning and control of activities more effective and would give management greater flexibility in achieving its objectives." You will agree with me, I am sure, that if you are on the side of management you would accept this without hesitation. I certainly would, because it simplifies the work of the Executive considerably. But it is your duty and mine to put the rights and prerogatives of Parliament first, as I see it in the matter of the control of public expenditure.

• 1105

Let me recall to you that in this Committee's Third Report 1963 to the House, when it did approve a reduction in the number of votes from 495 to the present figure of 236, it did so—and I am quoting from your own recommendations—"subject to certain improvements the Auditor General had suggested to the Committee." But unfortunately the undertakings given to the Committee by the Treasury Board at that time have not always been adhered to in the intervening years. If members would please refer to paragraph 50 of my 1965 Report to the House, paragraph 49 of my 1966 Report to the House and paragraph 54 of my 1967 Report last year, they will see concrete examples where, by consolidation of votes, transfers of funds have been possible which would not have been possible under the previous vote pattern. In these paragraphs instances were also pointed out where the vote pattern has been varied by Treasury from year to year. But unfortunately, Mr. Chairman, none of these paragraphs have been considered by this Committee yet. I would close by saying most to you that in my view members should study these proposals very carefully before making up their minds to surrender 100 voting opportunities.

Thank you, Mr. Chairman.

The Chairman: Thank you, Mr. Henderson. Gentlemen, we have heard from both lawyers. We will now have to be the judge and jury and proceed with our report in due course.

Mr. Winch: Mr. Chairman, I have just one question, and it is important. I am now referring back to four and a half years ago. Because of detailed studies there was a subcommittee established at that time and, if I recall correctly, I was a member of it. I believe that we met for about a month and a half and then brought a report in. In view of the importance of this, is it your intention to consider the establishment of a subcommittee?

The Chairman: Yes, Mr. Winch. With your permission I would like to name the steering committee as the subcommittee to handle the drafting of the report. Is that agreed?

Some hon. Members: Agreed.

Mr. Crouse: We will be getting a copy of that brief presented by Mr. Henderson?

The Chairman: Yes.

Mr. Henderson: Mr. Chairman I will have a few copies run off and see that they are sent to you.

The Chairman: Thank you.

The meeting is adjourned.

HOUSE OF COMMONS

First Session—Twenty-eighth Parliament

1968

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: MR. D. HALES

MINUTES OF PROCEEDINGS AND EVIDENCE

This edition contains the English deliberations and/or a translation into English of the French.

Copies and complete sets are available to the public by subscription to the Queen's Printer. Cost varies according to Committees.

Translations under the direction of the Bureau for Translations, Secretary of State.

THURSDAY, NOVEMBER 14, 1968

The Clerk of the House.

Revised form of Estimates

WITNESSES:

Mr. Sylvain Cloutier, Assistant Secretary of Treasury Board;
Mr. A. M. Henderson, Auditor General of Canada.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1968

OFFICIAL REPORT OF MINUTES

OF

PROCEEDINGS AND EVIDENCE

This edition contains the English deliberations and/or a translation into English of the French.

Copies and complete sets are available to the public by subscription to the Queen's Printer. Cost varies according to Committees.

Translations under the direction of the Bureau for Translations, Secretary of State.

ALISTAIR FRASER,

The Clerk of the House.

HOUSE OF COMMONS

First Session—Twenty-eighth Parliament

1968

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: Mr. A. D. HALES

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 8

TUESDAY, DECEMBER 10, 1968

Revised form of Estimates

WITNESSES:

Mr. Sylvain Cloutier, Assistant Secretary of Treasury Board;
Mr. A. M. Henderson, Auditor General of Canada.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1968

29487—1

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. A. D. Hales

Vice-Chairman: Mr. T. Lefebvre

and Messrs.

Allmand,	Flemming,	Rock,
Bigg,	Forget,	Rodrigue,
Boulanger,	Gibson,	Rondeau,
Burton,	Major,	Thomas (*Maisonneuve*),
[1] Cafik,	Noble,	Winch—20.
Crouse,	Nowlan,	
[2] Cullen,		

(Quorum 11)

Edouard Thomas,
Clerk of the Committee.

[1] Mr. Cafik replaced Mr. Buchanan on December 9, 1968.
[2] Mr. Cullen replaced Mr. Cyr on December 5, 1968.

ORDERS OF REFERENCE

THURSDAY, December 5, 1968.

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

MONDAY, December 9, 1968.

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

ATTEST:

ALISTAIR FRASER,
The Clerk of the House of Commons.

29487—1½

MINUTES OF PROCEEDINGS

TUESDAY, December 10, 1968.
(9)

The Standing Committee on Public Accounts met this day at 9.47 a.m., the Chairman *pro tem*, Mr. Prosper Boulanger, presiding.

Members present: Messrs. Allmand, Bigg, Boulanger, Burton, Cafik, Crouse, Cullen, Flemming, Gibson, Major, Nowlan, Rock, Rodrigue, Thomas (*Maisonneuve*), Winch (15).

Also present: Messrs. Cobbe, Duquet.

In attendance: Mr. Sylvain Cloutier, Assistant Secretary of the Treasury Board; Mr. A. M. Henderson, Auditor General of Canada; Mr. J. G. Glashan, Director of Estimates and Supply Procedures Division, Treasury Board; Mr. G. R. Long, Assistant Auditor General.

Moved by Mr. Crouse and

Agreed,—That Mr. Boulanger take the Chair for this meeting.

Moved by Mr. Nowlan and

Agreed,—That Mr. Cafik be named to the Sub-Committee on Agenda and Procedure.

Moved by Mr. Flemming and

Agreed,—That a memorandum from the Auditor General re Canada Pension Plan be printed as an appendix to this day's proceedings (*See Appendix B*).

The Committee questioned the witnesses on the revised form of Estimates.

At 11.15 a.m., the Committee adjourned to the call of the Chair.

Edouard Thomas,
Clerk of the Committee.

MINUTES OF PROCEEDINGS

TUESDAY, December 10, 1968.

(9)

The Standing Committee on Public Accounts met this day at 9.47 a.m., the Chairman pro tem., Mr. Prosper Boulanger, presiding.

Members present: Messrs. Allmand, Bigg, Boulanger, Burton, Cadk, Crouse, Cullen, Flemming, Gibson, Major, Nowlan, Rock, Rodrigue, Thomas (Maisonneuve), Winch (15).

Also present: Messrs. Cobbe, Dupuet.

In attendance: Mr. Sylvain Cloutier, Assistant Secretary of the Treasury Board; Mr. A. M. Henderson, Auditor General of Canada; Mr. J. G. Glassman, Director of Estimates and Supply Procedures Division, Treasury Board; Mr. G. R. Long, Assistant Auditor General.

Moved by Mr. Crouse and

Agreed,—That Mr. Boulanger take the Chair for this meeting.

Moved by Mr. Nowlan and

Agreed,—That Mr. Cadk be named to the Sub-Committee on Agenda and Procedure.

Moved by Mr. Flemming and

Agreed,—That a memorandum from the Auditor General re Canada Pension Plan be printed as an appendix to this day's proceedings (See Appendix E).

The Committee questioned the witnesses on the revised form of Estimates.

At 11.15 a.m., the Committee adjourned to the call of the Chair.

Edouard Thomas,
Clerk of the Committee.

EVIDENCE

(Recorded by Electronic Apparatus)

Tuesday, December 10, 1968.

• 0944

The Acting Chairman (Mr. Boulanger): Order, please. I see we have a quorum. Mr. Flemming, you requested certain information on the Canada Pension Plan. Do you wish to have it appended to today's *Proceedings*?

Mr. Flemming: Are you speaking of me, Mr. Chairman?

The Chairman: You asked for this information. Will you move that it be included as an appendix to today's *Proceedings*?

Mr. Flemming: I so move, Mr. Chairman.

Mr. A. M. Henderson (Auditor General): Mr. Chairman, could I enlighten Mr. Flemming by reminding him that he asked me some questions about this in response to which I undertook to have the matter researched and to file a memorandum with the Committee. This is the one to which the Chairman has referred, filed this morning, and presumably will be printed for the information of Mr. Flemming and the members.

• 0945

Mr. Flemming: Thank you, Mr. Auditor General.

Motion agreed to.

The Acting Chairman (Mr. Boulanger): I believe Mr. Cloutier will take the floor now and answer questions with reference to the remarks that Mr. Henderson made at the close of our last meeting.

Mr. S. Cloutier (Assistant Secretary, Programs, Treasury Board): Thank you, Mr. Chairman. At the last meeting of this Committee Mr. Henderson, the Auditor General, made a statement summarizing the position of his office in connection with the proposals that were placed before this Committee by the President of the Treasury Board with respect to the new form of Estimates.

I note with pleasure that Mr. Henderson indicated he was in general agreement with the changes that are proposed. I would like to comment on two matters which he raised in his statement.

First, he indicated a regret that the new form of Estimates as presented in booklet form to the Committee did not contain brief notes explaining the major changes in staff numbers. I would like to refer members of the Committee to the statement made by the President of the Treasury Board when he appeared before the Committee in which he indicated that he would welcome a recommendation from this Committee that such details be included. I should like to suggest that in framing this recommendation the Committee indicate what it considers is a major change. An infinity of changes are being made and I think it would be useful for us as well as for the departments to have more insight into what the Committee would consider a major change.

In this connection I think in the course of discussions at earlier meetings that one or two members of the Committee indicated that changes greater than 5 per cent might warrant special explanation in the Estimates. I just leave this thought with you so that we may be in a better position to provide you with precisely the kind and amount of information you want.

• 0950

The second point I would like to comment on and which was touched upon by the Auditor General last week has to do with the matter of parliamentary control and his admonition to the members of the Committee that the proposed reduction in the number of Votes would be tantamount to a serious decrease in the parliamentary control exercised by members of Parliament on the Estimates.

Frankly, gentlemen, we are extremely surprised and disappointed by the position taken by the Auditor General on this point. The proposal which was put before you by the President of the Treasury Board is completely in line with the recommendations of the Glassco Commission which, in all other matters,

the Auditor General supports very strongly, and indeed remarks time and again that the government is not implementing quickly enough.

The Glassco Commission you will remember recommended that Estimates be prepared and presented to Parliament on the basis of programs. This is what we are attempting to do. I would like to submit that the proposed approach to estimates by program would provide members of Parliament with a much more substantive and meaningful type of approach to parliamentary control than the present approach whereby a program is presented in one, two, three or four votes.

To me it is much more important to be able to focus very clearly on the objectives of a program and on the various activities of a program in terms of what the department is trying to achieve and what the outputs of this program are, rather than to focus on the—if you wish—paperclip approach, worrying solely about the individual parts of the program. I think I indicated in earlier testimony before this Committee that the three parts—administration, capital and grants—are really inseparable. It is not realistic to consider one without the other two.

If you look at construction, the administration of construction projects is carried in the administration vote. If you look at grants you have exactly the same thing, where the administration of these grants is actually carried in the administration part of the proposed new vote structure, so that not only would the same over-all control be exercised by Parliament, but it could be exercised much more rationally and in a much more substantive and meaningful manner.

The Auditor General indicated that this approach would reduce the number of opportunities that members have in the House or in committees to raise questions. I would like to disagree with this completely. In my experience most of the questions put to witnesses are put under the first vote of the department and the questions relate to all of the votes in the department. I would like also to suggest that the type of information that we are proposing to put in the new form of estimates would provide a much sounder basis for members of Parliament to ask searching questions.

• 0955

The Auditor General also indicated that a member could like one part of the program and not the whole, and that the availability of a number of votes would allow him to vote against one vote and yes for the other. On this I will just recall what I said a few minutes earlier concerning the inter-relationships of these currently separate votes and suggest that if it should happen that a member dislikes, or does not want to support, a particular item in the program he is entirely free to indicate his displeasure with that particular program simply by identifying the item he is opposing in the motion that he would make to reduce the vote total and thereby focus his displeasure on the cause of that displeasure and yet not go on record as opposing the whole program.

Mr. Chairman, in summary I would like to re-emphasize that the proposal before you is one that, in essence, has been developed to provide members of Parliament not with an artificial appearance of parliamentary control because you vote so many more times, but to present to you a meaningful *ensemble* of the details of programs, thereby giving you a better insight than has been available up to now through the current Blue Book into the types of problems and into the various questions that you would like to have answered in the consideration of departmental estimates. Thank you, Mr. Chairman.

The Acting Chairman (Mr. Boulanger): Mr. Flemming?

Mr. Flemming: Mr. Chairman, my only comment is that I think the Auditor General should have a chance to elaborate a bit on his written recommendations as a rebuttal at Mr. Cloutier's remarks.

Mr. Henderson: If that is your wish, Mr. Chairman, I will be pleased to reply.

The Acting Chairman (Mr. Boulanger): Yes, it is.

Mr. Henderson: In the first place, I think what Mr. Cloutier has said strongly reinforces the very points that I made to you the other day. I am grateful to him for bringing some of these out in a manner which heretofore members of his Treasury Board have so seldom espoused.

Taking his points first—what is a major change—it was one of the predecessors in the Treasury Board, Mr. Steele, when he was the former Secretary meeting with the subcommittee of this Committee and then with this Committee in 1964, who suggested that a major change would be any increase in staff over 5 per cent, and the members felt that

was reasonable. In other words, if the number of people exceeded 5 per cent then it would seem to call for a few words of explanation at the bottom of the page so that you would know the reason for the increase.

The Committee accepted this, but the Committee refrained in a discussion—I was present with Mr. Steele and, as I recall, at his request—from spelling out 5 per cent in the recommendation it made to the House and I think that is fair enough. It was left at 5 per cent and the action was left to the Treasury Board.

Today, over 4½ years later, you have heard the first explanation come forth on the subject. I hope I detect in that that they are going to be prepared to furnish this type of explanation, because I personally think it is long overdue.

On the matter of parliamentary control, you will remember that I quoted to you what the Glassco Commission said, and Mr. Cloutier has referred to that, that:

> Rationalization and a reduction of the number of votes would make the definition, planning and control of activities more effective, and would give management greater flexibility in achieving its objectives.

Well, of course, it gives management greater flexibility of achieving its objectives. Mr. Cloutier and his associates are management. Parliament and parliamentary control is, I suggest to you, a kind of a super-management, a kind of a national stockholder type of management over the directors. That is why I said to you that I thought you would agree with me, as your adviser, telling you that it was your duty and mine, as I see it, to put the rights and prerogatives of Parliament first in this Committee in the matter of control.

• 1000

Let me ask you—what is wrong in members of Parliament being given the opportunity to face up to three votes? On an expenditure in the case of the Indian program—the example we have before us which is just a very modest figure, only $141 million—I am very surprised that Mr. Cloutier thinks that can be disposed of in one vote. One third of this is administration, operation and maintenance; the next at $34 million is construction and acquisition. Construction and acquisition is capital money as compared to administration, operation and maintenance which is generally conceded, under generally accepted accounting principles, to be income money.

As a matter of fact, the money you spend on construction and acquisition today and in the years ahead is what is going to determine the amount of maintenance of operation you are going to have to pay out tomorrow to look after what you are building today, so the considerations brought to bear on these three frameworks are, I would suggest to you, rather different. Consequently, I cannot see what possible objection Treasury Board should have to permitting members to discuss one thing under three headings.

Now, I am wholly in agreement with the general layout of the information; it is an improvement. It is a substantial improvement, but I do not think it is the intention of Treasury Board to deny a discussion of the number of voting opportunities you have. I am not completely wedded by any means to all of the recommendations the Glassco Commission made. I think the actions of the Treasury Board have proved in many cases that neither are they.

You must remember that when the Glassco Commission first brought out its criticism of this we had something like 500 votes in the House. It was 4½ years ago that you yourselves reduced them to 236. Now, if you decide that you want to cut them down to 136, that is your responsibility. I can only point these facts out to you and answer questions. I think the whole proposition here is a tremendous step forward. This is the one area in which, however, I felt it was my duty to raise these reservations before you for your consideration.

The Acting Chairman (Mr. Boulanger): Thank you, Mr. Henderson. Mr. Bigg?

Mr. Bigg: The major change that appeals to me is that it appears now we are going to get the information we require—or so I hope—soon enough for us to have an intelligent discussion of the Estimates and the breakdown. It is going to simplify the whole process. I think timing, first of all, is the most important.

Then, on method of presentation, we mentioned the idea of having a guide book that would steer us through all these things. I am not so worried about where the information actually is now if this guide book is going to be good. Whether you put it in one vote or three, I am hoping this guide book will help us to dispose of all this chaff and get down to the meat. Now, the meat as far as this Committee is concerned, in my opinion, is not so much that we should ride herd on the pro-

gramming as the abuse of the money which is voted for that programming. First of all, we should be satisfied in a general way that the program is not perverse and then I am more worried about being able to get my finger on the actual dollars and cents spent and try to plug the gap.

I do not think this committee is a super-Committee on programming, but we are supposed to be, perhaps, the only check on—for want of better words—waste, extravagance or misappropriation. I do think this other part is academic. Whether we put it on page A or page B or break it into so many votes is not important, because the only votes we are going to question are the ones where we feel there has been a waste of money.

• 1005

I think you are much closer together, perhaps, than what has been said in the last few minutes indicates. We hope this is true. First of all I want to be able to get the information quickly and ahead of time and then I want to be able to understand what the details are that I am reading, not being an accountant.

The Acting Chairman (Mr. Boulanger): Mr. Henderson?

Mr. Henderson: I am quite interested in what Mr. Bigg has just said, particularly when he touched on abuses and waste in which this Committee is not uninterested because of its mandate and because of the work it has to do in examination of my report. I would suggest to you that it has been a very useful exercise under the present procedure you are following with the estimates Committees of having a chance to interview people before the money is spent and to talk to them, rather than to sit here and examine the sometimes dismal histories of what has happened when you cannot do anything about it except point the way for the future. Therefore it seems to me that anything we can do to give the members a better insight into what is proposed to be spent before it is spent is certainly in the right direction.

That would be another reason why I would think you should have all of this information, but that you should not forego the hundred voting opportunities this envisages. For instance, in the $141 million I am saying I would like to see one discussion on the $86 million; one on the $34 million and one on the $20 million and a vote on each, rather than one vote on the $141 million.

Inevitably, surely, in your parliamentary schedule things get telescoped into haste and time and that sort of thing, and while you may have the best will in the world today —and I am sure Treasury Board and we will do anything we can to help you; we always want to—it is a fact of life, is it not, that they get telescoped together fast and you are not always able to do this?

You can prevent a lot of waste before it happens if you are able to get some of these details broken down. It seems to me that, plus the discussion in the Estimates Committee, is all to the good. An ounce of prevention is certainly worth a pound of cure. That is my observation on that one, Mr. Chairman.

Mr. Crouse: Mr. Chairman, I have listened with interest to the remarks of Mr. Cloutier and the reply of the Auditor General. One comment I could make is that the stockholders' rights were sadly trampled upon last evening in the House as hundreds of millions of dollars were voted almost by steamroller tactics of the present administration.

I look with interest at page 3 of the Auditor Generals' comments where he refers the Committee to the proposal that a reduction of 100 votes he made from the present figure of 236 votes. Then he continues by pointing out the program of Indian Affairs and Northern Development on page 12 of the illustration booklet where he outlines the proposed estimate under Total Budgetary Expenditures which amounts to $141,871,000 million divided into administration, operation and maintenance under one figure; another figure for construction and acquisition and a third figure for grants and contributions.

The Auditor General has pointed out that these figures could be transposed so that if it suited the establishment to spend more on administration, operation and maintenance than is detailed, they could do so by taking the funds from construction and acquisition or from grants and contributions and vice versa. This is an angle which had never occurred to me, I must confess, as a businessman, and I am wondering if the figures 1, 2 and 3 could be placed above these accounts so that when they are voted upon they could be voted as Vote 1, administration, operation and maintenance, Vote 2, construction and acquisition and Vote 3, grants and contributions which would, in effect, strengthen our control as parliamentarians.

• 1010

I say this because I was never more aware of my inability to control expenditures in any way than I was last night. I am elected by some 65,000 people, as most of us are under redistribution. Among other duties we are supposed to be the watchdog of the Treasury. We are sent here in confidence by a majority vote of our constituents; we have duties to perform and responsibilities which we must assume and last evening I felt my own inadequacy greater than at any time during the 11 years I have sat in Parliament, when I saw hundreds of millions of dollars voted with actually no due thought or consideration as to how, where or when this money was to be applied.

Mr. Rock: It is nobody's fault if you do not do your own homework.

Mr. Crouse: I do not appreciate the interjection which was just made by one Mr. Rock. I will ignore it, because if he sat in the House of Commons and listened to his own Minister of Finance indicate the deficits of this country, the wild expenditures that have produced some $675 million of deficits despite three tax increases, I think it is evident who is doing his own homework and I will tolerate no more interjections like that, Mr. Chairman, because they are unwarranted.

I believe we must follow through with these recommendations because anything that helps us to understand the expenditures and helps us to control them is for the benefit of the people who send us to Parliament. Mr. Cloutier or the Auditor General, would you care to comment on that type of proposal which might give us more control; that is, numbering these expenditures?

Mr. Henderson: I think the feasibility of that is something for Mr. Cloutier to comment on. Mr. Chairman.

Mr. Cloutier: Mr. Chairman, I would like to say that we do not think parliamentary control is reduced one iota by the proposal we are putting before you. Indeed, we think you would be in a much better position to exercise your mandate with the plan that has been put before you.

Something we must never forget is that these Estimates are put together 18 months before the end of the year to which they apply and that the very objectives of the program can, in certain circumstances, be vitiated by the inability of the executive to put to good use the moneys voted to that program by Parliament. Indeed, the proposal before you would permit the transfer of moneys from one sub-vote to another, but these transfers of money could be approved only by the Treasury Board and the Treasury Board has as its mandate the control of government expenditures just as much as the members of this Committee—indeed, of the members of the House.

The Treasury Board itself is made up of Ministers of the Crown so that while the total amount could not be overspent there is a need for some flexibility in the utilization of these moneys and in view of the substantive amount of information that would be put in the Estimates in support of the requests under the new form, we are convinced that if anything the role of the parliamentarian is made easier to fulfil.

Mr. Crouse: Mr. Chairman, I have a supplementary comment here. This supports my original argument. I do not disagree that under our system control is vested in the Treasury Board but, as I stated a moment ago, it is obvious that control of our expenditures has gotten completely out of hand. When you have deficits in the nature of $675 million in one year, despite the heavy taxation upon our people, then I think it is mandatory that we, as members of Parliament from all parties, have a greater say in the expenditure of funds and in their control.

• 1015

Here we see that this control, according to Mr. Cloutier's statement, is farther removed from us because it will be put back in the hands of the executive in charge of Treasury Board, and then this is not something that will be open to us for criticism or to vote against.

I personally disagree with this aspect of the new Estimates because I feel my opportunities to voice my displeasure have been further eroded.

The Acting Chairman (Mr. Boulanger): Have you finished, Mr. Crouse?

Mr. Crouse: Mr. Chairman, Mr. Cloutier did not state whether it would be possible to have these expenditures numbered. That was my original question. What objection would there be to numbering these various headings so that we could vote on them separately and at least exercise some control over each departmental vote?

Mr. Cloutier: Mr. Chairman, in preparing our proposed form of Estimates, we have not examined that alternative in depth. On the face of it I think it would be possible.

Mr. Crouse: Thank you, Mr. Chairman.

The Acting Chairman (Mr. Boulanger): If you have completed your remarks, Mr. Crouse, I recognize Mr. Nowlan.

Mr. Nowlan: From these questions and answers do I understand correctly that some change in the numbering of the Estimates is fundamental if we accept this new form? You have recommended, or the Minister has suggested, a reduction of 100 voting items. Is that fundamental to the draft that you have presented here for our study?

Mr. Cloutier: Let me put it this way, Mr. Nowlan. The situation as we now find it is most confused. There are some administrative votes that now have the three elements in them—administrative expenses, capital expenditures and grants, and they are all mixed up in the one package. What we are proposing to do is to lay these things down quite separately so that members of Parliament will be able to see in a consistent manner from program to program what is administration, what is construction and what is grants, so that the recommendation from the Committee to maintain the present voting structure would be difficult to introduce in a consistent manner.

If the Committee were to recommend that there be a separate vote within a program for administration, for construction and grants, this would be a retrograde step in my opinion because you would end up by having a much greater number of votes and yet this would be, in effect, a formalistic type of control, and only a formalistic type of control.

Mr. Nowlan: I am interested in the first part of your answer because if under the present system, some of the estimates—in particular the administrative portion—are not correct or do not list accurately the function, that is, the item under study, surely some change can be made within the present form of Estimates. Are you suggesting that to correct that abuse it is the old adage of "throwing out the baby with the bath water", type of thing?

I am very interested in this and I have not reached my main point, but I was...

Mr. Cloutier: I am not suggesting, sir, that there is any abuse now.

Mr. Nowlan: But you did say that under the present form some of the votes, particularly administration, are hodge-podge and do not accurately reflect what we are voting for.

Mr. Cloutier: No, no; that is not what I said at all.

Mr. Nowlan: I thought that is what you said.

Mr. Cloutier: There are a number of votes that are nominally administration votes which include capital items and include grants items.

Mr. Nowlan: And so should be under some other category in that department. Is that correct?

Mr. Cloutier: What I am saying is that under the proposal which we have before you these various types of expenditures—they are only types of expenditures—would be shown under the three columns which you have illustrated in the booklet before you.

• 1020

Mr. Nowlan: I asked the original question: is the recommendation to decrease the items fundamental to this draft which, basically, has found favour, I think, with most members of the Committee. You answered and said there are some items under the present system that do not reflect accurately the heading and should be changed. I asked whether that could not be changed under the present system. If it is construction or if it is capital that is presently under an administrative item, surely that can be shifted to another item that accurately reflects the function. Can it not, under the present system?

Mr. Cloutier: It could, but the effect of this would be to multiply the number of votes and you would end up by having a great number of very, very small votes.

Mr. Nowlan: No, no. I am not necessarily going along with Mr. Crouse and saying we should have three votes for every one we have now, but I am trying to find out whether the suggestion by the Minister to decrease the voting items by one hundred is fundamental to this form of draft?

Mr. Cloutier: It is part of the proposal. The proposal, in effect, involves the rationalization of the vote structure to coincide with identified programs.

Mr. Nowlan: Well, then, I come to the question that you posed and which Mr. Crouse commented on which is the issue that you and the Auditor General have discussed. This is, I suppose, the age old basic issue of the executive versus the elected representative, and quite frankly I am of mixed mind at the moment. I react a little differently than Mr. Crouse in seeing the exhibition last night which to me just illustrates completely how much our control actually has eroded today under the present procedures.

I must say that we did agree that the procedure last night was by agreement and we had discussed a lot of those Estimates in Committee. It was not a case of just voting billions of dollars without any consideration, because there had been party agreement to do it last night. However, when you see it actually happen, you do appreciate part of what Mr. Cloutier says, at least as far as I am concerned, about the artificiality of the system, but if it is artificial today with 236 votes, I am afraid that it might be just that much more artificial—this is my dilemma—with one hundred less votes.

I really question the reduction in items for what they are worth, because I quite agree with Mr. Cloutier that most of the discussion is under item 1. We do have the safeguard that we can talk on items 5, 15 or 20, or whatever the item may be. At this time in our Parliament with the fundamental changes in the rules that are going to be discussed today and for several days to come and with the hope of the government to refer all estimates to Committees, I seriously question whether this is the time that we should be cutting in half—which is almost what we are doing—our voting opportunities, because when we get into committee the whole reason for the present presentation of rules is to have Estimates referred to Committee so there can be a much more detailed study. I feel the reform, if you call it a reform—and if you are on the government side you have to call it a reform—in this case has merit in part in getting estimates to Committees to have detailed study on the one hand, and yet you are suggesting something that actually gives a broader picture on the other.

• 1025

What corroborates my thinking there is part of your statement to which I take exception, with respect. You say the members of the Treasury Board are hard working, reasonable and responsible, but you say they are as responsible as members of Parliament to the purse. You did not say it quite that way, but that was the intent and I take absolute exception to that.

I appreciate that members of Parliament do not have the powers they had in the days of King Charles and last night was a good illustration of how little we do have, but I say we are in a much different situation and we are on a different plateau than you. You are judging this from your experience, but your experience is not that of a member of Parliament. You are not responsible. You are part of the executive and we are the ones that go back and fight the elections and raise the taxes that the Treasury Board and the government spend.

With that philosophy that sort of crept out in your answer, rightly or wrongly, it makes me more cautious about a change that in effect reduces our voting items by almost half, especially at this time when we are going to experiment with the Committees in a way we have never experimented with them before. I appreciate the artificiality and, frankly, that is a question I would like to ask you. If it is so artificial now, why does the Treasury Board worry about reduction of items by 100, because we all admit in a realistic way that members are pretty restricted in what they can do.

Why is Treasury Board really concerned if, as you say, the present system is artificial control and a paper clip approach when that is just going to be that much more artificial and that less paper clip if we knock off 100? I say primarily you seem to be going for a broader approach where the present rules of the House of Commons—which is not where the Treasury Board sits but where the commoners sit—is going in theory for a Committee system that is supposed to give detailed examination of Estimates and that is the dilemma to me at the moment.

Mr. Cloutier: Mr. Chairman, I think I would like to beg off...

Mr. Nowlan: I have one other statement. To me your theory can be extended logically to say: Let us have one vote, one omnibus vote. There is a pressure under the abortion bill that we know about and the rules bill is coming up to have, in effect, that one vote. I feel that our powers have eroded enough and everything else has eroded enough, necessarily because of the pressure of big government, but surely we should not be the author of our own erosion by having an omnibus vote. If so there is no reason for us to be here. I think

this is a pretty philosophical and basic question.

Mr. Cloutier: Mr. Chairman, I would like to excuse myself from making any comments to the first part and, indeed now, to the last part of Mr. Nowlan's comment...

Mr. Nowlan: I did not mean to excuse you.

Mr. Cloutier: ... as to a member of Parliament's philosophy in approaching this task of dealing with estimates. I would like to make two comments, though.

In our view this going down, or reducing the number of votes, would definitely not make the process more artificial. In our view it would make it less artificial, because you would be dealing with meaningful packages that, in our view, cannot be considered in an unrelated way, or indeed should not be considered in an unrelated way. As to what was, I think, referred to as the logical conclusion of this process ending up in one vote, the whole basis of the proposal before you is to consider program by program.

Now, the government does not have a single program. This would be the height of ridicule and it certainly has not entered any of our minds to push it to that length. Again, the basis of the proposal rests on the recommendation of the Glassco Commission which said—and we heartily support this at the staff level of the Treasury Board and the President of the Treasury Board in making his submission to the Committee also supported the concept—that estimates should be presented to the House on the basis of programs.

Mr. Nowlan: Could I ask a supplementary? Could you have the form which you have presented here in draft of the booklets, and I think more informative, without the reduction in the items?

• 1030

Mr. Cloutier: You see, what we are trying to do is to present each program in a consistent manner from one program to the other. We were referring earlier to a foreword to the book of estimates to explain how it is put together. Right now it is put together in whichever which way. It would defy Solomon to try to explain in a few pages how one goes through this book consistently from one department to the other or from one vote to the other. What we are proposing is that each program to be treated consistently so that a member could go from one department to another or from one program to the other and it would always be the same mechanical presentation. Let me emphasize again that it is the substance that is introduced for the first time in this new form of Estimates. This is what in our view is all important and at the Treasury Board staff level, in reviewing the proposals from departments, that is what is important by extension.

Certainly this is what you would want to delve into. This job of delving into Estimates would be simplified and rationalized for members of Parliament by the proposal that we are putting before you so that all programs would be displayed in the same manner and each program would have the same type of justification and explanation as has been presented to you here.

The Acting Chairman (Mr. Boulanger): Mr. Nowlan, because of the very special circumstances I am giving you another question but you have had the floor for some time now. If you have a real supplementary I will let you have five minutes more.

Mr. Nowlan: This is my last question, and my questions have not been as long as the answers, with all due respect to the witness, Mr. Chairman, and then they had to have long answers.

This is my last question. Can you envisage, Mr. Cloutier, when next year there will be 136 programs, what will the Committee or the House of Commons be faced with in the succeeding years when, perhaps, there is a reduction in the number of programs? Do you have a minimum number of programs in the book of Estimates that you are thinking of at the present time that the Commons would be faced with? You say that there is not one program. I appreciate that; that is extending it to absurdity. Could there not be a basic reduction in 1969-70 so that next year this Committee is faced with not 136 programs, but 50 programs?

Mr. Cloutier: I cannot conceive of that.

Mr. Nowlan: But 50 programs presented logically and consistently, so that members can turn from one to the other and follow the flow perfectly?

Mr. Cloutier: I cannot conceive of this, Mr. Chairman.

Mr. Nowlan: Why not? What is to prevent it?

Mr. Cloutier: The only thing that could bring it about would be for the government to eliminate a program completely.

Mr. Nowlan: They have done that.

Mr. Cloutier: They have done...

Mr. Nowlan: Or consolidate.

Mr. Cloutier: ...eliminated some parts of programs...

Mr. Nowlan: Or consolidate programs.

Mr. Cloutier: Well, again, let us go down to the definition of a program. It is a grouping of activities that are related to a very specific objective. There have been elimination of activities or identifiable endeavours but to my knowledge there has not been the elimination in recent years of a program in the definition that we are talking about.

If you look at the examples before you, you have an Indian program, a northern program and a conservation program. I just cannot conceive of any of the three being eliminated and I think that judgment would apply to all of the other programs that would be displayed in this new form of estimates. Indeed, I would suggest that the opposite would be true; that newer programs reflecting the new programs of a government or fulfilling new needs of society would be the direction...

Mr. Bigg: I am afraid you are right.

Mr. Nowlan: What is that?

• 1035

Mr. Bigg: I mean, I am afraid he is right.

Mr. Nowlan: No. Where do you put the shared cost programs?

The Acting Chairman (Mr. Boulanger): Mr. Gibson?

Mr. Gibson: Mr. Cloutier, just to clarify, what was the number of the old block of votes under the old system—two hundred and some?

Mr. Cloutier: Two hundred and thirty-six currently.

Mr. Gibson: Is it your proposal to cut the 236 block of votes down to something in the neighbourhood of 136? Is it not true that under the new rules that we hope to bring in that the 136 block of votes will be distributed to the committees for consideration?

Mr. Cloutier: This is my understanding, sir.

Mr. Gibson: Is it not true then, sir, that under your plan or in your view that having 136 votes spread around the committees would be more efficient and would provide for better scrutiny than over 200?

Mr. Cloutier: The position we are taking is that the manner in which we would present the new votes, the programs, would definitely give a better opportunity to scrutinize more rationally the proposals put before the various estimates committees.

Mr. Gibson: Then would it not also be true in your view that by grouping the estimates into smaller but more specialized groupings the committees would be voting on more specific issues than if the estimates were spread over 230?

Mr. Cloutier: They would be voting on more meaningful packages.

Mr. Gibson: More meaningful packages. Why more meaningful?

Mr. Cloutier: Because like would be with like.

Mr. Gibson: That is a nice...

Mr. Cloutier: If you look at the Indian program again, the example which we have used all along through these meetings, at the moment you are dealing with three budgetary votes; administration, capital and grants and contributions, and while I am speaking of this example, I would like to set the record straight.

In a number of instances we have been talking of total budgetary expenditures under the Indian program, again referring to the sample before you, totalling $141 million. This is not the amount of the total vote. The total is $135,974,000. The difference between $135,974,000 and $141 million is the receipts credited to the Consolidated Revenue Fund and the memorandum costs of accommodation and services provided by other departments, but that is just a point of detail.

Mr. Gibson: May I follow that up? If the system of block voting is restricted to a smaller number, to sum up you feel that the committees would be able to give more direct and concentrated attention to the votes put before them.

Mr. Cloutier: And comprehensive and meaningful attention.

Mr. Gibson: Yes, thank you.

Mr. Flemming: Mr. Chairman, it seems to me that what we have to consider is really what the relationship of a vote involves and if I understand the suggestion it is contemplated that under this heading of budgetary expenditures shall be included the administration, the construction and acquisition, and the grants and contributions. It was always my understanding in any public bodies that I had anything to do with that the ability of the administrators to change money around was confined to the vote.

• 1040

Under this suggestion, it seems to me that we as a committee have to consider that part of this money is capital expense, part of it comes under the heading of grants and contributions and part administration, and if this Committee signifies it is prepared to acknowledge that it is perfectly proper and in the public interest to have it lumped, then there is nothing to stop the administrators from switching from one of those headings to another and the items of capital expenditure could presumably be used for administration, items of administration could be shifted to capital or to grants and, in my opinion, that would be totally wrong.

Mr. Cloutier speaks of the question of flexibility. Having had some experience in provincial matters with flexibility, I know it is quite an advantage to be able to do it. Yet, I think this Committee must recognize these facts: there must be a limit to the flexibility; it must not be allowed to go too far. I see nothing wrong if they decide to build ten houses in a certain locality up North under the heading of Indian Affairs and then they decide that for some reason that is not practical and they should shift it 50 miles away to another place. There is no reason why they should have to come back for another vote the next year.

I think, under the heading of capital expenditure, acquisitions and construction, they should have that degree of flexibility; yet I do not think they should be able to take capital funds and use them for administration, or use administration for capital funds. That is really what the Committee has to decide in this connection. I do not think we should be viewing everything that has been done in the past as being totally wrong. I happen to think that there is a great deal of merit in what has come down through the years, although some of it may require some change to keep up with the changes of modern conditions.

I do not think that just because someone conceives the idea that they must change things all around, that it is necessarily going to be an advantage. I think we should take into consideration the fact that we have a responsibility and, as has been pointed out here by the Auditor General, we have the responsibility to the extent that it is within our power to deal with questions of expenditure before the expenditure actually happens with a view to obtaining the greatest amount of value for the public dollar—for the taxpayer's dollar, if you like.

So, although we have a program, I think you have to have some divisions of a program. I do not think you can just say that you are going to deal with a program, say, of Indian Affairs and then deal with it in a lump as a matter of governmental policy, but when it comes to this Committee I submit that it is an altogether different situation than it is when the policy is determined.

What is expected from us is really an examination of the proposals of the government. They may propose to do a certain thing under the heading of Indian Affairs so they bring to us certain proposals under these general headings. Personally, I am not in favour and I do not see any particular benefit in having one vote instead of three. Actually it resolves itself to a matter of the Chairman saying, "Shall vote so and so carry, shall vote so and so carry, shall vote so and so carry". You can say it three times in just maybe a fraction of a minute more than you can say it one time, so it seems to me that we are putting too much stress on this business.

When it affects the efficiency of the Department, and there is a need for some flexibility, then I have no objection to having the vote consolidated to a certain extent, but I do not think we should allow that we must of necessity put the whole program under one vote. I agree with Mr. Crouse in that regard. I do not think we should do it.

• 1045

Now, you speak about the Glassco Commission. After all, Mr. Chairman and gentlemen, the Glassco Commission was never intended to be anything but a guide. It is there for the purpose of giving us some guidance, by an expert without a doubt, but nevertheless I do not think we should consider it is our master. I do not think it is a big whip to be held over our heads and that we must comply with

every detail of it; actually I find some things there that I do not agree with at all. On the other hand, there is no reason why we should, as Mr. Nowlan says, throw the baby out with the bath water. We should take everything that is good in it and apply it to the findings of the Committee.

I have done a good deal of talking now, and I am going to ask Mr. Cloutier whether he does not think that the question of lumping in one part rather than three is overemphasized, and that in so far as this Committee is concerned there would be no particular reason why Mr. Crouse's suggestion should not be carried into effect.

I can understand people who want to talk about the need of some construction for Indian Affairs and while it is true, as you say, they can do it under this general heading, yet they will be reminded of something they had in mind if they are voting on a separate vote for acquisition and construction. This sort of thing, it seems to me, is going to be good for the public interest and it is going to be good for us in carrying out our duties as members of this Committee.

What I want to ask Mr. Cloutier, coming back, is whether he sees any particular reason why that would be difficult?

Mr. Cloutier: Yes, sir. By way of answer I would like to make two comments. One that you have indicated is that a separate vote for construction would indicate the intentions of the Department in the line of construction for the Indian Affairs program. Let me submit that the form of the estimates which we are proposing, would do precisely that and would do that in far more detail than is available now.

Mr. Flemming: May I interrupt a moment? It has always been my understanding that any expenditure under a separate vote must be used for the purposes of that vote.

Mr. Cloutier: That is right, sir.

Mr. Flemming: That is a basic, is it not?

Mr. Cloutier: That is right.

Mr. Flemming: Then how are we going to switch it around?

Mr. Cloutier: If the three votes of administration, capital and grants are brought together under one vote, there would be the possibility of decreasing the estimated expenditure under one heading to increase it under the other. This leads me to the second comment I wanted to make and I would like to relate it to the example you gave the Committee a few minutes ago about these ten houses that were proposed to be built somewhere up North and that you do not mind if these ten houses do not get built precisely at the village intended but are built 50 miles away. Let me submit that certainly, if the need to build these ten houses had been identified when the Estimates were put together 18 months before the end of the year to which they applied, they would have been included when the estimates were put together. But if in the course of that year it is found there is a contractor there who is willing to put up these ten houses and rent them to the government and if it is established on the basis of proper analysis that it would be a better deal for the government to rent those houses than to build them themselves, under the present vote structure there would be no money provided in the administration vote, and rentals are part of administrative expenditure and not capital expenditure, so there would be a lapse in the capital vote and we would have to have a supplementary in the other.

• 1050

This is what I submit is artificial control. Unless the department can delay other things in the administration provisions to provide for these houses, it could be put in the position of not renting these ten houses until it can get a supplementary estimate. You can immediately see the series of consequences. The houses would not get built any more quickly, the contractor may change his mind and go off somewhere else and no longer make available to the government the good deal that he was prepared to make, and it is this kind of flexibility I am talking about. Indeed, by referring earlier to the authority and the responsibilities of the Treasury Board, let me assure you that we certainly do not exercise this responsibility lightly. The department would be required to substantiate in economic terms the kind of things that it would want to do.

Mr. Flemming: Mr. Chairman, far be it from me to want to argue the point at length, but if I were going to argue it, I would simply say that generally speaking the illustration that Mr. Cloutier has used is not applicable, because you would not be renting the same year that you are going to construct. I mean, it would be a year or so later.

This is my objection. I object to the use of capital funds for administration purposes. I think that is a basic fundamental that could

be recognized by governments and I think it is a very important one, that you do not use money which is voted for capital purposes for administration. I would be willing to argue the point if I were anxious to do it, but I do not want to argue with the witness, Mr. Chairman. The point is based on capital funds versus administration funds. I think that when we vote money for capital funds that we wait for another year before they vote and the money is just not expended, because it is earmarked for certain specific purposes.

The Acting Chairman (Mr. Boulanger): I think Mr. Henderson wishes to say something.

Mr. Henderson: Apropos the point that has just been discussed by Mr. Flemming and Mr. Cloutier, I would like to remind you that you went over rather the same ground in 1964 when Treasury Board again proposed this subject. As I told you the other day, if you would look up three paragraphs in my report you will see precisely what the consequences have been. These are paragraphs that this Committee has not examined as yet. As I said to you the other day, if you look at paragraph 50 of my 1965 report, paragraph 49 of my 1966 report and paragraph 54 of my 1967 report, you will see concrete examples where, by consolidation of votes, transfers of funds have been possible which would not have been possible under the previous vote pattern. You charge me with bringing these cases to your attention and here I pointed out where the vote pattern has, in fact, been varied by the Treasury from year to year, notwithstanding Mr. Cloutier's statement that they do not do this lightly. Well, I appreciate that he does try to avoid it, but the examples are right there if you have a copy of my report handy.

The Acting Chairman (Mr. Boulanger): Do you have a supplementary, Mr. Gibson?

Mr. Gibson: You criticized that, but what about the actual vote? Were they desirable things that were done? No attention in this Committee seems to be given to that specific thing.

Mr. Henderson: I outlined precisely what the things were for and why, but the point is they were spent in a manner different from that authorized by Parliament. This is my point.

Mr. Gibson: This is what we are trying to change. If those things were needed and they presumably had to be done and they were necessary things, and if we do not know what those votes were, we are just dealing in academics.

The Acting Chairman (Mr. Boulanger): Order please, gentlemen. Would you please use the microphones.

I want to point out that we did not study the report of Mr. Henderson.

Mr. Gibson: No, but if Mr. Henderson does not know what the items were—

Mr. Henderson: That is described in my notes, Mr. Gibson, if you read the notes.

Mr. Gibson: I realize that, sir, and I am not trying to criticize you, but my point is that here we are trying to discuss what is best whether the switchover made by Treasury was right or wrong. Now, if we do not know what the improvement was—we do not know. The Treasury want to get it set up so they can do this to effect good legislation.

• 1055

The Acting Chairman (Mr. Boulanger): I am sorry, I have to call you out of order. You asked your supplementary question, I want to know if Mr. Flemming is through with his questions.

Mr. Flemming: Well I think I have taken a fair amount of time, Mr. Chairman. Thank you.

The Acting Chairman (Mr. Boulanger): That is fine. Mr. Allmand?

Mr. Allmand: Mr. Chairman, I want to say right at the beginning that before I make a decision on this I would like to deliberate a little bit on the comments made by Mr. Henderson, the replies made by Mr. Cloutier and the rebuttal, because both of them have put forward serious arguments. I think it would be worthwhile—and I speak for myself—if I could read in the quiet of my room what has transpired. I have Mr. Henderson's statement of last week, but I do not have on record Mr. Cloutier's statements today and the rebuttal. It is too bad that we get our reports of this Committee so late, because I would like to read them and judge one argument against the other, because I think it is a serious thing.

What we are really considering is a balance between government efficiency of operation and parliamentary control. If we just consider the parliamentary control side, I think we have to consider how these Estimates will be considered in the future. Under the proposed new rules two months will be given to the

consideration of Estimates in Committee and I think the new rules say that all estimates must be assigned to Committees on or before March 1 and be returned to the House by the end of April, so we would have March and April in Committee for detailed study which is very good, where it would be presumed the parties would split up their caucus and have specialized people on each Committee ready to discuss these Estimates at length and to deal with them much differently than Mr. Crouse.

Mr. Crouse's objection to last night was well founded. This includes any other night when you have to sit in the House of Commons and deal with many votes all at once, so I think it is a great improvement to deal with the Estimates over a two-month period in Committee where you can take your time; you can ask questions and so forth and you can make amendments.

Now whether we have this type of format or whether we have three votes or one vote in the Committee system as proposed, to be very frank to me there is not too much difference between one and the other. What is really important is that I know what the money is being spent for so that I can object to that particular vote and make an amendment.

For example, if we take the example of Indian program under the Department of Indian Affairs and Northern Development, if I see an item under construction and acquisition that is unwarranted and I am in the Committee that deals with these Estimates, I feel I can make a strong argument against that particular thing and make a motion to reduce the total vote by that amount.

What gets me is that with all these votes sometimes we have spent more time in the House of Commons calling the votes. Vote 1, Vote 2, standing up, sitting down, standing up, sitting down, voting on the thing rather than really discussing the expenditure of money, why we should spend it and getting answers from the Minister concerned. I would rather spend my time debating the real issue, whether the money is necessary and trying to reduce those votes, or trying to eliminate them altogether, rather than just mechanically getting up and down and voting; in other words, extending the number of votes.

However, as I say I would like to consider it in more depth. I do not know when we have to decide. We do not have our Chairman or Vice-Chairman here this morning. When do we have to decide on this matter?

The Acting Chairman (Mr. Boulanger): There is no specific time for that. The end of the year—

Mr. Allmand: Before we take a vote, Mr. Cloutier, when would you like to have our report on these proposed estimates?

Mr. Cloutier: I have had conversation with Mr. Hales on this and I have indicated to him that the earlier the better. You see, the departments are already gearing up for the production of their programs for the year 1970-71 and it would be extremely helpful if we could have a report of the Public Accounts Committee on this matter before the Christmas recess.

Mr. Allmand: You would like a report before the Christmas recess?

Mr. Cloutier: This would be helpful, because the recommendations of the Committee that are accepted by the government would have to be translated into instructions to departments how they are going to build up their estimates.

• 1100

The Acting Chairman (Mr. Boulanger): The steering committee has to work on preparing a report but so far as getting it before Christmas is concerned, I doubt very much that this will be possible. When the Chairman resumes his duty perhaps he will be able to tell you more about it. I do not know when we are going to sit again but I am sure the steering committee has to prepare a report before Christmas, but in any case at the next meeting the Chairman will be able to give you more information. The steering committee will meet, I suppose, this week.

Mr. Allmand: If I understand correctly, the Treasury Board would like to have a report before Christmas but the . . .

The Acting Chairman (Mr. Boulanger): Yes, they would like to have it.

Mr. Allmand: . . .Committee feels that they cannot give a report before Christmas. I was going to say that before we make the report I would like to re-assess the arguments on both sides and I was wondering whether we can get the *Proceedings* out a little bit quicker than in the past since there are fewer committees sitting now. I would not mind re-reading what was said today and on the last day.

The Acting Chairman (Mr. Boulanger): To answer your question, I am informed that while they are working on the report there will be time to prepare all the documents and papers.

Mr. Allmand: I see, but I mean it is not just the steering committee that should have an opportunity to read these things; the whole Committee should have an opportunity, I think.

The Acting Chairman (Mr. Boulanger): I think you should leave this question until the Chairman is back on the job, when you will get exactly the answer you are looking for.

Mr. Allmand: When will the Chairman be back?

The Acting Chairman (Mr. Boulanger): I suppose he should be here for the next sitting.

Mr. Nowlan: He will be in at eleven o'clock today, I am told.

Mr. Allmand: Oh, I see.

The Acting Chairman (Mr. Boulanger): I have two more speakers.

Mr. Flemming: I have one short supplementary, Mr. Chairman, for Mr. Cloutier and it is this: Does the Treasury Board contemplate using the new format for the 1969-70 Estimates?

Mr. Cloutier: No, sir. The 1969-70 Estimates will be tabled in the House in the usual form. In addition, we will have these samples for as many departments as we can complete to help the committees that will be sitting next spring.

The Acting Chairman (Mr. Boulanger): Thank you. I have Mr. Cafik and Mr. Bigg. We have time to finish with these two questioners. Mr. Cafik?

Mr. Cafik: Mr. Cloutier, I understand from the answer you just made that the Estimates for 1969-70 will not be in this new form. Therefore, that prompts me to ask why do you expect a report at this particular time if it is not going to have any immediate effect on your operations?

Mr. Cloutier: The estimates for 1969-70 are already in preparation and we have had departmental submissions now for a month or a month and a half which we are examining and refining. What I am referring to is the preparation of Estimates for the year 1970-71.

I think the President of the Treasury Board in his remarks to the Committee some weeks ago indicated that the first submission of a department with respect to the following year is handed to the Treasury Board in the month of May, and departments are even now tooling up and preparing for this submission. The manner in which these proposals are put together has to be consistent with the manner in which they will be reflected in the Estimates book for 1970-71 which, we hope, will be in the new form. The earlier we can get these instructions to the departments the better purely from an efficiency point of view.

Mr. Cafik: How married is the Treasury Board to the concept of having these three votes in one vote?

Mr. Cloutier: We think it makes a lot of sense.

Mr. Cafik: Yes, but you feel very strongly about this, do you?

Mr. Cloutier: Yes, because we are attempting to rationalize the whole process of Estimates and present all votes with the same approach.

Mr. Cafik: Yes, I can understand the need for consistency, but would it obviate that if you had three votes under administration, construction and grants? For instance, if you did that consistently in all departments it would still be consistent, would it not?

Mr. Cloutier: If you did this consistently in all departments, offhand, if we have under our proposal 136 votes, you would presumably have three times as many so that we would end up with four hundred and some.

Mr. Cafik: I do not think that that follows, does it? All you have to do is take the number of departments and add two votes per department, is it not?

Mr. Cloutier: No, sir. Not all programs have capital expenditures and this is why I say offhand you would have three times as many. I cannot give you the pecise answer but I know that some votes now called administrative votes contain capital and grants items, and presumably they would have to be broken down. Therefore, in effect, you would have the present number of votes because the present pattern would not be changed and then you would have to break down and take out those other votes that are now combined. You

end up by having more votes than you have now.

• 1105

Mr. Cafik: Yes, there is no doubt about that. Yes, Mr. Chairman?

The Acting Chairman (Mr. Boulanger): Have you finished?

Mr. Cafik: No, I am not.

The Acting Chairman (Mr. Boulanger): Then I must ask if it is satisfactory to the members to carry on a little longer so that Mr. Bigg will have an opportunity to ask his questions.

Mr. Bigg: I will only take a minute.

Mr. Cafik: I will only take another minute or two.

I find pages 14 and 15 of this sample very confusing, to say the least.

You may not want to divide it into three votes and I can see many reasons for it, and I think the strongest argument against it is the one put forward by Mr. Flemming, that you can shift the funds from one section to another which, I think, is the major problem. However, is there any reason why at least under administration, operation and maintenance, for instance, you could not put a sub-total, and under construction and acquisition, a sub-total? I find in looking at these estimates that very frequently I have to add up all kinds of columns to find out how they related to another page somewhere, and I think this poses some difficulties.

On page 15 where you apparently have the details of major construction and acquisition projects, which I presume is a breakdown of the item on page 14 called construction and acquisition, I find that the total on page 15 is $54,810,000 and the total on page 12 which I would have expected to be larger is, in fact, smaller. It is $34,237,000.

Mr. Cloutier: If you will look at the third column on page 13 you will find the total is $34,237,000 and that coincides with the total shown on page 12. The first column is the total estimated cost for the years over which these individual projects will be built, so the first column is a total expenditure estimated cost; the second column is the expenditure up to that year; the third column is the expenditure that is proposed for the year in relation to which the Estimates are presented. I believe you do have...

Mr. Cafik: Oh, I see, I am sorry. I did not interpret that...

Mr. Cloutier: ...sub-totals here relating to the various activities, so that you can relate to the individual items on page 12.

Mr. Cafik: All right; I have one last thing. I find that on page 4 of this general summary it is very difficult to relate these summaries to the details presented in the remainder of the report. It seems to me there might be a better way in which to lay this out so that one could readily equate one group of figures with another group and know exactly what is happening.

Mr. Cloutier: We will have a look at this, sir.

Mr. Cafik: Thank you very much, Mr. Chairman.

The Acting Chairman (Mr. Boulanger): Now I have the last questioner, Mr. Bigg.

Mr. Bigg: I have to agree that our problem here is one of so-called efficiency in administration and parliamentary control and I was wondering if I could ask Mr. Cloutier to be, perhaps, the devil's advocate. How can we protect our right of riding herd on the public purse and expect this same efficiency? It seems to me that although we can get a lot of information under this new system and we know exactly how the administration is setting out the spending of our money, we have no control over it.

• 1110

I understand very well the efficiency of the Treasury Board and all the different departments but what can we do if we disagree? After all, we have a right to disagree no matter how right the administration is or how right the Treasury Board is; we are the people who pay. We are the only people, so far as I know, who have any brake whatever in this matter. Can you tell us how we are going to control, or have any hope of controlling, expenditures, especially this spill-over from one purpose to another?

We decide in our wisdom that we will allow you so much for construction, so much for wages, so much for planning and men. Then we abdicate. Having looked it all over we say: "However, in your wisdom you go ahead and do anything you like." That is the way it looks to me.

I will draw you an analogy. My daughter is at nursing school and I give her a monthly

allowance and I allow her to do just what you are suggesting we do to you. If she does not want to go to the picture show, she can save it for clothes. If she wants to save it for her trousseau, she can give up clothes and picture shows. I give her the full amount of money and she does what she likes with it. However, sometimes I wonder, and if I saw she was going to the picture show all the time and not clothing herself, as a parent I would want to have some control and say: "I am going to cut your allowance unless you do such and so." Now, how are we going to cut your allowance if we happen to disagree? I am asking you to be the devil's advocate.

Mr. Cloutier: Exactly. Let us look at capital in the Estimates, because this has been the point of interest as demonstrated this morning. Let us turn to page 12 in the booklet before you where you will see the proposed Estimates for the new year and you will also see the forecast expenditure for the year ending and the actual expenditure in the previous year. Here you can examine the progression.

Mr. Bigg: Yes.

Mr. Cloutier: If I can use your analogy, although I do not have a daughter in nursing school, let me imagine for a moment. She will argue with me that she needs an allowance of so much, because she wants to do this, this and this and in your judgment she can have so much for a picture show and she can have so much for clothing. It is on the basis of a judgment of individual items that you will grant her total allowance.

Mr. Bigg: Yes.

Mr. Cloutier: Now, it is after the fact. It is on how she accounts for her allowance that you will judge whether you should reduce it or increase it.

Mr. Bigg: Of course, that is another problem; the accounting...

Mr. Cloutier: What I am suggesting is that the examination by the Public Accounts Committee of the actual use to which the money is put comes through its examination of Public Accounts in relation to what was forecast in the Estimates. This is where you can form a judgment of how accurately or how closely the department has achieved its plans. It is at that point...

Mr. Bigg: And kept to its own forecast.

Mr. Cloutier: Exactly, and it is at that point you would want to have explanations from the department. Why has this thing taken place? If the reason is good, as was referred to earlier—why wrap it up in formalistic obstacles?

Mr. Bigg: In this analogy that I gave—and I think it is a good one—I find out by good accounting. I have asked my daughter to keep books and I trust that the books are straight—I will go along with that—and I find out she is spending half her allowance on picture shows and she is not clothing herself. How do I make sure by still giving her this lump sum, this lump note that you are talking about, that I have control over whether or not she just keeps on going to the picture shows instead of clothing herself?

Mr. Cloutier: You have this whether...

Mr. Bigg: I have no control whatever, because although I discuss it in April and May and I come to conclusions and approuve it, not only in this Committee but in every Committee of the House, we turn the lump sum over. After that you do not have to spend it the way you say you are going to.

If we trust you that much why not just say: "How many dollars do you need?" and go home? We look carefully into what you are going to do with it, but you do not do it, and then year after year we vote you the same lump sum and it is done again. What is the point of wasting time printing these estimates if they are not going to be followed?

Mr. Cloutier: I am suggesting that the estimates as they are put forward are the most up to date and the most refined projection of departmental plans and that by an examination of the accounting after the fact, parliamentary committees have the opportunity of asking departments to account for the difference.

• 1115

Mr. Bigg: Exactly—after the fact, so that five years from now we will be getting around to the mistakes that were made in 1968-69.

Mr. Nowlan: Mr. Chairman, I think it is a bad precedent to stay after 11 o'clock.

The Acting Chairman (Mr. Boulanger): Before we conclude, does the Committee wish to hear the same witnesses again at the next meeting? You had better express your wish now.

Mr. Nowlan: If we do, perhaps we could have an answer next time to why the Treasury Board did not check out the rentals of the 10 houses in the North before they came to Parliament to ask for the capital sum to build them.

Mr. Cloutier: If I may answer the question...

The Acting Chairman (Mr. Boulanger): Mr. Nowlan, you suggested adjournment and now you ask questions.

Mr. Nowlan: No, I just want him to think about it.

Mr. Cloutier: I could give you an answer now.

Mr. Nowlan: No.

The Acting Chairman (Mr. Boulanger): Order, please.

Mr. Cloutier: Very simply, to use that example, at the time the Estimates were put together this was the most effective way of meeting the needs and it was only after the Estimates were put together that this opportunity of renting became available.

The Acting Chairman (Mr. Boulanger): Thank you very much, gentlemen. The meeting is adjourned.

APPENDIX B

December 6, 1968.

CANADA PENSION PLAN

Memorandum on the Canada Pension Plan, requested by the Honourable H. J. Flemming in the meeting of the Public Accounts Committee on November 19, 1968

Section 118 of the Canada Pension Plan, 1964-65, c.51, provides that the Minister of National Health and Welfare lay before Parliament an annual report on the administration of the Act, including

> a statement showing amounts credited to or charged to the Canada Pension Plan Account and the Canada Pension Plan Investment Fund by appropriate classifications...

The last report, for the year ended March 31, 1967, was tabled in the House on November 27, 1967. The annual report included the following financial returns, copies of which are attached:

Statement of Canada Pension Plan Account for the fiscal year ended March 31, 1967.

Comparative Statement of Canada Pension Plan Account for the years ended March 31, 1966 and 1967.

Canada Pension Plan Investment Fund Statement of Account and Investment Income as at March 31, 1967.

When Bill C-136 dealing with the Canada Pension Plan was under discussion in the House, the Auditor General suggested that provision be made therein for standard type financial statements to be prepared annually in a pattern similar to those prepared, for example, by the Unemployment Insurance Fund. If this were done and the Auditor General were named auditor of the Plan, he would then check and report on the statements. However, as his suggestion was apparently not acceptable to the Government at the time, the Auditor General wrote to the Minister of National Revenue on March 4, 1965 suggesting that if provision were made in the Bill simply for him to report annually to the Minister on the results of his examination of the Canada Pension Plan and the Canada Pension Plan Investment Fund, and for his report to be included in the report by the Minister under section 118, this would probably meet the same purpose. Attached is a copy of the letter to the Minister of National Revenue together with a copy of the reply which was sent by the Minister of National Health and Welfare, dated March 5, 1965, advising the Auditor General that a section along the lines proposed was not required.

A section is, of course, not required so far as the appointment of the Auditor General is concerned because the Canada Pension Plan Account and the Canada Pension Plan Investment Fund are part of the Consolidated Revenue Fund and the Auditor General is automatically the auditor by virtue of the provisions of the Financial Administration Act. It is unfortunate that provision was not made in the manner suggested because this would have brought about preparation of more complete standard type financial statements and a report thereon by the Auditor General. A sample of those prepared by the Unemployment Insurance Fund is attached.

TABLE I

STATEMENT OF CANADA PENSION PLAN ACCOUNT FOR THE FISCAL YEAR ENDED MARCH 31, 1967

Balance at April 1, 1966			$ 89,405,854.31
Add:			
Contributions		$ 587,202,309.35	
Interest and Penalties (Employers)		262,522.50	
Interest on Investment Fund		11,007,430.52*	
Interest on Monthly Operating Balances		1,076,504.09	
Revenue from Computer Operations		15,332.71	
Adjustment of Previous Years' Administrative Costs		339,064.28	
			599,903,163.45
			$ 689,309,017.76
Deduct:			
Benefit Payments:			
Retirement Pensions		$ 50,774.25	
Administrative Expenses:			
Department of National Health and Welfare	$ 1,488,206.82		
Department of National Revenue	5,288,300.00		
Comptroller of the Treasury	620,626.52		
Unemployment Insurance Commission	440,303.00		
Department of Public Works	531,050.62		
Department of Finance	9,093.70		
		8,377,580.66	
			8,428,354.91
Balance of Canada Pension Plan Account at March 31, 1967			$ 680,880,662.85
Less:			
Balance of Investment Fund at March 31, 1967			615,521,000.00
Operating Balance at March 31, 1967			$ 65,359,662.85

* Not included in this figure is an additional $8,078,121 accrued interest earned by the Fund.

Certified Correct

H. MILLINGTON
Chief Treasury Officer
Canada Pension Plan

TABLE II

COMPARATIVE STATEMENT OF CANADA PENSION PLAN ACCOUNT
FOR THE YEARS ENDED MARCH 31, 1966 AND 1967

	Year Ended March 31	
	1966	1967
	$	$
Balance at April 1 of preceding calendar year	Nil	89,405,854.31
Add:		
Contributions (net)	94,880,312.31	587,202,309.35
Interest and Penalties (Employers)	—	262,522.50
Interest on Investment Fund	—	*11,007,430.52
Interest on Monthly Operating Balances	36,750.40	1,076,504.09
Revenue from Computer Operations	—	15,332.71
Adjustment of Previous Years' Administrative Costs	—	339,064.28
Total Additions	94,917,062.71	689,309,017.76
Deduct:		
Benefit payments	—	50,774.25
Administrative expenses	5,511,208.40	8,377,580.66
Total Deductions	5,511,208.40	8,428,354.91
BALANCE AT MARCH 31 (Funded as indicated below)	89,405,854.31	680,880,662.85
Canada Pension Plan Investment Fund	34,853,000.00	615,521,000.00
Operating Balance (available from Consolidated Revenue Fund)	54,552,854.31	65,359,662.85
BALANCE AT MARCH 31 (per above)	89,405,854.31	680,880,662.85

* Not included in this figure is an additional $8,078,121 accrued interest earned by the Fund.

Certified Correct
H. MILLINGTON
Chief Treasury Officer
Canada Pension Plan

TABLE III

CANADA PENSION PLAN INVESTMENT FUND STATEMENT OF ACCOUNT AND
INVESTMENT INCOME AS AT MARCH 31, 1967

Securities of or Guaranteed by	Balance as of March 31, 1966	Purchases	Balance as at March 31, 1967	Investment Income for Year
	$	$	$	$
Newfoundland	655,000.00	11,038,000.00	11,693,000.00	188,557.20
Prince Edward Island	108,000.00	1,890,000.00	1,998,000.00	31,875.20
Nova Scotia	1,248,000.00	21,415,000.00	22,663,000.00	508,632.84
New Brunswick	972,000.00	16,707,000.00	17,679,000.00	283,461.30
Quebec	—	368,000.00	368,000.00	611.10
Ontario	20,110,000.00	332,587,000.00	352,697,000.00	5,758,290.15
Manitoba	2,077,000.00	34,939,000.00	37,016,000.00	599,428.30
Saskatchewan	1,432,000.00	24,462,000.00	25,894,000.00	416,148.05
Alberta	3,064,000.00	51,071,000.00	54,135,000.00	830,862.33
British Columbia	5,085,000.00	84,399,000.00	89,484,000.00	2,372,577.75
Canada	102,000.00	1,792,000.00	1,894,000.00	16,986.30
TOTAL	34,853,000.00	580,668,000.00	615,521,000.00	11,007,430.52*

*Not included in this total is an additional $8,078,212.00 accrued interest earned by the Fund.

Certified Correct
H. MILLINGTON
Chief Treasury Officer
Canadian Pension Plan

MINISTER OF
NATIONAL HEALTH AND WELFARE

Ottawa, March 5, 1965.

Dear Mr. Henderson:

I have your letter of March 4 in which you enclose a copy of a letter you sent to my colleague the Minister of National Revenue.

I have reviewed this with Mr. Benson and also with the Minister of Finance. I have also consulted the Department of Justice, and have received the opinion that having regard to the provision of the Financial Administration Act, a section along the lines you have proposed is not required.

It is our view, therefore that the Act should not now be amended by the addition of such a provision.

I appreciate, however, your interest in raising this matter.

Yours sincerely,
Judy LaMarsh

Mr. A. M. Henderson,
Auditor General of Canada,
Justice Building,
Ottawa.

Ottawa, March 4, 1965.

Dear Miss LaMarsh,

I am attaching a copy of a letter I have sent this morning to the Honourable Mr. Benson, Minister of National Revenue, in connection with a discussion which took place in the House on March 2nd relating to Bill C-136 dealing with the Canada Pension Plan.

I believe the contents of this letter will be self-explanatory. If I can add anything to it, I will be happy to do so at your convenience.

Yours sincerely,
A. M. Henderson.

The Honourable Judy LaMarsh,
Minister of National Health and Welfare,
Ottawa.

Ottawa, March 4, 1965.

Dear Mr. Benson,

I have noted the points you discussed with Mr. G. W. Baldwin during the debate on March 2nd on Bill C-136 dealing with the Canada Pension Plan. Mr. Baldwin had raised the question of my responsibilities under the proposed Act.

You may remember that a year ago you and I had a brief discussion about this point at which time you indicated agreement with the proposal and said you would like to have some wording from us. My assistant, Mr. George Long, spoke with you later. You stated you had spoken to the Minister of National Health and Welfare about this and that Miss LaMarsh had agreed that such a section had a place in the Act but thought that this could perhaps best be done in Committee.

I feel I should say to you that I must accept the responsibility for not following this matter up sooner either with you or with Miss LaMarsh, but trust that my failure to do so has in no way inconvenienced either of you in terms of the present debate.

In order to be of whatever assistance I can, I have thought that you should have the enclosed draft text of the type of reference we had in mind when we discussed the matter last year. Mr. Long and I have put this together today with the idea that it might become a section of the Act immediately preceding Clause 118. I probably do not need to go into the merits of it further with you at this time but will be pleased to discuss it with you any time at your convenience.

Yours sincerely,
A. M. Henderson.

The Honourable E. J. Benson,
Minister of National Revenue,
Ottawa.

117A. (1) The Auditor General shall report annually to the Minister the result of his examination of the Canada Pension Plan Account and the Canada Pension Plan Investment Fund and shall state whether in his opinion the transactions in the Account and the Fund were in accordance with the provisions of this Act and shall call attention to any other matter falling within the scope of his examination that in his opinion should be brought to the attention of Parliament.

(2) The annual report of the Auditor General shall be included in the annual report of the Minister under section 118.

AUDITOR GENERAL OF CANADA

Ottawa, July 29, 1968.

Sir,

Although no change has yet been made in the Unemployment Insurance Act giving effect to the recommendation of the Standing Committee on Public Accounts and the Committee of Inquiry into the Unemployment Insurance Act that the annual financial statements of the Commission be reported upon by the Auditor General, in keeping with the practice begun in 1962 the Commission has submitted its financial statements for the fiscal year ended March 31, 1968 to me for audit and report to you.

I now report that, in my opinion, the Statement of Position and the related Statement of Receipts and Disbursements of the Unemployment Insurance Fund present a fair view of the state of the Fund as at March 31, 1968 and a fair summary of the transactions for the year then ended.

Yours faithfully,

A. M. HENDERSON
Auditor General of Canada.

The Honourable Bryce Mackasey,
Minister of Labour,
Ottawa.

UNEMPLOYMENT INSURANCE FUND
(Established by the Unemployment Insurance Act)

STATEMENT OF POSITION AS AT MARCH 31, 1968
(with comparative figures as at March 31, 1967)

ASSETS	1968	1967
Deposit with Receiver General of Canada..	$ 6,419,981	$ 5,932,479
Deposits with banks for redemption of warrants	9,977,065	7,911,718
Accrued interest on investments	7,873,125	6,624,613
Investments:		
Government of Canada non-negotiable, interest bearing bonds, redeemable at par, subject to 30 days prior notice	296,000,000	260,000,000
	$320,270,171	$280,468,810

LIABILITIES		1968	1967
Unredeemed warrants (Note 2)		$ 17,504,744	$ 14,977,187
Deposits from employers		12,988	7,238,611
Deposit from Department of Labour for transitional assistance benefit payments		100,000	50,000
Balance of the Fund:			
At beginning of year	$258,203,012		141,483,169
Add: Excess of receipts over disbursements for the year, per statement attached	44,449,427		116,719,843
At end of year		302,652,439	258,203,012
		$320,270,171	$280,468,810

The accompanying notes are an integral part of the financial statements.

Certified correct:
R. EWERS,
Chief Treasury Officer.

Approved:
J. M. DES ROCHES,
Chief Commissioner.

I have examined the above Statement of Position and related Statement of Receipts and Disbursements and have reported thereon under date of July 29, 1968, to the Minister of Labour.

A. M. HENDERSON,
Auditor General of Canada.

UNEMPLOYMENT INSURANCE FUND

STATEMENT OF RECEIPTS AND DISBURSEMENTS FOR THE YEAR ENDED MARCH 31, 1968
(with comparative figures for the year ended March 31, 1967)

		1968	1967
Receipts			
Contributions from employers and employees		$ 347,457,716	$ 343,852,958
Contributions from Government of Canada (Note 4)		69,491,543	68,770,592
Income from investments		15,894,161	10,930,721
Penalties		187,798	172,304
		433,031,218	323,726,575
Disbursements			
Benefit payments (Note 3)			
Ordinary	$ 375,065,321		296,161,394
Fishermen	11,575,999		10,845,338
Agriculture	1,940,471		—
		388,581,791	307,006,732
Excess of receipts over disbursements of the Fund		$ 44,449,427	$ 116,719,843

The accompanying notes are an integral part of the financial statements.

UNEMPLOYMENT INSURANCE FUND

Notes to the Financial Statements

1. The accounts of the Fund are maintained on a cash basis. For this reason the statement of position does not reflect contributions and other amounts receivable, including benefit overpayments amounting to $4,357,000 ($4,250,000 at March 31, 1967), and claimants' benefits accrued at the year-end.
2. The amounts shown for unredeemed warrants do not include warrants outstanding for over three years.
3. The benefit payments shown on the statement of receipts and disbursements include seasonal benefits estimated at $72,117,000 for 1967–68 and $55,798,000 for 1966–67.
4. The total costs of the Government of Canada relating to unemployment insurance (exclusive of its cost as an employer-contributor) are as follows:

		1968	1967
Contributions to the Fund equivalent to one-fifth of employer-employee contributions, pursuant to section 83(*c*) of the Act		$ 69,491,543	$ 68,770,592
Administration expenses of the Unemployment Insurance Commission pursuant to section 10 of the Act (Note 5):			
Charges to Unemployment Insurance Commission Vote 1, less amount recovered from the Canada pension plan account	$ 37,658,694		37,333,693
Estimated value of accommodation, accounting and other services provided by other departments	8,954,500		7,102,100
		46,613,194	44,435,793
		$ 116,104,737	$ 113,206,385

5. The administration expenses of the Unemployment Insurance Commission were as follows:

	1968	1967
Salaries, wages and allowances	$ 31,849,812	$ 31,565,933
Accommodation	4,156,000	3,795,900
Contributions to superannuation account	2,095,100	1,404,600
Accounting and cheque issue service	1,894,100	1,228,000
Office stationery, supplies and equipment	1,683,570	1,728,887
Travelling and removal expenses	1,160,663	905,809
Commission to Post Office Department	1,014,043	1,246,600
Postage	962,246	900,370
Telephones, telegrams and other communication services	461,037	376,003
Contributions to Canada pension plan account	368,400	362,500
Professional and special services	318,296	276,499
Employees surgical-medical insurance premiums	216,600	148,600
Carrying of franked mail	212,300	154,500
Fees of office and travelling expenses of Umpire, National Advisory Committee, national, regional and local employment committees and boards of referees	185,234	178,914
Freight, express and cartage	108,245	100,565
Publication of departmental report and other material	97,165	164,208
Exhibits, advertising, film, broadcasting and displays	87,179	153,834
Corps of Commissionaires services	36,819	64,567
Other expenses	152,518	119,807
	47,059,327	44,876,096
Less: Amount recovered from the Canada pension plan account	446,133	440,303
	$ 46,613,194	$ 44,435,793

OFFICIAL REPORT OF MINUTES
OF
PROCEEDINGS AND EVIDENCE

This edition contains the English deliberations and/or a translation into English of the French.

Copies and complete sets are available to the public by subscription to the Queen's Printer. Cost varies according to Committees.

Translations under the direction of the Bureau for Translations, Secretary of State.

ALISTAIR FRASER,

The Clerk of the House.

HOUSE OF COMMONS

First Session—Twenty-eighth Parliament
1968

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: Mr. A. D. HALES

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 9

THURSDAY, DECEMBER 12, 1968

Revised form of Estimates

WITNESSES:

Mr. Sylvain Cloutier, Assistant Secretary of Treasury Board;
Mr. A. M. Henderson, Auditor General of Canada.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1968

29489—1

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. A. D. Hales

Vice-Chairman: Mr. T. Lefebvre

and Messrs.

Allmand,	Cullen,	Nowlan,
Bigg,	Flemming,	Rock,
Boulanger,	Forget,	Rodrigue,
Burton,	Gibson,	Thomas (*Maisonneuve*),
Cafik,	Major,	Winch—20.
Crouse,	Noble,	

(Quorum 11)

Edouard Thomas,
Clerk of the Committee.

MINUTES OF PROCEEDINGS

THURSDAY, December 12, 1968.
(10)

The Standing Committee on Public Accounts met this day at 11.12 a.m., the Chairman, Mr. A. D. Hales, presiding.

Members present: Messrs. Allmand, Boulanger, Cafik, Crouse, Cullen, Flemming, Forget, Gibson, Hales, Lefebvre, Noble, Rodrigue, Thomas (*Maisonneuve*), Winch—(14).

Also present: Messrs. Deachman, Laflamme.

In attendance: Mr. Sylvain Cloutier, Assistant Secretary of the Treasury Board; Mr. A. M. Henderson, Auditor General of Canada; Mr. J. G. Glashan, Director of Estimates and Supply Procedures Division, Treasury Board; Mr. G. R. Long, Assistant Auditor General.

The Committee reviewed the estimated costs of production of the proposed new form of the Estimates and questioned the witnesses.

The Clerk of the Committee was instructed to obtain and report to the members data concerning the distribution of copies of the Blue Book of Estimates.

Moved by Mr. Lefebvre and

Agreed,—That the list of Administration Votes Containing Capital and Grant Items be printed as an appendix to this day's proceedings (*See Appendix C*).

Moved by Mr. Winch and

Agreed,—That the Potential Departmental Programs be printed as an appendix to this day's proceedings (*See Appendix D*).

At 12.54 p.m., the Committee adjourned to the call of the Chair.

Edouard Thomas,
Clerk of the Committee.

29489—1½

MINUTES OF PROCEEDINGS

EVIDENCE

(Recorded by Electronic Apparatus)

Thursday, December 12, 1968

• 1113

The Chairman: Gentlemen, I see a quorum. First of all, may I say that I am sorry that our chairmanship got bogged down a little at our last meeting, but it was not the fault of either Mr. Lefebvre or me. I had arranged with him to take care of the meeting but he had to undergo some medical examinations which he did not expect would last into the next morning, and he was unable to contact our Clerk. That is what happened and I hope you will accept apologies from both of us.

Just to recapitulate, gentlemen, we have had referred to us by the House a very important task, that of reviewing the proposed new format for Estimates. We have had some four meetings now when you have had the opportunity to hear Mr. Cloutier representing the Treasury Board. Mr. Henderson as Auditor General has made his observations. It appears to me that we are at the point where we will soon have to make recommendations and write a report. On the one hand we have a presentation by Treasury Board that will give us more information on the new proposed Estimates. It will involve less work and produce more efficiency on their behalf, possibly. On the other hand we, as parliamentarians, will have to decide whether we wish to give up more control of the public purse, whether we want to reduce our votes in numbers and just where we want to stand on this particular point.

• 1115

I have read the transcript of the last meeting when some political overtones were interjected, and I do not propose to accept any of those. We are here as parliamentarians and we are to make the best decision that we can. It does not matter what party we represent; we are representing the people of our constituencies and the people of Canada. We are here as parliamentarians and we are to make the best decision we can on this subject. I ask you to be non-political in your deliberations and let us come up with the best report we can.

The Committee agreed to have the steering committee prepare a report and I think after today's meeting the steering committee should be in a position to write a report to submit to this Committee for approval. If the steering committee, acting as a subcommittee, wishes to have more information it will be at liberty to call anybody it wishes in order to write its report. Now, urgency is important. I know the Treasury Board wants this report as soon as possible and the Committee will do everything it can in order to provide that.

This morning's meeting will be open for further questioning of our two witnesses so that each of you can decide in his own mind what he thinks is best for Parliament.

I shall ask Mr. Cloutier first to talk about the cost factor. You have all been given a revised copy by the Clerk so please discard the one you got in the mail. The best thing to do is to tear it up so you will not get confused. We will start with a talk on the cost factor.

After that I should like to call on Mr. Henderson or Mr. Long to review with us those chapters that he put in the 1966 and 1967 reports where he brought to the attention of the House that by means of reducing votes there were some discrepancies, or moneys spent under a vote other than that under which Parliament said they must be spent.

He said in the last paragraph of the document he presented that he had asked the members to refer to and read those paragraphs, and just in case you have not, I think we will ask either Mr. Henderson or Mr. Long for further clarification of those.

Mr. Cloutier, will you proceed on the matter of costs?

Mr. S. Cloutier (Assistant Secretary, Programs, Treasury Board): Mr. Chairman, before going to the paper itself, if I may I would like to make three general observations. The unit costs from which these estimated costs have been calculated were submitted to us by the Government Printing Bureau on the basis of their experience to

date in printing and binding the new booklets.

As I have explained, we have been working up toward this proposal for some months and we have had trial runs and indeed we have printed the booklet that has been circulated to you. These estimates that were supplied to us by the Printing Bureau reflect their experience up to date. I should caution the Committee that these estimates should not be regarded as reliable as if we had been able to present the Printing Bureau with one complete manuscript. The task of estimating a printing job is usually done on the basis of a complete manuscript but, of course, this was not possible at this time.

The second observation I would like to make has to do with the assumptions we have had to make as to the number of pages that would be involved under the new form. This assumption is based on a comparison of the present and the proposed form of Estimates for about 15 departments for which we have produced the new booklet. On this basis, the total number of pages that we anticipate in the new book would be about the same as in the present book. The format would be slightly larger, but in terms of thickness the book, in all probability, would be about the same as it is under the present form.

• 1120

The last general observation I would like to make is that the most important element of these costs that we will be discussing relates to the composition charges, the work of setting up the type before the type is put on the presses and run. The composition charges remain fixed, really, regardless of the number of copies produced. Reasonable variations in the number of books or booklets that would be required would, therefore, not result in very large increases in total cost.

With these preliminary remarks, will you please turn to the document that was circulated. The first page contains a statement of the basic unit costs per page. You will see there, Composition per Page, Printing and Binding and the last item is Binders. The first item of information related to the present form of the Estimates, and for the 1969-1970 Estimates in the current form the estimated cost is $41.95 for composition for the English text and $27.79 for the French text.

The Chairman: Mr. Lefebvre?

Mr. Lefebvre: Why is there so much difference? Why is the French so much less than the English?

Mr. Cloutier: The reason, sir, is that the basic work of preparing the book and amending it and getting proofs back from the printers, and refining it and bringing it to the final stage is done on the English text. That means a number of proofs and a number of reprintings, if you wish, setting the type. Throughout that period the translators work on the translation and then, when the text is just about final, the composition of the French text is made and there are much fewer changes, so this is the reason.

Mr. Lefebvre: So actually, what we have here...

The Chairman: Wait a minute, gentlemen, I want your hands up. Mr. Lefebvre?

Mr. Lefebvre: What we have here in the French column is strictly printing costs, and in the English column there is the charge for revisions and corrections, and so on.

Mr. Cloutier: The preparation costs.

Mr. Lefebvre: It is not actually prorated on the two.

Mr. Cloutier: No, that is right.

The Chairman: Mr. Cafik?

Mr. Cafik: It is incomprehensible to me why the cost of composition per Page would be so high. I presume—and perhaps I am going to be misinterpreting this. Is this per thousand books, for the whole thing? Is it $41.95 per page to lay it out?

Mr. Cloutier: That is right.

Mr. Cafik: That is the total composition cost?

Mr. Cloutier: That is right.

Mr. Cafik: That is all right. I misinterpreted this.

The Chairman: Mr. Allmand?

Mr. Allmand: Mr. Cloutier, does that not also include all the preparatory work going into the...

Mr. Cloutier: No, sir, this is just the composition...

Mr. Allmand: Just the composition?

Mr. Cloutier: Just the composition; the work done by the Printing Bureau on the estimates.

The Chairman: Mr. Winch?

Mr. Winch: The preparation and the composition is in English, so therefore the cost in English is higher because on the composition you have to translate into French. Is that the reason that French is lower than the English?

Mr. Cloutier: That is right.

The Chairman: Mr. Lefebvre?

Mr. Lefebvre: This does not include the work within the departments?

Mr. Cloutier: No sir.

Mr. Lefebvre: Preparing each individual department?

Mr. Cloutier: No, sir. You have the same difference on the proposed form on the second item of information under the alternative of printing separate books for the English text and for the French text. Here you have a similar difference between the English and the French cost. The same thing carries on on the proposed form for separate French text, but printing only booklets.

• 1125

The Chairman: Mr. Winch?

Mr. Winch: May I ask one question here? You just discussed the proposed form. Why is it that the printing and binding cost per page is $2.90 in English and $3.90 in French, because you already have your translation? Is it because of the number of copies that it is $2.90 in English and $3.90 in French? The work is already done under composition, so this is the printing. Why $1 . .

The Chairman: He has your question, Mr. Winch; he has your question.

Mr. Cloutier: The difference, sir, is because in the English text we print 4,000 copies and in the French text we print 675, and the total cost is spread over a larger number. The makeup cost, for instance—the make ready cost, preparing the presses, setting type, and so on—is the same for the English and the French, but you spread that cost over 4,000 copies in English, whereas you only have 675 copies to spread it over in the French side.

We come now to the fourth item of information on the front page and you will see that this is a bilingual text where one page would be in English and the other page would be in French, and here you have only a single cost because, in order to produce the book, you would have to work the two texts at the same time. In other words, you cannot print the English and translate it and adjust it and then put the same paper through the press a second time for printing the other side. The technical aspects of the production would have to work in tandem on English and French and at that point the revisions would have to be made at the same time on both texts. This is why, if the Estimates are printed in a bilingual form, you would have the same costs for the English page as for the French page.

The last item of information relates to binders. There was discussion in the Committee as to how these new booklets could best be presented, and among the alternatives that are presented for consideration later is the possibility of putting the new form of Estimates into a bound volume, sewn like the present one, or providing it in a binder.

For those who require the total text and if, again, we have separate texts the binder would be about this thick. If we have the first item there, it would be about one inch thick and if we go for the bilingual text, of course, you have twice as many pages and you would need a larger binder, and this is the difference in cost.

Mr. Winch: May I ask one question here, Mr. Chairman.

The Chairman: Mr. Winch?

Mr. Winch: A request was made at our previous meeting that if possible you present the binder so we could see what it is like. Have you not been able to obtain one?

Mr. Cloutier: No, we have not. We have a binder of the type that we would propose to use, but it is a binder that was chosen for a continuous use. In other words, it is a binder that would stand years of use and it costs $3.15 or $3.30.

We think the estimates get used only once a year really, and then it is a reference document, so that the cover could be of lighter construction and the estimate we obtained from the department of supply was $2.60.

The Chairman: Mr. Winch?

Mr. Winch: May I ask, then, as a result of your investigation, is it a type which you can remove...

Mr. Cloutier: Yes sir. It is a type...

Mr. Winch: Is it a type that when you separate, you can see the full page?

Mr. Cloutier: Yes sir.

Mr. Winch: Not on some types you know, Mr. Chairman, where you cannot see the full page.

• 1130

Mr. Cloutier: If we put it in binders, the binder has to lay flat, and that implies a more sophisticated arrangement than the usual three-ring round binder. It is really a post binder that opens and lies flat. If we put the things in binders, we have to use a binder that would make reference easy.

The Chairman: Mr. Cafik.

Mr. Cafik: I gather that the binder is to bind the individually prepared booklets?

Mr. Cloutier: That is right.

Mr. Cafik: And if you use that method, would that eliminate the bound text entirely, or would you still have the bound text?

Mr. Cloutier: This is one of the alternatives that we are putting...

Mr. Cafik: But one would exclude the other, would it not?

Mr. Cloutier: Yes, I would expect you would not have both.

Mr. Cafik: If you went to the binder form, that would be it?

Mr. Cloutier: That is right.

Mr. Cafik: Thank you.

The Chairman: Mr. Boulanger?

[*Interpretation*]

Mr. Boulanger: Have you estimated the cost of this system of binding and printing etc., when done by the Printing Bureau.

Mr. Cloutier: Yes.

Mr. Boulanger: Have you tried to find out the prices offered in the private sector?

Mr. Cloutier: No, Mr. Boulanger. The printing of parliamentary documents, including the Estimates, is, so far as I know, by the Government Printing Bureau exclusively. The estimates have to be done by the printer because of the piecemeal nature of the work. We have been receiving the proofs for the past three weeks in sections. One day it is 5 pages, another day 15 or 50. There is a constant review and refinement of the process, but in order to get the estimates out on time it is necessary to have the finest co-ordination and the closest co-operation between my staff and the printers. This type of co-ordination is easier to achieve within the government.

The Chairman: Mr. Boulanger.

Mr. Boulanger: I have some experience of printing and the price you pay for this special service seems to me exorbitant by comparison with prices as I knew them a few years back—in the private sector. If I asked people in the trade to quote a figure for doing the estimates it would be a far lower figure I am sure. If this special service is essential to you, however, it must be left to you. I do, however, find these prices away out of line. For your thousand copies...

[*English*]

The Chairman: Mr. Boulanger, I think your point is well taken. We have a Printing Committee of the House. It is a joint committee, and I would suggest that when it meets, you should go to it and make this point, because I think it is well taken.

Mr. Boulanger: Thank you.

Mr. Cloutier: Well, then, if we can go to the next pages, the first is the cost estimated for the 1969-70 book under the current form.

The Chairman: Mr. Lefebvre.

[*Interpretation*]

Mr. Lefebvre: Mr. Cloutier, I thought that the new form as proposed would do away with between 100 and 150 pages of the report. And you say here: present format, first item, 600 pages; proposed format, second item, still 600 pages. I thought that 2 or 3 weeks ago, that the aim was to remove 100 or 150 pages from the annual report.

Mr. Cloutier: The figures that are given here...

We entered the figure 600 to make possible a comparison with something everyone is familiar with and can see. The costs for the Blue Book, for 1969-70 in its present format,

will be lower than the $44,000 given here, because there will be less pages. But, to establish a comparison, we have used the same number of pages as were in the current book.

• 1135

Mr. Lefebvre: Thus, the proposed format for 1970-71, will have the same amount of pages as the present format for the 1969-70 report.

Mr. Cloutier: 1968-69.

Mr. Lefebvre: Are there 600 pages?

Mr. Cloutier: There are 603 pages.

Mr. Lefebvre: There will still be 603 pages with the proposed form.

Mr. Cloutier: Precisely. But, in the 603 pages, you are going to have a lot more information that you do not have right now.

Mr. Lefebvre: But, I thought that the net result would amount to a reduction of the number of pages in the volume.

Mr. Cloutier: I do not remember exactly how many pages there are involved, but by taking away details about wages, you do away with some 60 pages of the present format. But, in the proposed format, you are going to be given all sorts of other information that will fill these pages.

[*English*]

The Chairman: The point made there, Mr. Lefebvre, is that the new book will not have a smaller number of pages.

Mr. Lefebvre: No, the book itself will be the same number of pages, but there will be more information in some areas than we have had previously.

The Chairman: That is right.

Mr. Cloutier: In effect what I am saying is that you are going to have very much more information in the same number of pages, approximately.

The Chairman: That is right.

Mr. Cloutier: Now the alternatives that are discussed here are eight in number. I should say that they are not the only possible eight alternatives. Indeed, the combinations could be a lot more numerous, but there are eight. These are eight alternatives that struck us as representing a good range of possibilities.

The first one is the proposed form of separate English and French texts, booklets only, with binders. And this would mean a binder containing all the separate booklets in English, and another binder with all the separate booklets in French. Of course, we would be printing the same numbers as we are printing now. The cost would be $63,700.

The second alternative is Separate English and French texts in bound volumes, exactly as we have it now. The cost would be $48,400. The major difference, of course, is that we would not have the binders, at two dollars or so each.

The third alternative is a bilingual text in one volume, and here we estimate that we could print only 4,000 copies because everybody would have the English and the French text in the same volume, and there would not be the need for the additional 675.

Mr. Winch: A bound volume?

Mr. Cloutier: This is a bound volume, exactly as we have now. The cost in that case would be about $59,000.

The fourth alternative is a bilingual text, but instead of being a bound volume you would have the booklets in a binder. And here again we could print only 4,000 copies, and the cost would be $70,700.

The fifth alternative becomes a little more complicated. This would provide for separate English and French texts, and a combination of a bound volume for those who want the whole package, and booklets for those who need only to concern themselves with a given department. And here we have had to make assumptions on the number of copies. Parliament now receives 1,000 copies of the English text, and 350 of the French. Here we have assumed that each member would have a bound volume and would also have the booklets, so if he wanted to use just one booklet to go to a particular Committee he could do so.

• 1140

Mr. Winch: I am sorry; may I ask one question here?

Mr. Cloutier: Yes, sir.

Mr. Winch: Would what you have just said mean that the English-speaking members would get a bound volume in English and the other, and the French would get only the French bound volume and the French in that? I am not quite sure of that.

Mr. Cloutier: That is right. Right now Parliament asks us for 1,000 English books and 350 French books. This alternative would continue the present practice. I do not know exactly how the documents are circulated to the French-speaking members. It may very well be that they get both the English and the French; I simply do not know. This is an internal matter for the House.

Mr. Boulanger: The French members receive one of each, at any rate.

Mr. Cloutier: That is my understanding.

Mr. Boulanger: So it probably will be the same.

Mr. Cloutier: That is right. This is the assumption we have made. We have also made the assumption, as a result of remarks by some members, that if there is a bound volume they would also like to have the booklet.

Mr. Winch: Mr. Boulanger, I think this is rather important. Did I understand you to say that all members get it in both English and French?

An hon. member: The French members get it.

Mr. Boulanger: May I raise a point of order? You have misquoted me. The French-speaking members receive them in both. I do not think the English speaking members receive them in both. I understand you only get it in English. Is that right?

Mr. Cloutier: This is outside of my competence, sir. This is a matter of internal administration of the House of Commons and I cannot answer that.

The Chairman: The answer to that, Mr. Boulanger, is that...

Mr. Boulanger: I am not involving Mr. Cloutier; I was directing this to Mr. Winch.

The Chairman: Well, I think this might clear up the way it is handled. The French members get a copy of English estimates and a copy of French estimates.

Mr. Winch: That is the very point I am coming to, then. I hope I am right here. Is it necessary that you get them in both?

Mr. Boulanger: This is a question about which I will give a personal impression, if you will permit me.

The Chairman: I will entertain one question. It is really none of our format here, but proceed.

Mr. Boulanger: As a French-speaking Canadian and a member, I would say that if we want to save money we really do not need both, to be honest about it. I have never looked at the English text so really, on principle, I would say as a personal opinion that we never use the English copy. Therefore, if it means a saying of money I am fairly sure that none of the French members would be hurt or insulted if we only got the French text. This is my personal opinion, of course.

The Chairman: It is the prerogative of any member to ask for a set of estimates in English or French or both, if he wants them.

Mr. Boulanger: Yes.

Mr. Winch: That is the point.

The Chairman: Any member. If I wanted set of estimates in French I could ask for it and receive it and also have an English set, and vice versa; that is the way it is.

Mr. Boulanger: Mr. Chairman, if you will permit me, if we were talking about this as a matter of principle as we should we would be saving lots of money.

Mr. Winch: That is the very point I am after, Mr. Chairman. We are now talking about expenses and it seems that the new system will cost a bit more. Now, what I am trying to find out, Mr. Chairman, is whether it is necessary—let us say there are 400 extra copies involved—to have it done if on the French-speaking side you want it only in French, but everyone can have it in both languages. My point is that perhaps there might be a reduction in the cost we have before us if a member can say which language he wants the estimates in. We are discussing money now...

Mr. Boulanger: That is right.

Mr. Winch: ...as well as format.

The Chairman: Let us proceed and I think when we come back to study the individual cases this will come up again. Mr. Cloutier, you may proceed.

Mr. Cloutier: The second item in this assumption concerning quantities relates to departments and under this alternative each

department or agency, of which there are about 70, would receive 2 copies of the full text and, in addition, the department would receive on an average 15 copies of the booklets. This 15 is the result of the present use of departments in total.

At the Treasury Board each of my officers and other officers of the Treasury Board staff work on a daily basis with the estimates.

The Chairman: I am glad you explained that, Mr. Cloutier. TB staff—I was worried there for a minute.

• 1145

Mr. Cloutier: TB is Treasury Board. This is the other item. Then the libraries across the country receive 220 in English and 125 in French and the Queen's Printer, the distribution unit, requires 200 in English and 105 in French. They would have a certain number of booklets for those who want the booklets only.

Mr. Winch: May I ask one question? I am sorry, Mr. Chairman, but I am interested in this. In connection with the Queen's Printer, is that to fill the orders that come in from across Canada from companies and corporations?

Mr. Cloutier: That is right, sir.

Mr. Winch: Do I understand correctly, then, that the Queen's Printer estimates that they will require only a total of 200?

Mr. Cloutier: That is right.

Mr. Winch: That is their estimate?

Mr. Cloutier: Yes, sir.

Mr. Winch: Even under a changed format the estimate will still be...

Mr. Cloutier: Oh, yes.

Mr. Winch: How many of those are in English and how many in French?

Mr. Cloutier: There are 200 in English and 105 in French of the single volumes.

Mr. Winch: I see; and they estimate that is sufficient, even with a changed format, for requests coming from companies, corporations and individuals?

Mr. Cloutier: That is right.

Mr. Winch: May I ask just one other question?

Mr. Boulanger: I have a supplementary.

The Chairman: Yes, Mr. Boulanger?

[*Interpretation*]

Mr. Boulanger: Mr. Cloutier, when requests for these volumes come from outside, how much is charged for them? Or are they free? How is this done?

[*English*]

Mr. Winch: That was my next question.

Mr. Boulanger: I am sorry.

Mr. Winch: No, go ahead, because that was going to be my next question.

Mr. Cloutier: The price of the volume is $2.50.

Mr. Winch: What is the cost?

Mr. Cloutier: Under the present arrangement the combined unit cost is $9.37.

Mr. Winch: What do you sell it for?

Mr. Cloutier: We sell it for $2.50

The Chairman: That is good business; that is the way to go out of business. We will proceed. Mr. Boulanger?

[*Interpretation*]

Mr. Boulanger: Mr. Cloutier's answer, as a businessman, is a little strange, not to say comical. If business were operated that way, it would not survive very long. But what is the reason for this? Simply that this is a service that the government wants to give?

Mr. Cloutier: That is right. Take, for instance, Public Accounts, Mr. Boulanger, I only have two volumes here. I brought them with me to show you what 1200 pages look like.

The publication of the various Public Accounts volumes in 1966-67 cost approximately $88,000 for printing.

Mr. Boulanger: $88,000.

Mr. Cloutier: $88,000, and I think it was $38 per volume. The sales prices of Volume II was $13, Volume I was $3.25, and Volume III was about $3.25 also, which means that they sold for $15 or $16, while the production cost was $38.

[*English*]

The Chairman: Are any members of this Committee on the Standing Committee on

Printing? I know two members of this Committee are interested in the printing business and I strongly recommend that you go to that meeting when it is called and discuss the very matter that has been brought up here this morning.

Mr. Winch: Mr. Chairman, I hope when considering this matter the steering committee will also take under consideration a recommendation that sales outside the House of Commons and the Senate should be considered on a greater basis than 20 per cent of the cost to the Queen's Printer and the House of Commons. I think it is absolutely ridiculous that those who want it should have to pay only 25 per cent of the cost.

• 1150

The Chairman: Your observations are noted, Mr. Winch.

Mr. Boulanger: I wish to add that it must also be remembered that those who are asking for those books can very well afford to pay the price we are asking for them.

Mr. Winch: They can afford to pay the bulk of it.

Mr. Boulanger: It is the biggest firms who ask for them, and they are loaded with money. We really give them a nice service for very little.

The Chairman: All right, gentlemen; it is noted.

Mr. Cloutier: On the basis of the assumptions on quantities the cost elements are listed. Again, if we were to prepare two separate volumes, one English and one French, and make the booklet available in lesser quantities, as indicated above, the total cost would be $48,400.

The sixth alternative envisages a bilingual text and a combinatin of a single volume and booklets. In other words, instead of having two separate volumes, one English and one French, you would have just the one volume, which would be thicker, and you would also have bilingual booklets. Here we had to make different assumptions on quantities, because we are dealing with only one product, not one English and one French. Whereas Parliament not gets 1,000 English and 350 French, they would need only 1,000, because every member would have the two versions in the same volume. The other assumptions, in terms of single volumes, remain about the same as in the previous example. The number of booklets that would be required is the same for Parliament. In other words, each member would have one bilingual volume and one set of the bilingual booklets.

For the departments, again, the same assumption, that on an average each department and agency would get 15 booklets relative to that particular agency; and the Queen's Printer would have 25 sets of booklets to sell.

On the basis of these assumptions on quantitites the cost would be $57,700.

[*Interpretation*]

Mr. Boulanger: Mr. Chairman, I do not quite understand. When you speak of $57,700 dollars for proposal number 6, does this involve some sort of saving?

Mr. Cloutier: There is a saving on quantity only, sir.

Mr. Boulanger: On quantity only.

Mr. Cloutier: That is right. Because we do not have to duplicate 675 French copies since the publication will be bilingual. There will be more paper used, but the total cost indicates that on account of the paper used, it will be increased by about $9,000. Consequently, figure 5 represents 48.4 and figure 6 represents 47.7.

And now if we look at proposal 7...

[*English*]

In the seventh proposition the alternative would envisage separate English and French texts, but produced only in booklets. Those who need them would have a full set, such as Members of Parliament; and each department would get two, and so on on the same assumptions as before; and with a total of 1700 copies in English and 780 in French. These again are the equivalents to complete volumes; so that on that basis the cost would be $52,100. Therefore, you see that the permutations of this are practically limitless.

• 1155

The eighth proposition, which in some respects is quite attractive, would provide one bilingual text, a combination of booklets in binders for those who require them, and separate booklets for others. Here the assumptions on quantities are similar to those made earlier. We would be printing 1700

complete volumes, or equivalents thereof. Parliament would need the same 1000, and each member would then have a binder with the complete set of bilingual booklets. Departments would still have two each and, on the average, 15 booklets relating to them. Treasury Board staff would still require the same 100, the libraries would get 220, and the Queen's Printer would get 225 for distribution—200 in binders and 25 in the form of separate booklets. On the basis of those assumptions on quantities the cost would be $57,300, or about $9,000 more than the current cost for the volume in its present form.

Mr. Winch: Mr. Chairman, I wish to ask a question of Mr. Cloutier and I hope it is not an unfair one.

It is the view, I think, of this Committee and of the House of Commons that in the Estimates they should be presented with the fullest possible information, with efficiency and at not too great a cost. In view of the expressed opinion of the Auditor-General, who has very serious and grave responsibilities as an appointee of the House of Commons, dealing as he is with public accounts based on expenditures which follow Estimates, and in view of the position taken by members of this Committee, the House of Commons and the Auditor, are you in a position, if the Committee recommends, and the government accepts, a change, to inform this Committee which of the eight costings you find most acceptable, and would you advise us also from the Treasury Board's point of view? I hope it is a logical question.

Mr. Cloutier: First of all, let me say that the President of the Treasury Board asked for the views of the Committee on how this matter should be presented. If I may give you a personal answer, the set that I would prefer to work with is probably No. 8.

Mr. Winch: Number 8?

Mr. Cloutier: Yes. You would be dealing with only one volume in a binder; you would not have to bother yourself with one bound volume and keeping the booklets separate in case you wished to deal with only one.

With the binder we have in mind you would simply open the binder, pick out the booklet you wanted and put it back in its place after you had done with it.

• 1200

It would also reduce the number of copies to be printed and would be in keeping with the practice of producing parliamentary papers in the two languages.

Mr. Winch: Basically, that would mean an increase of about $16,000?

The Chairman: I think it is $12,500, but Mr. Cloutier can answer that.

Mr. Cloutier: If you look at the comparison between the estimated costs for the current form, which are shown on page 2, at $44,800, and you compare that to the estimated costs under alternative number 8, at page 6, the difference is $12,500. On the other hand, this cost comparison is in some ways comparing apples and oranges because it compares the cost of the old form to the cost of the new form. Let us accept that the difference is $12,-500. If the decision is that we do print the new form, then the manner of presenting the new form that is closest to present practice would be alternative number 2, on page 2, where you would have a separate book in English and a separate book in French and no booklets. The cost under that assumption is $48,400; so I think it is a more realistic comparison to compare proposition number 2, at $48,400, to proposition number 8, at $57,300.

Mr. Winch: My last question on the same matter is, has Mr. Henderson, as our Auditor General, made a study of this? Has he any comments, not only on the costing, but also on the eight methods of producing estimates? I think this is a very important question.

The Chairman: Mr. Winch, I will have Mr. Henderson speak after we hear a couple of more questions that might be related. Mr. Boulanger and then Mr. Lefebvre.

[*Intepretation*]

Mr. Boulanger: It might help us...

[*English*]

I will try to speak in English. Suppose I am at school in the ninth grade and you are explaining this to me. I am inclined to think that number 5, is one of the smartest propositions, and I would like you to explain to me the advantages of proposition number 8 over number 5, the one that I think is close to it and which I say is more economical and practical.

Mr. Cloutier: The basic difference between number 5 and number 8 is that under number 5 you have an English volume and a French volume, whereas under number 8, you have one bilingual book. That is the basic difference.

The other difference is that under number 5 the members of Parliament, for instance, would have a bound book and in addition they would have the booklets. In effect, they would have two sets of the same information; that is what they would have. Under number 8, they would have one book only with all the booklets being contained in one binder.

Mr. Boulanger: Yes, as far as the books are concerned, but would you explain it to me as far as money is concerned.

Mr. Cloutier: The difference between number 5 and number 8 is about $9,000. The basic reason for this is that on the one hand you have English and French books, and on the other hand you have one bilingual book.

• 1205

Mr. Boulanger: That means, Mr. Cloutier, that if we decide that a French-speaking member will only use what he really needs, the French text, and the English-speaking member will use what he needs, the English text, that for the future we will be saving money if we implement this new idea of asking for what we need, and not for something that we will put away on a shelf and not use. As I said earlier, to me, proposition number 5 would be advantageous because we could save a lot of money.

Mr. Cloutier: This alternative, as it is laid down before you, does not assume any change in the practices followed by the House of Commons in distribution of its documents.

Mr. Boulanger: If we ever came up with an idea like that our Chairman would become a hero.

The Chairman: Mr. Cafik, did you have a question?

Mr. Cafik: Yes, I did and it is one again about the method of producing these estimates in terms of printing. Do you envisage that this composition cost, which is fairly considerable—in the $40,000 range, no matter what method you use—would exist again next year? The reason I ask this question is that if you were producing these volumes in an offset method as opposed to letterpress, and presuming that these estimates are going to follow more or less the same form year after year, after year—the explanatory would be different; the figures would be different; there would be changes—but it is possible to produce art work for this type of thing, send it to each department and the department itself would simply put in the changes and drop in the figures, send it back to be photographed and make the offset plates. Once having been done, you should be able to keep the composition cost to an absolute minimum in subsequent years by doing it in that way.

Mr. Cloutier: Sir, I am not a printing expert but if I look at the work that has to be done in order to have a perfect book, we just cannot afford to have an error in the book.

Mr. Cafik: Of course, you can check. You do not need any proofs at all because you proof the actual art work as if it were a finished product, and if you cannot find the error in the art work, I do not know how you are going to find it anywhere else because it is exactly the same thing.

Mr. Cloutier: You see, relying on the departments to produce the final text, assuming that each department is equipped with the type fonts necessary and so on, and so forth, to produce a final text which would be consistent, this would be a huge task.

Mr. Cafik: Well, I disagree with you, but anyway that is my point.

The Chairman: Mr. Cafik, we are getting into some pretty intricate details here. I notice you are on the steering committee and I think you will be able to enlarge on your thought when the steering committee goes to work on this. Now, Mr. Lefebvre and then Mr. Allmand.

Mr. Lefebvre: To continue on what Mr. Boulanger was saying about French members asking only for French volumes and vice versa, this would not work in each case, especially in my own, because half of my correspondence is in English, half is in French because of the type of riding I represent. When somebody writes a letter to me in French, I look up a French text to give him the exact reply that he needs because I do not want to translate everything that I have to reply to. I may get it wrong, and I may be quoting the wrong paragraph, or making a misquotation. If I get the letter in English, the same holds true. So, this case of yours would not hold true.

The Chairman: Mr. Lefebvre, are you saying that you would prefer the bilingual text on the same page?

Mr. Lefebvre: Yes, if possible.

An hon. Member: That would be number 8.

Mr. Boulanger: Or number 5. He did not say number 8. It could be number 5.

Mr. Lefebvre: If they are French or English, then I will need both, so it might as well be bilingual and there will be one volume less for me to lug around. However, there is a cost factor, and this is something we have to take into consideration. In your list on number 8, you have here under "Queen's Printer", 225: are these volumes left at the Queen's Printer for sales to individuals?

Mr. Cloutier: That is right.

• 1210

Mr. Lefebvre: Supposing this Committee came to an agreement that we consider number 8 to be the most attractive but we would make a recommendation to the government that from here on in, every copy sold would be at cost price and not at 25 per cent, this would recover roughly $7,500, I believe, at $33.70, which is something that perhaps we should be recommending anyway in the future; that volumes left for public use be sold at cost. In most businesses it would be cost plus 10, just to cover the overhead. At least, if we offered them at cost, I do not think the public would have too much to complain about. This is just a personal opinion. I do not know what the other members think about it.

The Chairman: I know you have support from other members on that point.

Mr. Allmand: Mr. Cloutier, do they sell the copies to the library?

Mr. Cloutier: No. I am trying to remember the authority under which this is done. There are a number of repository libraries. There is a categorization of the various libraries. Some are full repository libraries and they get a copy of everything as a service to the Canadian public. Others are less full repository libraries and they get a daily checklist of the publications of the government and they indicate the ones they want. These are not sold, sir.

Mr. Allmand: I just have two comments, Mr. Chairman, on what was said previously. Because I have a bilingual riding I also like to have bilingual documents. In my riding I have 75 per cent English and 25 per cent French. I like to have the exact wording, as Mr. Lefebvre does, so I prefer a bilingual page.

With respect to the questions asked by Mr. Winch and Mr. Boulanger of Mr. Cloutier, and also the proposal that we also ask Mr. Henderson which one he would prefer, I think probably the only people who can decide on what is most suitable are the members of Parliament. If it is on a cost benefit basis the estimates are for our use in trying to examine them in committee as a whole or in committees, and we have to decide whether the extra expenditure is worth the convenience and the efficiency of using these things.

The Chairman: Mr. Boulanger.

Mr. Boulanger: I do not know what Mr. Allmand thought of my question. I did not say that we do not have to decide. I said if I were to ask Mr. Henderson—which I will do later—as a business proposition or as a question of saving money, then I think I would like to take his advice. I know that we must decide what we want to do, that is for sure. I do not mean that I want them to decide.

The Chairman: Gentlemen, I think it is agreed that the primary service of estimates is for the use of the members of Parliament. All right, let us proceed. We have spent a lot of time on this. We have not said anything about the cost of preparing this information, as far as the Treasury Board is concerned. We have not discussed whether the cost of preparing all this extra information is money well spent or if it is going to be used. Are we gathering information that is not necessary? We cannot settle this entire matter this morning, but I think we should hear from Mr. Henderson first as to any observations he may have concerning the various forms of publication that have been suggested. I would then like to go on to those two paragraphs. After that I will ask the steering committee to remain for a few minutes. We have roughly 45 minutes remaining.

Mr. Cafik: Do you intend to sit until 1 o'clock, Mr. Chairman?

The Chairman: I would like to finish a few minutes before 1 o'clock, if possible.

Mr. Henderson, will you give us your observations at this point.

• 1215

Mr. A. M. Henderson (Auditor General, Auditor General's Office): Mr. Chairman, I

have been quite interested to hear the views of the members as to their preference in going over this shopping list. I think my preference would be for the one that Mr. Cloutier picked, namely, the bilingual one because I also have the correspondence problem that the members have referred to, particularly so with university people and scholars who come in, and it is an added convenience to be able to have it so readily at hand in both languages. It is quite difficult to weigh it in terms of the worth-whileness of each costing that is given here. However, I should now like to say that I am very sympathetic with Mr. Boulanger on the question of the costs. These are costs that I give not a little attention to because of the cost of my own report, which I examine quite closely each year, and it continues to go up. What happens if you find that you can obtain a price from an outside printer who can give you equivalent service and who can bring the job home cheaper? Should you invite him to bid and should this bid be considered? Through you, Mr. Chairman, I would like to ask Mr. Cloutier to reply to that question on behalf of Treasury Board. What is to be done if you are furnished with quotes from outside people that are much cheaper than the Queen's Printer can do it?

Mr. Cloutier: From my knowledge of the operation, and my very non-expert knowledge of the printing processes, I just cannot conceive of any commercial printer bidding on a job like this because the changes are continuous. We do not have it here, but from the time we receive the estimates from the departments, which is supposed to be on October 31 and which really spreads throughout the month of November, we start the ball rolling and start getting into print, and we work from these proofs. We work them over and over, get later proofs, and so on and so forth. The changes occur throughout the period from the beginning of October to about another ten days from now, and the changes arise from the fact that although the departments put in their requests, the ministers of the Treasury Board have to go through these requests and say, "No, you will not do that and you will not do this. You are asking for too many employees", and so on and so forth. These changes are spread throughout the whole book, and then you get into discussions with the departments as to how much you take off there and what do you put here, and so on and so forth. So, throughout the whole process there is a need for clarification and refinement. This is what I was referring to; this continuous *va-et-vient* between the printers and my staff. It is absolutely impossible to foresee the amount of change that you will have. In some departments it comes in as a result of prior discussions and there are no changes. It is accepted as submitted. On the other hand, if I can use a department I will not name as an example, yesterday afternoon a Treasury Board meeting was considering the estimates of a number of departments, and in one department in particular there was an amount of $28 million, which was made up of about 20 different items, which the Minister simply refused to approve. So, these things have to be taken out of the estimates, and not only in one place. For instance, the Minister or the Board may say, "No, you will not get another 100 employees". Those 100 employees may be found in more than one vote and if you take those employees out, it is not only a question of salaries but you have to take out the money for travel that the department may have provided for those employees and you have to take out the allowances if special allowances were to have been paid to these people, so that the number of changes are infinite and you cannot say beforehand how many there will be. So, because of that, if I were a printer I would take this on a cost plus basis.

• 1220

Mr. Boulanger: Mr. Cloutier, in the printing business there is what we call a deadline. You must have a deadline in the Printing Bureau, the same as private industry has. You are not going to make me believe that the government printer is holding work every day, or every minute of the day, for little changes in each department.

Mr. Cloutier: I am not suggesting that.

Mr. Boulanger: There must be a deadline, the same as there is in private industry.

Mr. Cloutier: That is right. The deadline, sir, in the sense that you are using it, is a date about three weeks before the projected tabling date. The point I am making is that the printing process does not start after the deadline; it has to start way before that.

The Chairman: Mr. Henderson?

Mr. Henderson: At the risk of being persistent, I still do not know what I would do with a quotation that is less. Should I go and buy it cheaper, or should I spend more and

stay with the Queen's Printer? That is my question.

Mr. Cloutier: I will repeat the same thing that I have said before. If it were possible to devise terms of reference in respect of a request for a quotation, certainly we would, but you give a job to a printer and you give him the manuscript. What I am really saying here is that because of the time contraints, the necessity to work as we go along, to close off a department as soon as it is approved and get it printed, it is not feasible to request a bid that is clear and definite.

The Chairman: Mr. Crouse?

Mr. Crouse: One thought that occurs to me, Mr. Chairman, with respect to the question put before the Committee by the Auditor General is this. If private enterprise could tender for this work, even though their costs as submitted would be equal to the costs of the Queen's Printer, it would still be advantageous for the Auditor General to place his order with private enterprise because under today's tax law some of these printers are paying 50 per cent of their profits back to the Receiver General in the form of taxation remittances. Of course this would be a further incentive to private enterprise to do it cheaper, and it would also mean quite a saving in the overall picture. I personally would endorse the suggestion made by the Auditor General that Treasury Board give consideration to allowing him to request tenders from private industry for this work. After all, the purpose of the Queen's Printer is to provide us with papers efficiently, but if the cost is going to be excessive then I submit that we should look to private enterprise and at least give them a chance to bid on this work.

The Chairman: Mr. Cullen?

Mr. Cullen: I feel that we are putting Mr. Cloutier on the spot. We keep talking about private enterprise, what it would do, and giving the impression, as been given here, that it would be cheaper. But Mr. Cloutier has said that if he were bidding on this job he would bid on a cost-plus basis. So on that basis—perhaps Mr. Cafik and Mr. Boulanger will appreciate this more—we are not talking about having it done more economically by putting it out for tender.

• 1225

The Chairman: Mr. Allmand and then Mr. Cafik.

Mr. Allmand: Mr. Cloutier, will the new department of services and supplies have some jurisdiction over all printing supplied to departments and so forth?

Mr. Cloutier: Yes, sir.

Mr. Allmand: Will part of their job be to rationalize and to make the best use of printing services, both internally and externally?

Mr. Cloutier: That is so, sir.

Mr. Allmand: I spoke with the Minister the other day and it appears to me—this is with reference to the question asked by Mr. Henderson—that if they see areas where outside printing can be done in a cheaper way they will do it.

The Chairman: Mr. Cafik?

Mr. Cafik: I hope I have not left the impression with the Department or with members of this Committee that I believe it could be done cheaper outside. I am not too sure that it can be done cheaper outside in view of many of the internal problems of preparing the Estimates, although I think deadlines could be established and something done. I really think that the method of doing it could be changed internally and then probably you could end up producing it a lot cheaper at the Queen's Printer. That is a personal view based on my own experience in the printing business, which I have been in for about 15 years. I certainly do not want to leave the impression that the outside route is necessarily the best route, because you have the Queen's Printer and all the facilities there.

I want to make another point on selling the books at cost to outside people. I think what is often overlooked is this. You talk of $33 for a book but $20 of that may be in make-up, and it is made up in any event. The actual cost of a book in terms of production excluding the make-up which must be done for government purposes, may be only $10. So I think it is erroneous to say that by selling a book at $13, the over-all cost of which is $33, that you are losing money—it has to be made up for the government in any event. The fact is you might be making a couple of dollars per book by selling them at $13.

Mr. Cloutier: Indeed, sir, the policies established for the fixing of selling prices take into account the variable costs that you are referring to. I imagine you could say that the

printing of a book should be a charge to Parliament, because this is the primary purpose of the book, and that everybody else who receives a book should be charged just a variable cost. This would be one approach.

In establishing selling costs for the publications that are sold—and I am not only referring to the Estimates here—there is an analysis made of the variables and unvarying. Another thing is that the experts of the distribution unit of the Queen's Printer estimate how much they could sell the darn thing for. If by putting the price at $2.50 they bring in, let us say, $10,000, on the basis of their knowledge of the market they have to arrive at a judgment that if they were to charge $10 perhaps they would bring in only $1,000. This is an aspect of the question on which I am certainly not expert enough to comment.

The Chairman: Mr. Lefebvre?

Mr. Lefebvre: There is another item I wanted to mention. No. 8 attracted my attention. Would not another way of cutting down the total cost of $57,000 be to cut down on the number of volumes? For instance, we have here 1,000 volumes for Parliament and we know there are 264 members of Parliament plus 102 senators. Where do the remaining 700 volumes go?

Mr. Cloutier: I asked that question when we were making up these costs, sir, and the reply that was given to me was that the staff of Parliament have to be in a position to supply a new set of Estimates very often at a new session. Also, I am told that members ask for a new set of everything when they return after a general election. I suppose that is a factor of that judgment.

• 1230

Mr. Lefebvre: I am sure we could cut down the number of volumes by at least 10 per cent and still satisfy everyone. A thousand volumes for Parliament does not seem justifiable.

Mr. Cloutier: Parliament—and this applies to the Senate, the house of Commons and the Library.

The Chairman: You must remember committees too.

Mr. Cloutier: —operate under committees of their own. Indeed, we in the Treasury Board do not consider that we have control over parliamentary expenditures.

Mr. Lefebvre: No, I am not suggesting that.

The Chairman: But I think it is a good suggestion if members of Parliament had to sign for copies of the Estimates when they received them, and if they were given one copy each you might be surprised what would happen.

Mr. Lefebvre: If it was brought to every Member's attention that each volume of the Estimates costs $30—we never even think of this—perhaps we would take a little bit better care that we have the same volume over two or three sessions.

Mr. Winch: Mr. Chairman, our friend has raised a most interesting question and because this Committee is authorized to go into not only the question of format but also the numbers and costing, would it be possible for this Committee to find out how many of the copies of the last Estimates are still available or declared surplus.

Mr. Cloutier: I suppose the House staff could provide that information.

Mr. Lefebvre: The number still on the shelf and that have never been used.

Mr. Winch: Could we not, as a Committee dealing with this matter, find out how many are surplus because it is part of our study on numbers?

The Chairman: Mr. Winch, we will ask our Secretary to find out that information for the Committee. Is that agreed?

Mr. Lefebvre: If there are 200 volumes left which have not been used, we have the cost right there.

The Chairman: We will get a breakdown of that.

Mr. Winch: It is not only the Queen's Printer, it is also the Distribution Office.

The Chairman: Yes, the Distribution Office. The Secretary will get that information. It is all available. It would be worth having, too.

Gentlemen, are there any further observations? Mr. Henderson, I do not like to start into this other matter in these two chapters today, but I think if you have anything more to say on the costs or if you have any preference on any of these proposed forms, we will leave this other matter for our next meeting.

Mr. Boulanger: Mr. Chairman, let me ask you a question. There is one thing I want

clear in my mind. What will the steering committee do? Suppose I look at all the proposals and I am inclined to favour No. 5 because of prices and the like. In any case, how am I going to get around to saying or asking someone to back me up on that? How are you going to work it out? I still say No. 5 is my choice.

The Chairman: Well, Mr. Boulanger, if the steering committee should recommend No. 8, their report will come to this Committee. Then you would have an opportunity to say that you do not like No. 8 and put your facts forth why you would rather have No. 5, and if you persuade the Committee that No. 5 is the best one, we will change it.

Mr. Boulanger: Only when the steering committee makes the recommendation.

An hon. Member: It has to be approved by the Committee.

The Chairman: Yes.

Mr. Boulanger: But if there is not time to do that now?

The Chairman: Well, you have expressed your views, I think, about No. 5 and the steering committee should take this—

Mr. Boulanger: Because of prices and a few other arguments I was going to add.

The Chairman: They will not overlook your points. Unless there is anything further, Mr. Henderson, on this part of it?

Mr. Henderson: No, I would have nothing further to add, to what I said Mr. Chairman. I would like to say, and I think Mr. Cloutier mentioned this, that the Queen's Printer is indeed exceptionally obliging and helpful and we in our office find the arrangement just as smooth-working as they do on the Treasury Board staff. However, as with all the bills that come into my office, I feel myself responsible for having incurred them and consequently I ask some pointed questions about their costs from time to time because I think that is my duty. Beyond that, I have nothing further I would say on that point, Mr. Chairman.

The Chairman: In this regard, Mr. Henderson, could we ask you this? With regard to publishing your Report, do you get a price from the Queen's Printer and from an outside source and then if the outside source should happen to be lower, are you obliged to have the Queen's Printer do it?

Mr. Henderson: That is the answer I would like to have from Mr. Cloutier and the Treasury Board. What are we supposed to do? I have had outside printers and we have a number of very competent ones within my own personal experience in Canada who would dearly like to put a quote in, and they have made the statement that it could be done cheaper. What do I do?

The Chairman: Have you had an outside quote?

Mr. Henderson: Not recently. I have had this case which I have been holding for this Committee but it is now about three years old, Mr. Chairman. It would require to be revised before I would bring it to the Committee, but I would be happy to do that.

Mr. Winch: Could I just ask this one question, Mr. Chairman? I was not going to until Mr. Henderson made this statement. This matter has been raised, to my knowledge, at least three times in the last 15 years that I have been on this Committee and the answer—I am certain I am correct, speaking from memory—was that the Queen's Printer had to give a price, if requested, to any department, and that includes yourself, Mr. Henderson. That price had to compete with that which would or could be received from private enterprise.

I am certain, Mr. Chairman, that we have had that answer at least three times, that the Queen's Printer had to give a competitive price. In other words, he had to be able to at least equal or be under what private enterprise was doing, and this applies, I believe, Mr. Henderson, to all departments on their submissions.

Mr. Henderson: That is right. That is my understanding, Mr. Winch.

The Chairman: What is the Treasury Board's viewpoint on it then?

Mr. Cloutier: The simple fact of the matter is that the Treasury Board does not involve itself in that detail of departmental operations. It is up to the Deputy Minister, and in the case of the Auditor General, it is up to him to make his arrangements through the Printing Bureau to either have it done inside or outside or to request a price from outside as well as a price from inside. I would suggest that the matter might be cleared up very quickly if the Auditor General were to do this.

Mr. Winch: And see what would happen?

Mr. Cloutier: Exactly. You see I have explained that in preparing the Estimates it is a cumulative process, and I would imagine that you would have pretty much of the same type of cumulation of refinement in your manual as it is prepared.

Mr. Henderson: Oh, our approach is pretty well a one-time business. Coming to a head at this time of year.

Mr. Winch: Mr. Henderson, you are in a position entirely different from the Treasury Board and Estimates, because yours is a one-time shot in the preparation, whereas with the Treasury Board there can be one or a hundred changes every day.

Mr. Henderson: Well, I am very pleased to have that supplied from Mr. Cloutier. It is not of very immediate moment to me this year because of course I am well embarked, but I think it is something we might take a look at next year.

Mr. Cloutier: Well, genlemen, if I might make just a few comments on this subject. There are two other considerations that must be borne in mind with respect to the printing of the Estimates. First of all the secrecy, and to what extent you can maintain the security by dealing through outside printers is problematical. There is not only the secrecy after we have a final text, because of course the whole operation is geared so that the thing is absolutely secret until the estimates are tabled in Parliament, but also through the preparation. As I mentioned earlier, the departments make requests that are in total always higher than the amount that the Estimates are printed for, and the government as well as the departments themselves would be terribly embarrassed it if was known that a department was asking for a certain amount and eventually was getting less. It would be a totally impossible situation for all concerned.

The other factor, a very significant one in these specialized types of publications like the Estimates and the Public Accounts, is the printers themselves. The men who make the composition to this year after year and the continuing experience is extremely valuable. Right now we are subjecting the printers at the Printing Bureau to the task of preparing the current Blue Book as well as doing the new one and they are having birth pains. This is the first time they are doing it this way; you know, you look at these things and it is not a simple job. These figures have to be right and they have to be in the right column and on the right line and the whole thing has to be perfect. We cannot have one mistake. I think there was a mistake in the details of the estimates about two years ago. The English text was not exactly the same as the French and everybody was terribly embarrassed.

• 1240

This experience is something that could be lost if you went to tender every year. First of all, you have to discriminate against all printers that are not located in Ottawa and then to ensure an effective, efficient and economical operation, ideally you should keep the printer year in and year out, and then you are at the mercy of a monopoly situation.

The Chairman: Gentlemen, we will conclude our meeting at this point. I would like...

Mr. Lefebvre: Mr. Chairman, before we conclude, Mr. Cafik had to leave and he is on the steering committee. If it is in order I would like to nominate Mr. Boulanger to replace him for this steering committee meeting.

The Chairman: Is that all right with the Committee? I would ask the steering committee to stay for just a minute. We will meet next Tuesday. The time and place will be announced and we will, I think, devote that meeting to this particular point: Are you, as parliamentarians, prepared to reduce the number of votes? This will be the subject matter next week and it will be a little more interesting, perhaps, than the cost factor although this is all very necessary. That will be the subject matter; think it through well.

Mr. Cloutier: Mr. Chairman, at the last meeting I think I indicated that there were—again on the question of separating capital and grants from administration in the business of combining the three votes under one program—a number of administration votes in the Estimates now which are global votes and which include elements of capital and elements of grants. I have now had an opportunity to do an analysis of this and I would like to leave it with you, Mr. Chairman. It shows that there are, if my memory serves me correctly, about 89 or 90 such votes that include strictly operating expenses as well as capital and grants.

This table shows the department and the vote number concerned. It indicates that in a

great number of instances there are relatively small amounts of capital and grants in these administration votes. You have, for instance, for Consumer and Corporate Affairs in vote No. 1, $9,000 capital; the balance is $898,400. You have instances where the amounts are $1,500 and other instances where it is $3.6 million.

You have a whole variety, but the point I am making is that if the decision is that there should be consistency in the treatment of the votes, whatever it is, then some decision will have to be made as to how small you want a vote to lie, or should there be a minimum amount over which you then would have a separate vote for capital and under which it then would be proper to have in the single under this Vote.

We would welcome direction on this because our task, in effect, is to present the Estimates in the way that the members of Parliament want them.

The Chairman: Thank you very much, Mr. Cloutier; this will be most helpful in our deliberations at the next meeting. I ask permission to have it attached as an appendix to today's Proceedings and our Clerk will send a copy to each member so you can study it for the next meeting.

• 1245

Mr. Cloutier: Mr. Chairman, I have another statement here prepared as the result of discussion in the Committee showing a potential structure of departmental programs, which would show the votes that might be combined under one program vote.

These are shown again by agriculture, a tentative name for the program and the vote number under administration, construction or grants which shows the number of proposed votes and then, in the last column, shows the number of additional votes that would be created if a decision were made to separate all capital and grants and make them a separate vote.

In total, I think something like 91 additional votes would be created and a great number of them, as indicated by the first statements, would be for very very small amounts.

The Chairman: Shall we include this in the former motion?

Some hon. members: Agreed.

Mr. Henderson: Mr. Chairman, I take from what Mr. Cloutier said that the proposals are not a package deal. The number of votes do not have to be reduced; you leave that to the Committee. I take it that is what you are saying. Am I right?

Mr. Cloutier: That is not what I have said, sir. I have said that I have produced this information as a result of discussion at the last Committee meeting to illustrate the effects of continuing on the same basis and separating capital from O. and M. and from grants as has been suggested by some members of the Committee.

Mr. Henderson: This, then,...

Mr. Cloutier: The recommendation that was put before the Committee by the President of the Treasury Board still stands, but it was my view that in arriving at a decision the Committee should have all of the information that we could put before it and this is the reason we have prepared these documents.

Mr. Henderson: I appreciate that. Then, Mr. Chairman, I would like to know in the event the Committee members expect to hear from me next Tuesday, whether I shall be expected to comment on the schedules that have just been handed to you by Mr. Cloutier, and if so may I have copies and perhaps discuss them with the officials of the Treasury Board in the interim? Is that your wish? I am entirely in your hands.

Mr. Cloutier: Could I, Mr. Chairman, emphasize the importance of the word "potential" which appears on the second document I have handed to you? This is not a definitive position. This is the result of very quick staff work and was put together after the last meeting. I suggest that if the Auditor General were to comment on the specifics of any of these combinations, he would be commenting on something that is not a proposal from the Treasury Board. This is simply an attempt to illustrate.

Mr. Cullen: Your proposal is really the one you made in the first instance, and this is setting out other situations or possibilities.

The Chairman: Additional information is what it really is.

Mr. Cloutier: To give you an example, sir, if the will of the Committee were that capital items and grant items were never to be included in an administration vote, you would have a situation—for instance, in Vote No. 15 of Agriculture which is the pres-

ent vote—where you would have to break that vote into three. One vote would be for capital for $14,200, there would be a grant vote for $20,000 and the O. and M. balance, which would be a separate vote, would be $2,414,000. The point I raise is, do you want votes of these small amounts?

• 1250

Mr. Winch: May I ask one question here? It is not the small amount vote that strikes me as being important; it is the principle. In some other department the same thing may run into millions. Are you saying that because it comes under a certain small amount it should be included in one way or another? If that is correct, then on principle you could do the same thing when the grants or capital could run not into millions but hundreds of millions. How do you differentiate between the example you have just given of the $14,000 where it was $2 million and something, and some other department where it could run into hundreds of millions. How do you differentiate?

The Chairman: Mr. Winch, that is a good point and it is a discussion that we are going to go into at the next meeting. I think your point is well taken and I know Mr. Cloutier has an answer for it. However, we cannot get into that now as it is almost one o'clock. Mr. Henderson has asked a question. Do we want him to be prepared to comment on these suggestions next week and, if so, will these documents be given to him and is this your wish?

[*Interpretation*]

Mr. Boulanger: Let's be specific. I shall ask you a very direct question:

[*English*]

Why did you bring that to us? You were not asked.

Mr. Cloutier: I brought it to you, sir, to illustrate a statement that I made last Tuesday.

Mr. Boulanger: We understood you then, so I do not see the idea of putting it in now.

Mr. Winch: Mr. Chairman, in view of the fact that Mr. Cloutier has admitted this because of something that was said before, then I think Mr. Henderson should give us some answers on what has now been presented to him.

The Chairman: Mr. Boulanger has not finished.

[*Interpretation*]

Mr. Boulanger: It is because I get the feeling that everything is rather mixed up. If we go back to the question asked by Mr. Henderson, in view of the fact that you had no obligation to present what you refer to in English as this "proposal", it seems to me that it might have been better not to bring it before this Committee.

Mr. Cloutier: I brought it before the Committee, Mr. Boulanger, because one or two members of the Committee asked me specifically, after the meeting, what I meant when I said that there was a goodly number of administrative votes, right now, that concerned capital on the one hand, and grants, on the other hand. And, I think I specified that this was not a proposal I was making to the Committee, but that it was additional information which the Committee might want to consider prior to reaching a conclusion.

Mr. Boulanger: It is no doubt on account of your vast experience and your broad-mindedness that you tried to help us, but unfortunately, this led, at times, to confusion.

Mr. Cloutier: This was the spirit in which the work was done.

Mr. Boulanger: All right, thank you.

[*English*]

The Chairman: This is extra information that the Committee can sort out. If they want to accept it, fine; if they do not, they do not have to.

You are agreed that Mr. Henderson be prepared to make observations on this at our next meeting?

Agreed.

APPENDIX C

ADMINISTRATION VOTES CONTAINING CAPITAL AND GRANT ITEMS

Department and Admin.	Vote Number	Capital	Grants	Balance
		$	$	$
Agriculture	1	74,600	416,400	8,029,375
	15	14,200	20,000	2,414,600
	20	282,200	17,000	8,179,300
	30	664,800		7,729,600
	40	455,000		16,545,400
	50		800	8,783,200
	55		1,000	302,000
	60	5,000		296,800
Communications	1	722,100		4,249,000
	15	3,679,500	75,200	342,867,300
Consumer and Corporate Affairs	1	9,000		898,400
	5	2,000		929,000
	10	8,000		1,346,200
	15	1,500		278,500
	20	15,600	20,000	4,486,800
	25	325 900	30,000	5,648,500
Energy, Mines and Resources	1		17,000	4,538,000
	85	5,000		1,597,000
External Affairs	1		1,595,000	42,996,300
	30	31,000		3,972,000
	40	1,000		483,100
Finance	1	50,000	262,000	3,658,500
	55	2,500		1,464,800
Fisheries and Forestry	1	57,600	13,000	3,438,575
	20		500,000	11,635,000
Governor General and Lieutenant Governors	1	13,000		672,400
Indian Affairs and Northern Development	5		20,211,000	80,990,000
	20		2,857,800	37,608,500
	35		121,500	22,095,500
Industry, Trade and Commerce	1	342,900		12,152,430
	25	276,900	94,900	19,518,000
	30	70,000	60,000	10,144,900
	35	1,300,000		1,094,000
	40		11,800	27,393,200
Justice	1	68,500	2,700	5,821,000
Labour	1	13,200	18,000	1,930,900
	5	3,700		1,229,500
	10	17,300	10,000	2,985,400
	15	7,500		1,727,300
	25	168,200		41,377,500
Legislature	5	60,000		1,544,100
	15		109,300	81,500
	20	135,000		9,057,100
	25	2,500		721,400
Manpower and Immigration	1	31,700		4,739,600
	5	583,500		153,865,500
	15	344,100	2,291,000	21,056,900
	20	63,300		5,459,300
	30	2,000		586,000

ADMINISTRATION VOTES CONTAINING CAPITAL AND GRANT ITEMS

Department and Admin.	Vote Number	Capital	Grants	Balance
		$	$	$
Natioanl Defence	15	248,595,000		1,239,962,000
National Health and Welfare	1	11,200		4,454,800
	5	5,400		7,243,600
	8		267,500	1,332,500
	40		289,100	9,494,900
National Revenue	1	891,000		60,538,000
	5	333,000		62,392,600
	10	5,000		206,300
Privy Council	10	25,000		3,092,300
	20	2,800		1,598,200
	25	11,000		1,398,000
Public Works	1	859,900	19,000	30,136,100
	20		141,600	7,940,400
	35	350,100		6,749,000
	55	79,200		1,064,000
Regional Development	1	11,800	1,000	17,874,400
Secretary of State	1	21,000	303,000	1,189,500
	5	26,000	1,493,600	3,030,600
	10	24,000	50,000	4,811,000
	40	38,300		1,675,700
	45	14,500		151,000
	65	8,000		1,577,000
	70	348,000	29,500	6,821,000
	75	110,000		2,157,000
Solicitor General	1	10,000	500,000	756,000
	5		25,000	48,598,000
	15		2,500	67,580,500
Supply and Service	1	20,300		4,952,800
	5	388,430		23,971,060
	15	255,000		34,120,900
	20	31,000		4,221,200
Transport	1	27,600		8,264,600
	5		25,966	49,761,834
Treasury Board	1	2,500	38,000	5,090,900
	15	6,116,000		38,917,000
Veterans Affairs	1	18,000	555,000	5,669,000
	5	29,000		6,567,400
	20	15,000	75,000	3,111,000
	40	5,000	6,500	5,402,500

APPENDIX D

December 11, 1968

POTENTIAL DEPARTMENTAL PROGRAMS

Department or Agency	Tentative Programs	Present Vote Structure			Proposed Votes	Additional Votes for Capital and Grants*
		Administration Operations and Maintenance	Construction or Acquisition	Grants: Contributions and Subsidies		
Agriculture	Administration	1			1	2
	Research (Scientific)	5	10	12	1	
	Production and Marketing	15		17	1	1
	Animal Products	20		25	1	1
	Plant Products	30		35	1	1
	Health of Animals	40		45	1	1
	Board of Grain Commissioners	50	51		1	1
Canadian Dairy Commission		55			1	1
Canadian Livestock Feed Board		60		65	1	1
Farm Credit Corporation				70	1	—
Communications	Admin.	1		10	1	1
	Research (Scientific)	5			1	—
	Post Office	15			1	1
Consumer and Corporate Affairs	Admin.	1, 5, 15			1	1
	Patents	20			1	2
	Consumer Protection	10, 25			1	2
Energy, Mines and Resources	Admin.	1	5		1	1
	Mines, Energy Minerals	15	20	25	1	—
	Water Resources	40	45	50	1	—
AECB	Atomic Energy Control Board	55		60	1	—
AECL	Atomic Energy of Canada Limited	65	70		1	—
DCB	Dominion Coal Board	75		80	1	—
NEB	National Energy Board	85			1	1
External Affairs	Admin.	1	10	15	1	—
	External Aid	30		35	1	1
	International Joint Commission	40			1	1
Finance	Admin.	1		3	1	1
	Public Debt					
	Provinces and Municipal Grants			5, 10, 15	1	—
	Sugar Payments					
MDLB	Municipal Development Loan Bd.	45			1	—

*Required if a Capital Vote and a Grants Vote are still to be required in programs having capital and grant expenditures.

December 11, 1968

POTENTIAL DEPARTMENTAL PROGRAMS

Department or Agency	Tentative Programs	Present Vote Structure			Proposed Votes	Additional Votes for Capital and Grants*
		Administration Operations and Maintenance	Construction or Acquisition	Grants: Contributions and Subsidies		
AG	Auditor General	50			1	—
	Insurance Company Supervision	55			1	1
Tar. Board	Tariff Board	25			1	—
RCM	Mint	30	35	32	1	—
Fisheries and Forestry	Admin.	1			1	2
	Fisheries Management	5	10	15	1	—
	Fisheries Research Board.	20	25		1	1
	Forestry	30	35	40	1	—
Governor General and Lieutenant Governors	Admin.	1, 5			1	1
Indian Affairs and Northern Development.	Admin.	1			1	1
	Indian Affairs	5	10		1	1
	Northern Development	20	25	33, 34	1	—
	National Parks and Conservation	35	40		1	1
Industry, Trade and Commerce	Admin.	1, 20		3	1	1
	Indus. Productivity			5, 10, 15	1	—
	Foreign Trade	25			1	2
	Tourism	30			1	2
	Osaka 70	35			1	1
	Wheat					
DBS	DBS	40			1	1
Justice	Admin.	1			1	2
Labour	Admin.	1			1	2
	Labour Relations	5			1	1
	Labour Standards	10			1	2
	Research (Social)	15		20	1	1
UIC	UIC	25			1	1
Legislature	Senate	1, 5			1	1
	House of Commons	10, 15, 20, 25			1	2
Manpower and Immigration	Admin.	1			1	1
	Manpower	5		10	1	1
	Immigration	15			1	2
	Research (Social)	20		25	1	1
Appeal Board	Appeal Board	30			1	1
National Defence	Admin.	1		5	1	—
	Emergency Measures Organization	7	10	12	1	—
	Defence	15, 48, 55		20, 50	1	1
	Mutual Aid (NATO)			45	1	—

December 11, 1968

POTENTIAL DEPARTMENTAL PROGRAMS

Department or Agency	Tentative Programs	Present Vote Structure: Administration Operations and Maintenance	Present Vote Structure: Construction or Acquisition	Present Vote Structure: Grants: Contributions and Subsidies	Proposed Votes	Additional Votes for Capital and Grants
DRB	Defence Research Board	25	30	35	1	—
Health and Welfare	Admin.	1			1	1
	Health Services	5	6		1	—
	Health Insurance	8		9, 10, 15, 17	1	—
	Medical Services	20	25		1	—
	Food and Drug	30	35		1	—
	Welfare	40		41, 45	1	—
MRC	Medical Research Council	50		55	1	—
National Revenue	Customs and Excise	1			1	1
	Taxation	5			1	1
Appeal Board	Appeal Board	10			1	1
Privy Council	P.C. Office	1, 5, 10			1	1
	Royal Commissions	15			1	—
	Science Council	17			1	—
ECC	Economic Council of Canada	20			1	1
PSSRB	P. S. Staff Relations Board	25			1	1
Public Works	Admin.	1			1	2
	Accommodation	5	10, 15		1	—
	Harbours	20	25, 30		1	1
	Roads, Bridges	35	40		1	—
	Laboratories	55			1	1
Regional Development	Admin.	1	5	10	1	—
	N.C.C.	20, 25			1	—
	Cape Breton Development Corporation	35, 40			1	—
Secretary of State	Admin.	1, 10	2		1	1
	Citizenship	5			1	2
	Canada Council			25	1	—
CBC	CBC			30	1	—
CFDC	Canadian Film Development Corporation					
CRTC	Canadian Radio Television Commission	40			1	1
CEO	Chief Electoral Officer	45			1	1
CYC	Company of Young Canadians	48			1	—
Nat. Arts	National Arts Centre	50			1	—
NFB	National Film Board	55	60		1	—
N. Lib	National Library	65			1	1
N. Mus	National Museum	70			1	2

December 11, 1968

POTENTIAL DEPARTMENTAL PROGRAMS

Department or Agency	Tentative Programs	Present Vote Structure: Administration Operations and Maintenance	Present Vote Structure: Construction or Acquisition	Present Vote Structure: Grants: Contributions and Subsidies	Proposed Votes	Additional Votes for Capital and Grants
Pub. Arch.	Public Archives	75			1	1
PSC	Public Service Commission	80	85		1	—
Rep. Com.	Representation Commissioner					
Solicitor General	Admin.	1			1	2
	Correct. Serv.	5	10		1	1
RCMP	RCMP	15	20		1	1
Supply and Services	Admin.	1			1	1
	Supply	5	10		1	—
	Services	15			1	1
	Printing	20			1	1
	Canadian Arsenals Ltd.	30	35		1	—
	Canadian Commercial Credit Corporation	40			1	—
Transport	Admin.	1, 3			1	1
	Marine Services	5	10		1	1
	Railway and Steamships		20	15, 25	1	—
	Air Services	30	35	40	1	—
CMHC	CMHC			45	1	—
CTC	Canadian Transport Commission	50		55, 60, 65	1	—
NHB	National Harbours Board		70, 80	75	1	—
St. Lawrence Seaway	St. Lawrence Seaway			85, 90	1	—
Treasury Board	Government Admin.	1		5, 10	1	1
NRC	National Research Council	15	20	25, 30	1	—
Veterans Affairs	Admin.	1			1	2
	Welfare	5		10, 15	1	1
	Pensions	20		25	1	1
	Treatment	30	35	38	1	—
	V. L. Act	40		45	1	1

HOUSE OF COMMONS

First Session—Twenty-eighth Parliament

1968

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: Mr. A. D. HALES

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 17

THURSDAY, NOVEMBER 7, 1968

Revised form of Estimates

WITNESSES:

Mr. Sylvain Cloutier, Assistant Secretary of Treasury Board;
Mr. A. M. Henderson, Auditor General of Canada.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1968

OFFICIAL REPORT OF MINUTES
OF
PROCEEDINGS AND EVIDENCE

This edition contains the English deliberations and/or a translation into English of the French.

Copies and complete sets are available to the public by subscription to the Queen's Printer. Cost varies according to Committees.

Translated by the General Bureau for Translation, Secretary of State.

The Clerk of the House.

OFFICIAL REPORT OF MINUTES

OF

PROCEEDINGS AND EVIDENCE

This edition contains the English deliberations and/or a translation into English of the French.

Copies and complete sets are available to the public by subscription to the Queen's Printer. Cost varies according to Committees.

Translated by the General Bureau for Translation, Secretary of State.

ALISTAIR FRASER,
The Clerk of the House.

HOUSE OF COMMONS

First Session—Twenty-eighth Parliament

1968

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: Mr. A. D. HALES

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 10

TUESDAY, DECEMBER 17, 1968

Revised form of Estimates

WITNESSES:

Mr. Sylvain Cloutier, Assistant Secretary of Treasury Board;
Mr. A. M. Henderson, Auditor General of Canada.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1968

29581—1

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. A. D. Hales

Vice-Chairman: Mr. T. Lefebvre

and Messrs.

Allmand,	Cullen,	Nowlan,
Bigg,	Flemming,	Rock,
Boulanger,	Forget,	Rodrigue,
Burton,	Gibson,	Rondeau,
Cafik,	Major,	Thomas (*Maisonneuve*),
Crouse,	Noble,	Winch—20.

(Quorum 11)

Edouard Thomas,
Clerk of the Committee.

MINUTES OF PROCEEDINGS

TUESDAY, December 17, 1968.
(11)

The Standing Committee on Public Accounts met this day at 11.07 a.m., the Chairman, Mr. A. D. Hales, presiding.

Members present: Messrs. Allmand, Bigg, Boulanger, Cafik, Crouse, Cullen, Flemming, Forget, Gibson, Hales, Lefebvre, Major, Nowlan, Rodrigue, Thomas (*Maisonneuve*), Winch (16).

In attendance: Mr. Sylvain Cloutier, Assistant Secretary of the Treasury Board; Mr. A. M. Henderson, Auditor General of Canada; Mr. J. G. Glashan, Director of Estimates and Supply Procedures Division, Treasury Board; Mr. G. R. Long, Assistant Auditor General.

The Chairman read the Minutes of Proceedings of the meeting of the Sub-committee on Agenda and Procedure held on December 13, 1968, as follows:

"A general discussion took place as to the procedure to be followed in drafting the Committee's report to the House on the subject of the proposed form of Estimates. The Sub-committee agreed to recommend to the Committee that hearings on the proposed form be concluded at its meeting to be held December 17, 1968. The Sub-committee would meet on the first Thursday when the House resumes following the Christmas recess to make the first draft of the report. This would be submitted to the Committee at the earliest possible date. Until such time as the draft report is completed for review by the Committee, the order of business for meetings of the Committee to commence the following Tuesday (tentatively, January 21, 1969), would be the resumption of the study of the Auditor General's follow-up report.

The Clerk of the Committee is to ensure that copies of outstanding Minutes of Proceedings and Evidence not received prior to the Christmas adjournment will be mailed to members' home addresses.

The Clerk of the Committee is instructed to prepare the draft form of the report for the use of the Sub-committee.

The Sub-committee, after due deliberation, concluded that alternative No. 8 i.e. Bilingual text—Combination of booklets in binders and separate booklets should be recommended to the Committee for adoption. The Clerk of the Committee was instructed to advise Treasury Board staff to present a dummy of such arrangement for the Committee meeting to be held December 17, 1968."

Moved by Mr. Winch and

Agreed,—That this report of the Sub-committee on Agenda and Procedure be adopted.

29581—1½

The Committee heard the criteria to be employed with respect to the proposed form of Estimates and questioned the witnesses. The criteria reflected the agreement reached by the Auditor General and the Assistant Secretary of the Treasury Board.

The Committee unanimously agreed to the motion of Mr. Lefebvre,

That Messrs. Henderson and Cloutier be given a vote of thanks for their conscientious efforts towards assisting the Committee in its deliberations on the proposed form of Estimates.

Moved by Mr. Lefebvre,

That the six criteria presented to the Committee by the Assistant Secretary of the Treasury Board be adopted:

1. In the revised Estimates, the proposed spending under a program is to be set forth under the three basic headings of Administration, Operations and Maintenance (or operating costs); Construction and Acquisition (or capital costs); and Grants, Contributions and Subsidies, so this information will be available to the members of the House in the same manner as already seen in the example given for the Development of Indian Affairs and Northern Development regardless of whether there is to be one, two or three votes.
2. Each department or agency, i.e., legal entity, shall require one or more votes as the case may be.
3. In all cases where agencies or Crown corporations are incurring a deficit or related deficits which must be covered by an appropriation, these will be the subject of a separate vote.
4. The special circumstances surrounding any particular expenditure, e.g., Contingencies, Treasury Board Vote 5, be made the subject of a separate vote.
5. As capital investment today can well mean increased Administration cost tomorrow, spending proposals involving more than $5 million in total for Construction and Acquisition within a departmental program shall always be the subject of a separate vote.
6. Similarly, as Grants, Contributions and Subsidies are of a special nature, requiring a different type of consideration, they too will be the subject of a separate vote when the total under any program exceeds $5 million.

Moved by Mr. Crouse,

That criterion No. 5 be amended to decrease the total spending from $5 million to $1 million—Motion negatived—Yeas, 4; Nays, 9.

After discussion, the motion was passed on division, with two additions in text (*see underlined portions in the motion above*).

At 1.09 p.m., the meeting adjourned to the call of the Chair.

Edouard Thomas,
Clerk of the Committee.

EVIDENCE

(Recorded by Electronic Apparatus)

Tuesday, December 17, 1968

•1106

The Chairman: Gentlemen, I see a quorum. We are a hard-working committee, as one of two meeting this morning, I believe, of all Committees of the House.

An hon. Member: It is the only meeting this morning.

The Chairman: It is the only meeting this morning, I am told.

An hon. Member: It is the only good Committee left. It is a working committee.

The Chairman: You are right. Gentlemen, your subcommittee met last Friday and I will now report to you what the subcommittee said. Members present: Messrs. Cafik, Hales, Lefebvre, Rodrigue, Winch.

A general discussion took place as to the procedure to be followed in drafting the Committee's report to the House on the subject of the proposed form of estimates. The Sub-committee agreed to recommend to the Committee that hearings on the proposed form be concluded at its meeting to be held December 17, 1968—that is today. The subcommittee would meet on the first Thursday when the House resumes following the Christmas recess to make the first draft of the report. This would be submitted to the Committee at the earliest possible date. Until such time as the draft report is completed for review by the Committee, the order of business for meetings of the Committee to commence the following Tuesday, (tentatively, January 21, 1969), would be the resumption of the study of the Auditor General's follow-up report.

The Clerk of the Committee is to ensure that copies of outstanding Minutes of Proceedings and Evidence, not received prior to the Christmas adjournment, will be mailed to members' home addresses.

The Clerk of the Committee is instructed to prepare the draft form of the report for the use of the subcommittee.

The subcommittee, after due deliberation, concluded that alternative No. 8, that is Bilingual Text—Combination of booklets in binders and separate booklets—should be recommended to the Committee for adoption. The Clerk of the Committee was instructed to advise Treasury Board staff to present a dummy of such arrangement for the Committee meeting to be held December 17, 1968.

Gentlemen, that brings you up to date with what your subcommittee arranged.

Mr. Winch: I move the adoption of the report.

Motion agreed to.

The Chairman: We will come back to that for discussion later in the morning. We agreed at the last meeting, as we had heard from Mr. Cloutier on two or three occasions, that at this meeting we should hear Mr. Henderson first and then go into discussion of matters pertaining to what Mr. Henderson says. I understand that Mr. Cloutier and Mr. Henderson have met and discussed some of these matters and we would now like to hear from Mr. Henderson.

Mr. A. M. Henderson (Auditor General): Thank you, Mr. Chairman. Gentlemen, as you know, at the conclusion of the last meeting Mr. Cloutier filed some statements with you indicating the potential departmental programs, and showing the present vote structure and the proposed votes.

• 1110

As a result of my study of that, I suggested to Mr. Cloutier that Mr. Long and I meet with him. He came over to my office yesterday afternoon and we had a useful discussion on this in order to see if we could not bring matters before you on a basis today which would commend itself to you as being a sensible and proper manner in which to proceed. Now just to refresh your memories, you know that at the present time there are some 236 votes covering the budgetary expenditures which are approximately $6 million. That does not include statutory ones, of course, in the Revised Estimates 1968-69 which were tabled in the House last September.

In his introductory remarks Mr. Drury said on November 21 that it was indicated that the 236 votes in the present vote structure would be reduced, as he saw it, by approximately 100 votes. That matter has remained in abeyance on that basis while you have been considering the other aspects of the format of the Estimates. I myself, in my capacity as your adviser, made a statement before the Committee in which I took exception to such a radical, across-the-board reduction as that, and consequently with Mr. Cloutier we have been exploring ways and means in which we could minimize that so that the least number of voting opportunities would in effect to lost to the Members of the House. You have 236 and the aim of the exercise is to see that you retain that position as much as possible. Mr. Cloutier has explained to me that he and his associates were not wedded to any reduction of any specific number of votes. They too were seeking to develop a standard for the presentation of the votes of all departments.

Now there is, I think, in your minds and ours general agreement on two basic elements in this revised format; first of all, that the three headings under which the details of the Estimates of all departments are going to be shown in future do present a meaningful breakdown. That is to say, they are all going to be shown for every department. Administration, Operations and Maintenance; in the next column, Construction and Acquisition; and in the next column, Grants and Contributions. The second point is that these headings, plus the details that the Treasury Board proposes to furnish in the Revised Estimates format are going to provide the House with additional information about proposed spending in the future. I do not think there is any disagreement with that. So therefore yesterday Mr. Cloutier, Mr. Long and I addressed ourselves to what the proper approach should be, that is to say, the determination of the kind of criteria as to what amounts or what areas of spending merited a separate vote of the House. In other words, it is not just a question of whether you have 100 fewer votes or not, so much as whether the votes that you are going to get are going to be the ones that you feel you should have in order to maintain an effective and reasonable parliamentary control in the expenditure, that is to say as to size, as to type of spending and as to special programs here, different programs there; and you must feel that it enables you to retain control of these vast amounts of money that have to be voted to the Executive.

• 1115

We have addressed ourselves to these criteria very carefully to try to come up with—shall I say—some ground rules and I have approached this matter in my capacity as your adviser. As you know, I do not seek to undertake any administrative work. In terms of government operations that is their responsibility. As their auditor, my function is to come along after they have taken the decision. But in this particular case I am by long tradition the adviser of this Committee and accordingly I felt that it was my duty on your behalf to address myself to this problem and to see if we could not come up with some sensible solution that you could accept today.

So, Mr. Chairman, I should like to ask Mr. Cloutier if he could now just run over for you the criteria that we discussed and which we have set down under certain headings. I hope that you might be able to keep notes of these because they are completely open and subject to your views. It may be that you do not agree with some of them or you would like to see them changed. If so, I honestly beg of you to speak up.

The Chairman: Mr. Cloutier.

Mr. S. Cloutier (Assistant Secretary, Programs Branch, Treasury Board): Mr. Chairman, in his introductory remarks on November 21, the President of the Treasury Board invited the comments of the Members of the Committee on all aspects of the proposed new form of Estimates. The Members have heard the remarks of the Auditor General and have commented themselves on the proposal to have one vote equivalent to one program. In the light of these remarks and of these comments, officers of the Treasury Board have re-examined the proposal as it was initially put to the Committee, and with the concurrence of the President of the Treasury Board have attempted to reconcile the primary objective of a new form of Estimates, which is to develop a meaningful and informative presentation of the votes of all departments and agencies, with the concern expressed in this Committee that there not be a wholesale reduction in the number of the votes. And it is in this light that Mr. Henderson, Mr. Long and I met yesterday afternoon to develop some criteria that might commend themselves to you.

The President of the Treasury Board has concurred in the agreement that we reached

yesterday afternoon that, subject to the views of the Members of the Committee, the criteria to be employed should be along the following lines.

The first one is that in the Revised Estimates the proposed spending under a program is to be set forth under the three basic headings of Administration, Operation and Maintenance—or operating costs; then Construction and Acquisition, or capital costs, and the third breakdown would be Grants and Contributions. So this information will be available to the Members of the House in the same manner as already seen in the example given for the Department of Indian Affairs and Northern Development regardless of whether there is to be one, two or three votes under the program.

The second criterion or ground rule would be that each department or agency, that is each legal entity, shall require one or more votes, as the case may be. Whenever a legal entity has a budgetary requirement there will always be at least one vote.

The Chairman: May I interject. "Legal entity", what do you mean by that?

Mr. Cloutier: By this we mean each "preacher of Parliament", so to speak; each Crown corporation, each agency, each department or portion of the Public Service that operates as a department.

The Chairman: In other words, each department.

Mr. Cloutier: That is right.

Mr. Winch: Will that be shown under one vote but specified under the vote, or will it be shown separately?

Mr. Cloutier: There will be one vote for each. For instance, if you look at the Indian Affairs and Northern Development, you have the National Battlefields Commission, which is a relatively small operation in relation to the rest of the conservation program of the Department, and yet it is shown as a separate entity with its own vote.

• 1120

The Chairman: Mr. Nowlan.

Mr. Nowlan: The Unemployment Insurance Commission or the Atlantic Development Board—those things would be separate.

Mr. Cloutier: They would be identified separately in the estimates.

The third criterion would be that in all cases where agencies or Crown corporations are incurring a deficit or related deficits which must be covered by an appropriation, these would be the subject of a separate vote. To give you an example here, for instance there is in the National Harours Board an appropriation covering certain capital items. There is also a deficit incurred by the National Harbours Board. Under the criteria that are being proposed these would be shown as two separate votes, one for the capital item, and because there is a deficit, the deficit would be highlighted by a separate vote.

The fourth criterion would be that the special circumstances surrounding any particular expenditure, as an example the contingencies vote of the Treasury Board, would be made the subject of a separate vote again.

The fifth criterion. As capital investment today can well mean increased administrative cost tomorrow, spending proposals involving more than $5 million for "Construction and Acquisition shall always be the subject of a separate vote.

The sixth criterion. Similarly, as grants and contributions are of a special nature requiring a different type of consideration, they too will be the subject of a separate vote when the total under any program exceeds $5 million.

If criteria such as these commend themselves to the members of the Committee, it is proposed that the Treasury Board apply then in developing the vote structure on which the revised estimates format for 1970-71 will be prepared. Had the foregoing criteria been applied to the 1968-69 estimates, the effect would have been to reduce the 236 votes to between 165 and 170 votes.

The Auditor General, as he has indicated, has expressed himself as satisfied with an approach such as this.

The Chairman: Mr. Lefebvre?

Mr. Lefebvre: I would like to ask Mr. Cloutier to restate four and five. I got lost after number three.

Mr. Cloutier: Yes, sir. Within a departmental program you have the three compartments that we referred to: operating costs, administration and maintenance; you have capital costs, that is, construction and acquisition; and you have a third compartment, grants and contributions. We will propose to show these in every instance, in every departmental program.

Whenever within the departmental program the capital element requires an amount to be voted that is higher than $5 million, that is, $5 million and higher, then you would have a separate vote for that item.

Mr. Lefebvre: That is number six.

Mr. Cloutier: That is number five. Now, the same principle would apply to the last compartment, grants and contributions, and whenever within a program the grants and contributions element is $5 million and higher, then also you would have a separate vote. So that for those programs that do not have large capital items or large grant items, you would have only one vote.

The combinations and permutations are quite extensive here, but just to name a few; if you have a program which had very little grants and sizeable capital then you will have two votes, one covering the capital and one covering the rest. If we go to the Indian Program of the Department of Indian Affairs to which we referred in a number of instances during the course of the deliberations of this Committee, you would have three votes under this program. You would have one for administration, which according to the examples before you would be $80 million, one for capital which would be $34 million, and one for grants and contributions which would be $20 million.

Mr. Chairman: Before we proceed with questions I want to express on behalf of the Committee our appreciation for Mr. Henderson and Mr. Cloutier getting together and resolving this into some form where the Committee can digest it. I do not mind saying that I think we were all rather left up in the air after our other meetings, and they have got us together. I think we have landed on a common ground where we can discuss this intelligently.

I have speakers now who wish to ask questions which I presume are going to deal with capital investments and grant contributions. However, the field is wide open. First we have Mr. Cafik, then Mr. Bigg and then Mr. Crouse.

Mr. Cafik: Mr. Chairman, I think I understand the outline and I think it is a very good presentation. I think it is a good approach to the whole problem. But I would like to ask a question. We will take page 14 of the illustration booklet showing the Department of Indian Affairs and Northern Development, "A—Department—Indian Program", as an example of this. Presuming that "Construction and Acquisition" in this particular Department, for the sake of the argument, would be $3 million and we will say that "Grants and Contributions" are $1 million, which means a total within those two areas of $3 million. I gather then that the whole thing would be under Vote 1?

Mr. Cloutier: Right, sir.

Mr. Cafik: The question really is: how is it laid out in here? Does it show under "Construction and Acquisition" the same details as it would show here?

Mr. Cloutier: Yes, sir?

Mr. Cafik: Only it would total $4 million or $3 million, and in "Grants and Contributions" it would still be shown as shown here but the whole thing would be entitled "Vote 1"?

Mr. Cloutier: Yes, sir. The presentation that you have with respect to the Indian Program on pages 12, 13, 14, 15 and 16 would be identical. The only change would be on page 10.

On page 10 you have Vote 5 which provides the authority for the expenditures. And under the proposal before you in the sample you have only one Vote 5 which would provide the necessary authority for all expenditures under operating capital and grants. With the application of the criteria this one vote would become...

Mr. Cafik: Three votes.

Mr. Cloutier: ... three votes. One for administration, practically $81 million; the second vote for capital, a little over $34 million; and the third one for grants, $20.7 million.

• 1125

Mr. Cafik: Right. Now, if I may pursue this a little bit further. In the other case such as the illustration that I outlined, you would have Vote 5, Vote 10, Vote 15, and they would be outlined here as three separate votes?

Mr. Cloutier: In the illustration you outlined you would have just one vote.

Mr. Cafik: Oh, yes. One vote. Right. and in this particular case you would have three votes listed here?

Mr. Cloutier: That is right. But the details on the subsequent pages would be identical to the details that you have here.

Mr. Cafik: All right. Now one further question. I gather that one of the points of this whole changeover is to have a continuity of form from one department to another. What happens in the event that you have grants and contributions for department "X" and there are no grants and contributions in that particular department? Is it listed with a "nil" figure put in, or is it dropped?

Mr. Cloutier: If you would turn to the end of the booklet and look at page 36, the estimates of the National Battlefields Commission. If you look at "Program by Activities" you will find that the heading is merely "Administration, Operation and Maintenance".

Mr. Cafik: Right. So you would only list those things that were applicable.

Mr. Cloutier: That is right. Otherwise we would have a lot of blank paper in the book.

Mr. Cafik: Thank you.

The Chairman: Mr. Henderson.

Mr. Henderson: To carry on Mr. Cafik's point, if the National Battlefields Commission were to have some construction, say a million dollars worth, they would show it in the presentation "Program by Activities".

Mr. Cafik: Right, as one million dollars.

• 1130

Mr. Henderson: Yes, and so you would then be apprised for the first instance that the National Battlefields Commission was going to have some construction, and see it. However, when it comes to the actual vote it would just be included with the other, they would not make separate votes unless it exceeded the figure of five million. That is the point of this.

The Chairman: The point, Mr. Henderson, is that we would still just have one vote but we would have the information as to the capital expenditures.

Mr. Henderson: In this type of presentation you will always have the information for every department. Whether it merits a separate vote in the House or not will depend on its size. The point is that you will be able to see that it is embarking on some construction and of course you will be able to ask questions only under the one vote heading in the House, but in the Committee you will be able to say, "I see it is going into construction for the first time". For example, we are having a few problems concerning parking in my office. Suppose we decided to build a garage for the audit office. I should imagine when that appears on the sheet you will be fascinated by it and ask a lot of questions. You will see that. Do you understand?

The Chairman: And following that . . .

Mr. Henderson: I do not think it will be a $5 million item, so you would not be asked to make a vote of it.

The Chairman: Following that, Mr. Henderson, if in your Department you had an item for a million dollar garage, and you decided not to build that garage, you could spend that money on the administration of your office?

Mr. Henderson: Precisely. That is the point we . . .

Mr. Cloutier: With Treasury Board approval.

The Chairman: With Treasury Board approval.

Mr. Cloutier: Assuming Treasury Board had authorized provision for that garage in the first instance.

Mr. Bigg: As we are trying to streamline our affairs in Parliament, I was wondering if there is any mechanism by which, because we had this extra information, we might not need to have as many votes formally presented to the House. Is there any way we could say we have looked in detail at the estimates of the Department of Indian Affairs and that we would like to pass all the votes in a sort of bundle? We have been afraid to do this before because we did not know what this bundle was. However, with the new format and with the explanatory notes in the manual it should make it possible for any member of the House, and especially those on committees, to know exactly how every vote is broken down, and perhaps we could streamline the work in the House by passing 10 votes at one time.

Mr. Henderson: That is up to the House when the votes are called. I still think you want to provide an opportunity for the people to speak to the individual items. You may be satisfied with it but the next person may not be.

The Chairman: Mr. Bigg, I think the answer is that the Chairman of the Committee must call the votes one at a time. He cannot lump them altogether.

Mr. Bigg: I know he cannot, but ...

Mr. Henderson: You must realize that the moment you have passed it and seen it in this format there cannot be transfers between the votes. However, there certainly can be within the votes, so that the bigger the votes the greater the degree of transfer. By this I mean that right after you have passed it it can be transferred.

Mr. Bigg: But are we not going to have an opportunity in committee to see the area in which these transfers might occur?

Mr. Henderson: Oh yes, because it will come to you in this three-way breakdown. The maintenance—the operating costs—the construction and the grants are the three basic directions, you might say, in which government money goes. I like the idea of keeping administration separate because, as you know, that is the biggest thing that is increasing around here. That is the thing I hope the members will focus the most attention on.

• 1135

Mr. Crouse: Mr. Chairman, I am still a little confused about some of these matters. For example, am I correct in assuming that it would still be possible for the administration to rearrange these votes? For example, following Mr. Cloutier's explanation, it is possible for the Department to still take the funds out of construction and acquisition and move them over into administration or, if they so wish, to take funds from administration and move them over into grants?

Mr. Cloutier: The Department could never do it. Where you have a separate capital vote and/or a separate grant vote—and in both instances where the expenditures were higher than $5 million—that could not be done because we would be dealing with a parliamentary vote. Where the provision for either capital and/or grants is smaller than $5 million, it would then be possible for the Treasury Board to authorize a transfer from one compartment to the other.

Mr. Crouse: Mr. Chairman, is there any significance to that figure of $5 million? In my opinion—and perhaps this is because I come from a depressed area of Canada—$5 million seems like a lot of money to have at your disposal to move one way or another. I think this figure should be no more than $1 million. Fluid control is lost to us here. It would seem to me that $1 million is enough. I am in disagreement with the figure of $5 million, but that is just one man's opinion. Is there any significance to the figure of $5 million? Was it just a case of taking a number from one to 10 and you ended up with $5 million?

Mr. Cloutier: If I may, I will explain this briefly. Yesterday afternoon Mr. Henderson, Mr. Long and I sat down and looked at the whole list of votes in relation to one another. We started this examination with the figure of $10 million in mind as a possible cut off, and I think I am accurate in saying that after a very short time we came to the conclusion that $10 million was perhaps too high. We then proceeded to look at each potential program in relation to the size of the administration, the size of the capital and the size of the grants compartments, and in going through the whole list we came to the conclusion that $5 million was a reasonable cut off.

The Chairman: It is open to the Committee to decide on this amount. Mr. Cloutier has given you his reasons.

Mr. Henderson: I would like to endorse that, Mr. Chairman. There is nothing magic about it. Mr. Cloutier, has described exactly how it arose. We merely submit it to you and show you the end result. If in your opinion the figure should be four, three or two, it will result in a further number of votes. I do not know how far that figure would have to go down to restore, so to speak, your hundred. As a result of the $5 million I think, as Mr. Cloutier says, we come up with between 165 and 170 votes from the 236 you have. It may be that if you made it $3 million you would wind up with a couple of hundred. It is just a matter of doing your sums based on the 1968-69 Estimates. We are entirely in your hands on that.

Mr. Crouse: Mr. Chairman, I would just like to make one further comment on that and then I will pass. In my opinion—and I believe that all members of the Committee would endorse this view—the passing of the vote is a matter that in many, many instances takes less than a second of time. We are dealing here with the right, as members of Parliament, to scrutinize and object to certain items if we so wish. We should endeavour at all times to preserve that right. It does not necessarily mean that we are going to use it on each and every occasion, but if there is an item that demands scrutiny and comment we, as members of Parliament from all parties,

should have the right to raise it. However, if we are denied that right, because of lumping of the sums under certain headings, then we have denied ourselves the right to scrutinize and object if necessary. For that reason I still feel that these items should be numbered one, two, three. It is a simple matter for the Chairman to call out, "Shall administration, operation and maintenance carry? Yes? Shall construction and acquisition carry? Yes? Shall grants and contributions carry? Yes?" See that can be done in just that length of time. Secondly, I feel that $5 million is too large a figure to toss around. I think it should be $1 million. Thank you, Mr. Chairman.

• 1140

The Chairman: I would like Mr. Winch, Mr. Major, Mr. Allmand and Mr. Nowlan to address their remarks to the particular point of the matter of arriving at an amount of $5 million or less. Let us settle that one point because it is all-important that this is done today. Mr. Winch, would you now address your remarks on that point.

Mr. Winch: Mr. Chairman, I think it will be a bit difficult for me to restrict myself that much. The questions I have in mind follow along exactly the same lines that have already been spoken to by two of the Committee members. I would like to get some clarification, Mr. Chairman. It is my understanding that if a construction cost is going to be $5 million, then it appears as a separate vote. If only $3 million is spent, then the other $2 million cannot be spent. If it is less than that, It appears in the consolidated vote. In other words, if it is $4,999,999.99 it appears in the consolidated vote. My understanding is that if it is one cent less than $5 million the Treasury Board, on the recommendation of the Department, can transfer $4,999,999.99 to any other purpose.

To me, this is of the utmost importance because that is not control by Parliament over expenditure. If the Treasury Board in its Estimates says under Item A they want a million dollars and it is approved by Parliament, if we have also authorized $4,999,999.99 they can, if they wish, transfer that to the vote for which we have authorized only $1 million.

I know I am using the large context but the principle to me is of the utmost importance, because if this policy is pursued it could be abused or misused; I hope it would not be. However, there is the authority to transfer what could be millions upon millions of dollars for a purpose which had not been contemplated or authorized by Parliament.

Mr. Chairman, to me this is a most serious matter because it is a complete removal of the authority of Parliament for allocation of money for a specific purpose. You can see why I am so interested in getting an understanding on this matter.

The Chairman: Mr. Winch, do you realize that it cannot be transferred without Treasury Board approval?

Mr. Winch: I know, but Treasury Board can transfer millions upon millions, if they so desire, which is not the authority of Parliament on specific items. In other words basically, on the consolidation of everything under $5 million, we are abrogating the authority of Parliament on the spending of money for specific projects, and to me this is a damned serious matter. That is the reason I speak so emphatically on it.

The Chairman: Mr. Major and then Mr. Allmand. Mr. Major, you wanted to ask a question?

Mr. Major: I would like Mr. Cloutier to give us those criteria in writing. Do you plan to do so?

Mr. Cloutier: Yes, I propose to give a copy to the Clerk and he can circulate them, sir.

The Chairman: They will be in the evidence, of course.

Mr. Major: Oh, all right.

Mr. Allmand: In discussing this $5 million limit I think I have to refer to some of the principles that we have already discussed.

When this proposed form of Estimates was presented to us, it was suggested that we have one vote in each case to cover administration, capital and grants, with details and breakdowns but still only one vote. Some members felt that was too few votes, that it would give too much leeway to the Treasury Board to shift items from capital to administration and from administration to grants, and all that sort of thing, and they felt this was abrogating our control.

At the last meeting some suggested that we have three votes, one for administration, one for capital and one for grants. Now you have put forward a new plan this morning, a compromise plan, and in it you have a suggestion

that if it is over $5 million it be a separate vote and if it is less than that it be included in another vote. You are moving towards satisfying the criticisms of the last day.

• 1145

Mr. Winch and Mr. Crouse have asked about the $5 million limit. Perhaps this was not brought out before, but I understand one of the reasons you originally suggested one vote rather than three votes or one vote rather than ten smaller votes, is because when you had many smaller votes the civil servants who had jurisdiction over those particular votes—let us say, Indian schools in this example—because they were restricted to that vote had a tendency to overestimate, to inflate their votes.

They knew that if they asked for exactly what they thought they might need, since these are prepared nearly two years in advance, circumstances may change in the meantime and they could not transfer from vote to vote within the Department, they were stuck so there was a tendency to over-inflate.

I understand one of the reasons why you suggested fewer votes with broader categories was to be able to say there should not be over-inflation, there should be a closer prediction of what the Estimates will be and not to worry about putting in an inflated vote because we will be able to take something out of here and put it in there, and so forth. It gives more leeway and it also keeps down the Estimates and also lessens the taxes we are going to have to raise. You can tell me whether or not I am correct; this is my understanding.

However, when we come to whether it is $5 million or $1 million, I think we have to draw the line somewhere. You and Mr. Henderson have suggested $5 million. Mr. Crouse and Mr. Winch think perhaps it should be $1 million. Of course, concerning the examples they give—the $5 million and $4,999,999.99—we can say that for $1 million and $999,999.99, so perhaps we should move it down to $1,000.

We have to compromise on what is reasonable, balancing on the one hand, I think, the arguments why we do not want too many votes because that leads to inflationary padding of the Estimates, and, on the other hand, if there are too few votes we have no control. We have to get somewhere in between and you suggested $5 million. In understand Mr. Henderson has agreed. I have not any dogmatic ideas about whether it should be $5 million, $4 million or $1 million, but I can see that if we move down to $1 million and then down to $1,000 we end up where we were before with 260 votes and we have not improved the situation.

Would you comment on my belief that if we have too many the Departments have a tendency to over-inflate their votes?

The Chairman: Mr. Cloutier?

Mr. Cloutier: You are entirely right, sir, and this was one of the considerations we had in mind in preparing our original proposal. It is a quite natural reaction for any administrator, whether he be in the public or private sector—perhaps more so in the private sector—because the opportunities of changing resource allocation which is decided by Parliament are fewer than they might be in the private sector.

As you have very clearly outlined, because he is preparing estimates so long in advance of the time when he will be administering the expenditures in question, it is a natural reaction for an administrator to be cautious and to make sure he has made sufficient provision. To the extent that those provisions are frozen in a vote and can be changed only by supplementary estimates, then he will hedge. In prior years when supplementary estimates were quite frequent—it is only a few years ago that there were five, six or seven sets of supplementary estimates throughout the year—this was perhaps not so much a factor.

On the other hand, over the last two or three years the government has made a concerted effort to present to Parliament one set of Estimates that would cover the whole year and, indeed, for the current fiscal year there has been only one small supplementary estimate to date for a very specific purpose related to the operations of Parliament, and we anticipate only one final estimate at the end of the year. We hope to adopt the same practice in future years.

• 1150

Our purpose in preparing and presenting estimates is to put to Parliament the total package as accurately as we can, and one important factor in carrying out this mandate is to make sure that there are not little cushions here and there to take care of changed circumstances. This was fundamental to our proposal that there would be one vote, one program.

The proposition that would result from the adoption of the criteria that we mentioned earlier would move back from that ideal situation, from an administrative viewpoint, but would, of course, take care of, or at least respond to, the comments that were made by members of the Committee on the other side.

But, to summarize, your outline is perfectly accurate, sir.

Mr. Chairman: Mr. Nowlan and then Mr. Cullen.

Mr. Nowlan: Mr. Chairman, Mr. Winch, Mr. Crouse and Mr. Allmand have raised a most important point. Like Mr. Allmand, I am not dogmatic about either 236 items or the $5 million figure. I vary from Mr. Allmand, though, on the inclination of human nature to change. Just because the draft form of Estimates has changed—and if the inclination, admittedly quite natural, was for Mr. Cloutier to overestimate previously—I really do not see why, when Treasury Board goes through its annual slicing procedure, there is not going to be that same inclination to protect yourself and to overestimate again, regardless of the form the Estimates take. To do other, I think, would be the height of idealism. Mr. Cloutier is not naive, but I really believe that implies a little naiveté.

Regardless of that, I can see the merit in this so-called compromise. It may be that there could be a further compromise to take care of part of the objection of Mr. Winch and Mr. Crouse, and I will suggest one now.

Regardless of the final form of the Estimates and/or or the limit we come up with—the $5 million, say—could not a limit on any transfer be either in the Estimates, or be set down as a separate order of the House, or of the Treasury Board?

On the one hand, we have the suggestion that we need flexibility; on the other, we have the theory of the power of the purse.

Could not Treasury Board have a level of $50 million or $100 million? That is less than one per cent of the whose budget, and is petty cash, in effect. I realize C. D. Howe said "What is a million?" and got into trouble, but I am talking about committees and not politics at the moment. With a ceiling on total transfers of $50 million or $100 million you have potentially, the best of both worlds. You have some flexibility, but you also have some realistic ceiling so that departments are not going to make these transfers out of hand.

Any other suggestion is that perhaps the following year's Estimates would show, either in red or in another bracket, whether there had, in fact, been a transfer the previous year, so that members examining the Estimates the following year would see it.

• 1155

In my opinion, Mr. Winch has a very valid point. You can phase programs—capital expenditures; you know you are going to spend $50 million each time the Treasury Board estimates $4.5 million over a phased period, so that in effect Parliament, spending $50 million, has never really cast a vote on the $50 million expenditure. I think that is a very valid point.

I can see your hope. It may be that you are never going to be able to control The Estimates, but perhaps you can. If it is a $50 million capital item perhaps there should be a method by which Parliament can vote on it. I do not know.

I am more concerned about there being an over-all limit to total transfers, by a rule of the Treasury Board. Granted, once you have a rule the pressure is to change it next year. If we decide on $5 million this year, next year someone will want to make it $10 million; this is human nature. I suggest that if a limit of $50 million or $100 million is set, next year Treasury Board will say $200 million.

However, this is a trial effort, and we cannot overlook the fact that we are entering an era of fewer Estimates and very real reforms in the House. There is also the very controversial rule on time-allocation which will apply to committees and affect the items studied in committees. The latter point does bother me, but I can, to a degree, see the purpose in decreasing the items.

In my opinion, the transfer is a very valid point and should be noted in the following year's Estimates. After all, we only really look at Estimates after they have been spent. If certain departments are habitually transferring perhaps the Auditor General would note this in his annual report, but if it were under $5 million his function would cease; the Auditor General very likely would not bring to the attention of members that department A, B, or C was transferring $2 million of $4.5 million.

I think there should be some record of the transfer, if there is one, and, secondly, I defi-

nitely feel, to get around the point raised by Mr. Crouse and Mr. Winch—and this perhaps they may not even accept—that there should be a total limit to transfers.

Mr. Cloutier: If I may address myself to your second comment, sir, there is, first of all, a record in the Public Accounts of the items as they appeared in the Estimates themselves; secondly, of the actual expenditures under these headings; and, thirdly, of the allotments made in the course of the year that may have varied the amounts from one to the other. Therefore, this information is now available to members of Parliament.

Again on this point, you have inquired about the possibility of reflecting in the next year's Estimates the transfers that might have taken place in the immediately preceding year. It would not be possible to do this in the Estimates themselves because they are being prepared in the course of that year. This is why they are now reflected in the Public Accounts Committee.

Relative to the first part of your suggestion, whether there should be an over-all limit on the amounts that might be transferred by the Treasury Board, frankly, we have not addressed ourselves to this. My immediate reaction would be that whatever amount might be so established would, at best, be an arbitrary one.

Mr. Nowlan: The $5 million is an arbitrary amount.

Mr. Cloutier: Yes; but it is a great deal less than the $50 million or the $100 million that you referred to; and it would be an amount that would be established in complete ignorance of circumstances that might, in the course of the year, create good and valid reasons for transfers.

Because these transfers are reflected in Public Accounts, and because I understand the Auditor General is in a position to comment on the justification for them, I do not see that they would present a big problem.

• 1200

I now turn to what I believe now to be a fairly important point in relation to how members of Parliament will deal with Estimates, assuming that they will be referred to committees. When the Estimates of a department come before a committee is the time that departmental officials should be asked for explanations of the variations that may have taken place in the actual pattern of expenditure in relation to the estimates that they had put to Parliament the year before. That is the occasion where these explanations should be forthcoming, at the time that members are looking to the next year and saying, "Before we approve your plans for next year give us a report on your stewardship for the last year and explain to us why it was necessary to spend more under one heading than you had anticipated"; in other words, get the information before you actually vote the money. This is an opportunity that could be used to great advantage so that, in effect, you are no longer saying, "We look at these things only after they take place". With the new form of estimates which gives you the proposed estimates, the estimated expenditures this year, and the actual expenditures in the previous year, coupled with the Auditor General's report, you have a fountain of data there on which to call for explanations.

The Chairman: Mr. Henderson has a comment to make.

Mr. Henderson: Mr. Chairman, I would like to make a statement on this, if I may. The short answer to Mr. Nowlan's question is that in this sort of a setup there is only one place to give your approval and that is before the money is voted, right there. Any amount of post mortem is not going to work. When you approved the consolidation of votes four years ago and they were cut from 495 to 236, your report to the House authorized this, subject to certain improvements the Auditor General had suggested to the Committee. I, therefore, followed this up and in each of my successive reports provided you with concrete examples whereby, as a result of the consolidation of votes, transfers of funds have been possible which would not have been possible under the previous vote pattern. Unfortunately, Mr. Chairman, this Committee has never met and you have never examined or asked me any questions about those three votes. They are there. The concrete examples are perfectly plain.

Let me just recall one of the big ones to you which I think is a bit of a classic example, and that is the National Defence Vote. In 1965 or thereabouts—I am speaking from memory now—I drew to your attention the National Defence Vote where construction was consolidated with administration, and Vote 15 was $1,489,000,000 just in one single vote. You can calculate what percentage that is out of the total spending. Mr. Cloutier has

indicated to me that the Treasury Board proposes to remove construction from that and to break it down and, of course, it will become two votes instead of one in the future. That is an achievement from the standpoint of what I feel the members of the House should have. Had that not been arranged, that vote would have increased still further because it would have include Defence Construction (1951) Limited, Oromocto and civil pensions and it would have become even bigger than $1½ billion.

It is, therefore, very much in the interest of the members of the House that they have just as many voting opportunities as possible in handling the estimates of this global figure; at least, that is my view. However, I do think that the guiding criteria should be based on the sort of thing that Mr. Cloutier has enunciated to you this morning and that we agreed upon yesterday. I hold no particular brief anymore than he does for $5 million. Maybe in your wisdom you think it should be $1 million. I do not know how far you would have to go down to achieve virtually the same number of votes. It would be an interesting exercise. We have not had time, unfortunately, to work that out, but perhaps if you took $1 million you would wind up with 230 odd votes as you have now and you would be home free. You would have to go through that exercise to find out—unless Mr. Cloutier has any figures. However, it is not so much the question of the number of votes, gentlemen, as it is the kind of things that you feel you ought to see in your parliamentary control of public spending. For instance, that if a crown corporation is running a deficit and you are going to vote the money to make it good you ought to have a separate vote so you could ask questions as to its operation and not have that merged in. I think the same is true on all major construction.

• 1205

Mr. Nowlan: Mr. Henderson, I can appreciate almost everything you have said...

Mr. Henderson: You see, once you have voted it, Mr. Nowlan, a single vote, then the transfers within that vote become academical. The one vote is law to me under the Appropriation Act. You could ask me about the transfers later, or if you direct me to bring them to your attention then I have to set up machinery to do that through this Committee, but you would have to change the financial Administration Act in order to put in the kind of curbs you were suggesting to Mr. Cloutier.

Mr. Nowlan: I was going to ask him. Mr. Henderson mentioned the Financial Administration Act, and that it is no good after the fact, but to get back to this control of the purse which is pretty eroded anyway, now that we are breaking new ground, is it functionally impossible to have a ceiling for transfers? We have a mythical figure of 1 per cent of the budget which is supposed to go to external aid. Perhaps no more than 1 per cent of the budget in total should be transferred. I really cannot see why, in trying to work a compromise between the efficiency of the programming, and the Commons control, there should not be some over-all total limit whereby Treasury Board after reaching that limit could not approve anymore transfers in that year. Do you see my point? If it is an amendment to the Financial Administration Act, then that is where . . .

Mr. Henderson: The trouble with that is that although it could be worked out, and this Committee could undoubtedly recommend it, it would only come to sight, it seems to me, a long time after the event when it would just be of academic interest to you. You want to have something you can exercise now. Is that not the best insurance?

Mr. Nowlan: That is part of it in the committees. As you say, the committee is the place where you can question and find out why things went the way they did the previous year when you are looking at the next year's estimates, but after you have voted the thing in committee, to maintain some control, it is not after the vent; it is a ceiling for transfers. It is not an after the event thing. It could become a very practical thing in that there are transfers within the Defence Department of still sizeable millions and yet another department will come along and want a transfer for those houses that we were building up in the north, and you may come along and want a transfer to build your garage. All right, but the garage may be just the point that goes over the ceiling and you just cannot get your garage until you come back to next year's estimates or in a supplementary item. So it is not just after the event; it is still some control and perhaps any figure picked this year, the same as $5 million, may be unrealistic in terms of practice, but, at least, it would not be a complete movement

from no transfers between votes, basically, and free transfers within a lesser amount of items.

The Chairman: Mr. Nowlan, we will have to keep it a little briefer. We have a whole list of men here wanting to ask questions.

If I may just interject here, I hope it will come about some day that this Committee, known as the Public Accounts Committee, will be the authority for transfer of money between votes; not Treasury Board, but the Public Accounts Committee, composed of Members of Parliament, and they would be the ones who would approve transfers and money. We voted in the first place as Members of Parliament, and if it is not used the way we suggested it be used then they should come back to Members of Parliament to get the transfer. I hope some day this Committee will be the machinery through which transfers of moneys will be made. Let us keep this in mind and maybe we will get that functioning some day.

• 1210

Now, there are a couple of supplementaries here. Mr. Flemming has one and Mr. Winch.

Mr. Allmand: Mr. Chairman, on a point of order, some of these supplementaries have been very long. Mr. Cullen has been on the list here for a long time.

The Chairman: He is, and I called Mr. Nowlan to order there on a lengthy one and I hope from now on...

Mr. Allmand: Could we not follow the list and forget supplementaries?

The Chairman: All right. We will go to Mr. Cullen and then Mr. Cafik.

Mr. Cullen: Thank you, Mr. Chairman. I do not know that my presentation is any more profound than the supplementaries but I have this to say, that Mr. Flemming in one of the earlier meetings, and I think his argument was supplemented by Mr. Cafik, said that when you have this one vote there is an opportunity or a flexibility provided to the administration to go back and forth. Having heard that and having heard Mr. Flemming's presentation I was prepared to vote against a grouping of this because I felt that I was more concerned, as Mr. Winch and Mr. Crouse, I think, were concerned, that this allowed a little too much freedom and not enough parliamentary control.

Now I see the compromise situation and I endorse this. I see any vote $5 million or under can be grouped and I think there is a control figure here that we are missing. I think maybe Mr. Crouse and Mr. Winch are naturally concerned that we might transfer as much as up to $4 million, or most of the $5 million, on one thing. Surely there is a control in that this $5 million is broken down into three parts. The civil servant determination that his particular branch of the service needs $3 million is not about to give up that $3 million so we are not really talking in practical terms when we use the example that we are going to turn over $4 million. I think each individual grouping, be it capital, operational, or grants is jealously going to guard the amount of its estimates that it says is required for the particular department. I see that as a control and the $5 million figure strikes me as one that has been accepted; at least it has not been objected to, in any event, by the Auditor General, and as he says it is his advice that we accept I see that control as one element of control about Parliament's saying, "Well, we do not have any control over $5 million." The individual civil servants are going to protect—jealously guard, I think, their individual areas of control.

Secondly, and although this has been treated in a lighter vein, it is still practical that the Treasury Board does have to consent or does have to give its approval to any transfer of this nature. Treasury Board is made up of human beings who, after all, are going to have to come back to the Public Accounts Committee or somebody and say, "How could you possibly justify a $5 million expenditure that we grouped in one, giving $4 million to capital and completely ignoring administration and grants?"

I do not think that it is practical to talk that way, so I see this as a second element of control.

A third aspect that I like about this flexibility is the argument of Mr. Allmand's, which I want to endorse, and that is that an individual, if he is a civil servant who is coming forth with his estimate and knows that under the $5 million bracket there is that kind of flexibility, rather than overestimating I think he is apt to estimate within the bounds of his particular departmental needs. If he has to recognize that he has to live with the budget or the estimates that he has made, being a human being if he wants $5,000 he is probably going to ask for $6,000. This is going

to be accentuated all the way down the line so that we are working on an inflationary method. I see this kind of approach that the Treasury Board is submitting as being anti-inflationary, so I endorse it on that aspect.

We also have a control that anything over $5 million has a separate vote. The Auditor General has mentioned deficits; they are going to be the subject of a separate vote. Anything that has to do with major construction is going to be a separate vote.

Frankly, I would have voted against what the Auditor General has talked about here such as the Department of National Defence budget all being grouped into one so that there are all kinds of room for placing millions of dollars in an area that Parliament did not want in the first place. I would have voted against that as I would have supported Mr. Flemming's and Mr. Cafik's original argument. I see this as a good move. I see this as a compromise move. I am not frankly particularly concerned about the number of votes, whether it goes up or whether it goes down. I do not think that is a significant part of this. I do not think we have less; in fact we have fewer votes but we have more information. I think that is really what we are looking for—more information and giving a measure of control to the people so that they do not have to over-inflate or over-exaggerate the amount of money they need when they know that they are not completely bound to that figure. They will not have to go back and ask for new estimates. I endorse this compromise situation.

• 1215

I would, as I said, have been prepared to vote against it without the $5 million limit. As I said, $5 million does not scare me because of the three-way control that we have that the civil servant is jealously going to guard the estimate that he has made, and how is he going to justify saying for example, "Well, I suggested a million dollars for my department and am giving up $900,000 of it so that somebody else can build a garage." Thank you.

Mr. Winch: Mr. Chairman, could I have one minute to explode the complete fallacy of the argument?

The Chairman: I will allow you one supplementary here; then Mr. Cafik and Mr. Gibson.

Mr. Cullen: Do not say complete fallacy, sir; it makes me feel humble.

Mr. Winch: I am sorry, but I have followed very carefully what the honourable member has just said. But let us take what happened this year where it had been decided to construct a number of buildings and to issue tenders for a coast guard and research. Under the economy drive a number of buildings were cancelled for construction this year. A number of research and coast guard ships were cancelled this year. You could have there—just to use a figure—a dozen anticipated expenditures for buildings and ships that could amount to perhaps $40 million or $50 million, but all under $5 million.

If this plan of consolidation were in effect, then on a consolidation for economy for that purpose the money could be transferred to any purpose that the government desired. Therefore it is not the angle of a civil servant's putting up something. We have millions of capital expenditures which could be cancelled as some have been this year, but under this idea that money could be transferred—any amount of millions.

Mr. Cullen: But special construction in this situation Mr. Chairman, comes up as special construction it is not provided for and surely we have to have a separate vote.

The Chairman: Mr. Cafik, Mr. Gibson and then Mr. Bigg.

Mr. Cafik: Before I pursue the original line of questioning I would like to point out one thing. In respect of Mr. Winch's argument, I think he was talking about a number of items all under one particular department. I do not know if you suffer from the disillusion or the illusion that each $5 million capital project or a capital project of less than $5 million can be transferred over when it is one item in perhaps five items of $5 million totalling $25 million in that department, none of which could be transferred over.

The concept that we are talking about in this I think gives me the key to the problem. If you are talking about defence and they have capital construction of $100 million and every item is made up of $4 million apiece, none of that money can be transferred out of there over to Administration or to Grants. It is the total amount, the gross amount under each department under Capital that cannot exceed $5 million; if it is less than $5 million it could be transferred, but not the individual project. Am I correct in that observation?

The second thing is in respect of Mr. Cullen's remark—and I think it is incorrectly

founded—when he said, "If an individual project, a major construction project, is over $5 million it cannot be transferred." It does not matter if it is $50 million; it is not itemized as a vote. If it is a $50 million building they are putting up, is is part of the vote for capital within that department which might be a total of $100 million. Is that correct?

So there is not a vote for every project over $5 million. There is a vote for every department that has capital projects.

Mr. Bigg: Only one?

Mr. Cafik: One vote for the gross amount of the capital projects within that department. I think I explained the situation accurately. To pursue the argument that I want to go ahead with for a moment, I view this whole problem as a very simple problem, but complicated in determining an answer. It is really the difference between management and a board of directors, management in this particular case being the civil servants and the board of directors being ourselves. And like every board of directors we want to have some kind of control, but we do not want to have so much control and so much detail from management in respect of that control that we bankrupt the company in keeping the books. That happens with lots of companies and it has damn near happened in my own a couple of times—where you want to have enough control that you just drive everybody insane. There has got to be some degree that we can come to where we expect a reasonable degree of control.

• 1220

The arguments put forward of control on figures of $5 million and under, which is the cut-off that they have talked about, are not quite as bad, I think, as they are being put forward as being. First of all, you would think we lost something. If you look at the Department of Indian Affairs and Northern Development right now, under Construction and Acquisition, you will find that we have no control at all over almost $28 million that could be transferred within that little section of Construction and Acquisition to Other Personnel, which is spending no money at the moment. We could put the whole $28 million in there.

You are arguing about $5 million in a whole gross situation. No matter how you do it, if you believe you have to control $5 million that carefully and tie it down by an individual vote, I suggest probably we would need about 15,000 votes to do it. I think that is an absurdity. We are talking about gross figures and when you look at the gross amount in any department, $5 million out of a budget of $12 billion is a very modest amount, I think, for the sake of a degree of efficiency that would come out of the project itself.

Now, these have been arguments that we cannot scrutinize because of this vote. I do not think that is true. We can scrutinize all we want, and with the change even more so than we could before from what I understand. We can object to any given project in the same way that we could before. The $5 million limit does not make any difference. The only thing it means is that you can transfer, if it is less than $5 million and a gross figure under one of those three items, to another one. I think that is a very modest thing. For that reason I think the compromise is first class and I am in favour of it. I want to congratulate the two men who drew it up.

The Chairman: Fine. Mr. Gibson and then Mr. Bigg.

Mr. Gibson: Mr. Cloutier, I would like to ask you this: In 1967 would it be possible for you to tell me, sir, of the various departments how many overestimated the amount of money they actually spend, if any?

Mr. Cloutier: If I may rephrase your question, you are asking...

Mr. Gibson: Did any of them overestimate...

Mr. Cloutier: .me whether they spent every nickel that was voted to them?

Mr. Gibson: No; they estimated they needed so many dollars and they spent so many dollars. How many, if any, of the departments in 1967 spent...

Mr. Cloutier: Spent less than they had estimated?

Mr. Gibson: Yes sir, that is right.

Mr. Cloutier: Well, through the courtesy of your Chairman I have, in the Auditor General's report of 1966 at page 248, a summary by appropriations of expenditure and unexpended balances by departments for the fiscal year ended March 31, 1966. You will find there that the total appropriations which are shown under 45 headings were $7,997,-

973,608 and the actual expenditures totalled $7,734,795,525. Going down the list I find that all the departments had some lapse. That is, all of the departments did not spend the full amount of the moneys appropriated for them.

Mr. Gibson: Would it be fair to say, sir, that one of the reasons why you want to change this system is so they will not then be in a position of over-extending their requests?

Mr. Cloutier: As I indicated earlier, the tighter system that we are proposing would help us to have tighter estimates. Now, I am not suggesting for one moment that the rearrangement of votes, whether by following the criteria I outlined this morning or on any other basis, would result in departments spending every penny. This is simply impossible. You will always have either underexpenditures or proposed overexpenditures that will have to be approved by supplementary estimates, depending on a myriad of circumstances that happen in the various departments.

Mr. Gibson: Thank you.

The Chairman: Mr. Bigg, you are next and then Mr. Major.

• 1225

Mr. Bigg: I am worried about something that I think is the over-all worry of this whole Committee. We are trying to keep parliamentary control over the executive on supply. Now, the figure $5 million is not very relevant except, if my memory serves me correctly, that finding $2.4 million at a very crucial point in our deliberations in the House frustrated Parliament. They found only $2.4 million to pay the civil service salaries one black Easter when we stayed here to fight supply.

Now, if this can be done in just one simple case of $2.4 million, I wonder whether we have any control whatever over Parliament. I am not being sarcastic in case the press want to say that; I am being very, very serious. We have just voted $70 million in the estimates for the contingency fund for Treasury Board. Unless I am mistaken they can spend that money for any purpose they like as long as they just agree. They can pay civil service salaries or anything else they like. I understand that is where most of the salaries come from. In one vote we have voted $70 million apparently with very little thought in the House and until the $70 million is gone, no contingency can come up but what the Treasury Board can get out of it.

I think as members of Parliament we are seriously wondering whether we have any control whatever now over the public purse. The present reform—and I think it is a reform with regard to information—is going to give us information within a $5 million change, within any one vote beforehand, but we have no control over whether or not it is used. It merely means predicting somewhere up to one year ahead whether one department intends to spend this amount of money on this and that, but we have already lost, as far as I can see, parliamentary control over the executive with regard to the purse strings.

I do not like to put the Auditor General on the spot any more than he has been already in this Committee. We ask him as a civil servant to advise us how to keep our own executive from frustrating Parliament, and it is a very difficult question. I think we might ask the same question of Mr. Cloutier. I think he knows some of the things we could ask him. I will have to ask this question now, because I have gone this far: How is the new format going to give Parliament any control whatsoever over the purse strings? How are we going to argue in Supply—and naturally hold up the proceedings of the House because it is the only weapon we have—if this is in? As I see it, it is one more step in the abdication of our rights over the purse strings.

The Chairman: Are you addressing your question to Mr. Cloutier?

Mr. Bigg: Yes.

Mr. Cloutier: Well, sir, I would say that the additional information the new form of estimates will provide will give additional grounds for asking the type of questions to which you are referring.

Mr. Bigg: Yes, but I am talking about when we get into the pinch; when we start voting Supply. That is the only time Parliament can hold a financial club over the executive. Now, as I see it we have lost that. It is a traditional right and as I see it we have lost this completely, because any $2.4 million presumably gets them out of the kind of corner we want to put them in from time to time.

As Parliament—not necessarily the Opposition—if things are getting out of control, if spending is too high, if the budget is out of line, we want the whole of Parliament talking

about it until the public and the press are aware of the situation. Now, it appears to me, we have just lost this particular weapon, and it is the only one I know that we have.

The Chairman: Mr. Bigg, it is hardly fair to ask Mr. Cloutier that. I think...

Mr. Bigg: I can hardly hear you, Mr. Chairman.

The Chairman: It is hardly fair to ask Mr. Cloutier that question. I think he has answered it about as far as he can go.

Mr. Bigg: Then perhaps I should just ask the Committee to think about this general situation we find ourselves in and to be sure in their own minds they are satisfied we are not abdicating anything.

The Chairman: I think the Committee members are very well aware of that, Mr. Bigg. We appreciate those remarks.

Mr. Major, you are next and then Mr. Flemming and Mr. Allmand.

Mr. Major: I will pass for now.

The Chairman: All right. Mr. Flemming?

• 1230

Mr. Flemming: Mr. Chairman, a moment ago the Auditor General mentioned that a few years ago the number of votes was reduced from 495 to 236. I would like to ask him this question: Does he consider that there has been an improvement in the element of control of spending due to the fact that the number of items has been reduced from 495 to the 236 with which we have become familiar in the last three or four years?

The Chairman: Mr. Henderson?

Mr. Henderson: The question is: Do I think there has been an improvement...

Mr. Flemming: An improvement in the element of control.

Mr. Henderson: In the element of control?

Mr. Flemming: Yes.

Mr. Henderson: No, I do not think there haw been an improvement in the element of control, generally speaking, not so far as parliamentary control is concerned for the principal reason that this Committee has not been as active as, in my opinion, it should have been, Mr. Flemming. That would be my answer to your question. I think a great deal more could have been done than has been done. Thee executive, through the medium of the Treasury Board, in my opinion, is making a genuine effort here to furnish more information to the members of the House in explaining the size of the money that is going to be spent. I would like to see this Committee more active in picking up that challenge by meeting more frequently and coming to grips with some of these problems because, to me, that is what real Parliamentary control would be. This Committee is the only instrument there is, and so long as this Committee is active and its recommendations are being respected, then it is a very real instrument, and, to me, it is regrettable that that has not been the case in the last few years. I hope that condition is going to change, certainly when you meet in the new year and get into my 1968 Report which I am writing now.

Mr. Flemming: That is my point. I thought that we, as a Committee, would be interested to know if there had been an improvement when there was a change from 495 to 236. According to the Auditor General there has been no special improvement in the element of control. However, he does hand back the ball to us to carry when he says that it is probably as much our fault, as a Committee, as anyone's that we have not made an attempt to exercise more control than we have.

Mr. Winch: Personally I do not accept that because the government did not allow us to meet this year.

Mr. Flemming: I am sure Mr. Winch will let me conclude the observation which I have to make. The Treasury Board, as has been pointed out—and I am sure that we are familiar with this, but sometimes it does not hurt to be reminded—is really a Committee of the Cabinet, and so it is the executive speaking through the instrumentality of the Treasury Board. I have no objection to this, just because it happens to be a certain complexion now; it could change. I was a member of the Treasury Board at one time, and so I know the various problems that come before them for a decision and I assure you that they are not small. They are very great.

Our Committee has been asked by the President of the Treasury Board to make comments relative to these proposed changes, and that is really what we are talking about, is it not? We are really complying with his

request. The President of the Treasury Board has requested we comment on the fact that he has a proposal to reduce the number of votes and he has a change in the format. Mr. Cloutier has been here, and has rendered great service to this Committee by his explanations. Likewise the Auditor General, who always acts in the capacity of helping us, did a great deal to help us make up our minds.

• 1235

Personally I find it difficult, having had considerable experience in business, to differentiate between business and my approach to this sort of problem. I find myself thinking in terms of business, and, as a consequence, I am quite sure that it would be of some interest to the Committee to know that it really is not the amount of money involved; it is the purpose for which the money is going to be used that is important. If we give one of our saw mills $100,000 to buy logs we expect him to buy logs but he cannot spend $1,000 for building a new building, because we do not allow it. He can buy logs with it. In other words, it goes for general purposes, but it cannot go for capital. I do not think too much importance can be attached by this Committee to a differentiation as between capital spending, and the ordinary administrative spending. We should be making real comments designed to improve things. I am sure that it is the intention of the government to introduce a format which is an improvement—at least I think it is. We may find fault with it sometimes, but nevertheless that is what they think and Mr. Cloutier has explained it in great detail. It seems to me that it would be wrong to break it down, and to become married to the general idea that we must reduce the number of votes. I think we are nailing our flag to something that we should not be nailing it to, because I do not think the number of votes makes too much difference. However, the purpose for which the money is used is very important, and I have in mind that under these general headings there could definitely be subheadings. Let us take vote number 81; then 81A is Administration, 81B Construction and Acquisition of land and so on, and 81C is something else. How much longer is that going to take? I submit it is going to take but a very, very few minutes, to put it on that basis. There is going to be an element of restraint in the spending with that kind of a format that will not be in existence if you do not have it. We deal with people in connection with business and find, as my friend Mr. Cullen has said, it is the most natural thing in the world that they want to fortify themselves so that they will not have to go back to the directors to ask for certain things. To the extent that they are able to do it, they are going to make it as unnecessary as they can. I doubt if that is a good thing. If they are going to spend money for capital purposes, then I think they should be back, and if they have to postpone it for a few months, so what? There is no harm done. I think the format that the Committee finally agrees to should indicate in it a restraint on spending and not an easing on spending.

Actually the Committee, as has been said by Mr. Nowlan, really has not too much to say until the money is spent, and then the Auditor General's Report is referred to it, but the damage has been done, if I may use that expression—and I do not use it in a critical vein; I simply use it for purposes of indicating my point—but in this particular instance this Committee has been given a responsibility by the President of the Treasury Board, Mr. Drury, when, as a result of his speech in the House, he asked this Committee to comment, and Mr. Cloutier comes to comment, and I think that is a fine thing. I do think that in the preparation of a format—and I presume basically, Mr. Chairman, that is what we are talking about; the preparation of the format because it is going to be new, and that is really what we are spending quite a few meetings on—that the format should be of such a nature that it will be a restraint on spending for capital purposes without authority. If you lump all the votes, it seems to me that you are just tempting people.

I was told a few days ago in business that it was my fault that a certain thing had happened because I gave it an opportunity for it to happen. I think it is the proper thing for us to say as a Committee that we should approve of the best possible format in the interests of the people in general, the general public interest.

• 1240

Mr. Chairman, I have exhausted what I wanted to say in these notes, but the point I wanted to make was that we do not get ourselves married to a certain idea which, in itself, is not important. The important thing is really that the money shall be used for the purpose for which it is voted by Parliament. It is not done by us. We do not vote it. This Committee is not going to have anything to

do with the voting of it. It is going to go to Parliament or to one of the various departmental committees for voting estimates. We have been asked for a recommendation. I think that is a responsibility which we do not want to get away from. We want to give it the best possible attention we can. I do not think we should get away from the fact that it is an altogether different thing to vote money for ordinary purposes than it is to vote money for capital accounts. After all, we find in business that if you only have a certain amount of money and you spend it on building buildings, then you have no money to carry on your ordinary activities. The first thing you know you will have to run to the bank, and the bank may say "You have spent all your money for building a certain building. You will just have to get along. That is all there is too it." I have been through that and I can tell you it is quite an embarassing situation. That is all I have to say, Mr. Chairman. Thank you.

The Chairman: Mr. Allmand, I know you are next on the list but you have already spoken, so I am going to ask you to stand by for Mr. Lefebvre and we will come to you again later.

Mr. Lefebvre: Thank you, Mr. Chairman. I think this morning we have listened to possibly one of the best committee meetings we have ever had. We have had participation from members of all parties. I have been listening to the arguments back and forth, and I would also like to mention the example of two highly-placed civil servants, Mr. Cloutier and Mr. Henderson, who have shown us their dedication in their willingness to answer all our questions. I think this should be underlined.

Some hon. Members: Hear, hear.

Mr. Lefebvre: The present form of Estimates is 236 votes. The original proposal that we were given amounted to approximately 170 votes.

An hon. Member: It is 136.

Mr. Lefebvre: Excuse me, it is 136. I have the right figures but not in the right brackets. I believe with the compromise—after Mr. Henderson, Mr. Long and Mr. Cloutier had a meeting—it would come to approximately 170.

I think Mr. Henderson also outlined that the number of votes is not the most important thing. It is the type of votes that we have at our disposal. The element of control—I think you also mentioned this—does not have too much to do with the number of votes, it could be 15,000 or 5 votes, but it is a better scrutiny of government expenses. As you said, this goes right back to our Committee. We have an active and interested Public Accounts Committee that is meeting on a regular basis. In my opinion, after listening to all the arguments, although the new Estimates furnish us with less votes I think they give us a much more detailed explanation. I do not think anything prevents us—in the form that they will be given to us if this is adopted—from asking all the questions we wish of all department officials as they come forth, whether it be the Department of Public Works or the Department of National Defence. I do not want to be too long. We have heard a lot of arguments and I have listened to both sides. I think when we have men such as the Auditor-General and Mr. Cloutier before us who have agreed on what you might call a compromise—and with the explanations I have outlined—that I will accept the recommendations. I think we should accept the proposal put forth this morning that there be a $5 million cut off. I believe if we do our job well, with the 170 voting opportunities we would have and the scrutiny we can undertake, that we can very well protect the public interest. This is the reason we are sent here.

• 1245

The Chairman: Mr. Lefebvre, following up your remarks, it seems to me that somewhere in our previous discussions we gave the Auditor-General authority to report to this Committee and keep us posted on anything that was not within what we had anticipated. Is that not correct, Mr. Henderson? How was that worded?

Mr. Henderson: You did that four years ago, Mr. Chairman. I think it was subject to certain improvements which the Auditor-General had suggested to the Committee. That was the applicable wording at that time. That is the reason I reported to you in the three successive years what had taken place in the consolidation of votes, which appeared to be outside the undertakings given by the representatives of the Treasury Board.

The Chairman: All right. Is that along the line...

Mr. Lefebvre: That is what I mean by scrutiny, that we should follow up these comments that Mr. Henderson has just made.

Mr. Allmand: Mr. Chairman, I just want to make this point as briefly as possible. We are talking about a compromise between reasonable efficient administration on the one hand and full control by Parliament over expenditure on the other. I submit it has to be a compromise. We could have two extreme situations which are both ridiculous. One where we vote a total amount of money and say to the administration, "Spend it whichever way you want under that total". On the other hand, we could have thousands and thousands of votes. We could vote on every battleship, cruiser and destroyer with a single item. We could vote on every building in the Estimates. This would also become very ridiculous, and we have not had that. I do not know if we ever had it, but from listening to some of the arguments from the other side suggesting control I almost get the impression that that is what they want us to do, to vote on every building, on every tank and on every order of letterhead for a department, and if we really wanted control in its ultimate sense that is what we would do, and nobody could transfer. If we voted so much for the destroyer Assiniboine and they did not build it, that money would lapse and they could not use it for a minesweeper, or something like that.

Mr. Winch: Just name one member who ever had that ridiculous idea.

Mr. Allmand: I am saying that is the extreme. Obviously it should be a compromise in the middle and that compromise will be somewhere between allowing the department to make switches within votes and our control. Our control will improve. Mr. Flemming said we had four hundred and some votes a few years ago and we recently reduced it to two hundred and some, and he asked Mr. Henderson, "Is there more control now or not?" Mr. Henderson answered that there is not more control because this Committee, and perhaps other committees, are not doing their job. He did not really answer the question whether the increase of control was due to the fact that the number of votes was decreased, but nevertheless Mr. Flemming concluded by saying that the increase in control was not due to the decrease in votes. I think the lack of control has been due to exactly what Mr. Henderson said. It is the work of the committee—and not just this Committee but the many committees—because I feel that with the new rules that are being introduced into Parliament where all Estimates are being examined in depth over a period of two months by committees, this is really where you are going to get the control rather than in the House of Commons. Where you have advisers for the opposition and advisers for the government the members on the Committee will really be able to do a good job in those two months. I think we need a compromise. We talk about $5 million. Right now under Administration for the Indian Program if we broke it down from one to three votes, as was suggested in the previous meeting by opposition members, there would still be $86 million and some. You can transfer within that $86 million. Are you suggesting that we break it down again into $5 million items?

The Chairman: Mr. Allmand, I wonder if you are thinking right there. It will be three separate votes.

Mr. Allmand: I know, but let us take Administration of the Indian Program. If there are three separate votes one of the items will be $86,887,000. Are they suggesting that we have no transfers within that vote? We could become so concerned with control there would be no efficiency in administration at all. You would be voting on every item of expenditure to the extent that, as I think Mr. Cafik said, you would be so controlled...

•1250

Mr. Bigg: Nobody suggested that at all.

Mr. Cafik: I do not think there is any question on that.

Mr. Allmand: I know, but I am just saying that we need a compromise and if Mr. Lefebvre makes a motion that we accept the compromise that was put to us this morning I will second his motion because I think it is a good, reasonable compromise.

Mr. Lefebvre: I will make that a formal motion. I intended to do this but perhaps I did not get the right wording across.

It is moved that the figure of $5 million be used in determining whether or not capital investments and grant contributions should appear as separate votes.

Mr. Allmand: Mr. Chairman, before I second that may I say that I thought I was seconding the package that was put forward by Mr. Cloutier.

The Chairman: All right, all the criteria.

Mr. Lefebvre: I should not say the criteria, but I think this was the main point that we were debating.

Mr. Bigg: On division...

The Chairman: Wait a minute. Let us keep this on the rails. It has been moved and seconded. Now the meeting is open for discussion.

Mr. Cafik: I would like to ask a question. Is this motion to accept the compromise arrangement as presented by Mr. Cloutier and Mr. Henderson?

The Chairman: That is right.

Mr. Cafik: Does that motion also include the acceptance of the over-all format? In other words, it is a conclusion to the whole discussion in terms of format and numbers of votes, is that correct?

Mr. Lefebvre: May I speak on that, Mr. Chairman? Are you referring to the format of the new...

Mr. Cafik: Of the new Estimates.

Mr. Lefebvre: Our Subcommittee has already proposed that to the Standing Committee in the opening statement of Mr. Hales this morning.

Mr. Cafik: Oh, I am sorry—

The Chairman: Gentlemen, in order for you to know what you are going to vote on I think I should read to you what was read to us this morning—the six points, and that would be your motion.

Mr. Allmand: That is what I thought I was seconding.

Mr. Cafik: Please do, Mr. Chairman.

The Chairman: After it has been moved and seconded then we will have a discussion. The motion reads as follows:

> 1. In the revised Estimates, the proposed spending under a program is to be set forth under the three basic headings of Administration, Operations and Maintenance (or operating costs); Construction and Acquisition (or capital costs); and Grants, Contributions and Subsidies, so this information will be available to the members of the House in the same manner as already seen in the example given for the Department of Indian Affairs and Northern Development regardless of whether there is to be one, two or three votes.
>
> 2. Each department or agency, i.e., legal entity
>
> —meaning departments—
>
> shall require one or more votes as the case may be.
>
> 3. In all cases where agencies or Crown corporations are incurring a deficit or related deficits which must be covered by an appropriation, these will be the subject of a separate vote.
>
> 4. The special circumstances surrounding any particular expenditure, e.g. Contingencies, Treasury Board Vote 5, be made the subject of a separate vote.
>
> 5. As capital investment today can well mean increased Administrative cost tomorrow, spending proposals involving more than $5 million, for Construction and Acquisition shall always be the subject of a separate vote.

Mr. Cafik: Mr. Chairman, there is a point there. This, I think, is the point on which Mr. Winch and myself were in disagreement. I think that has to be clarified to where you mean that the gross amount of capital is in excess of $5 million.

Mr. Winch: That is exactly the point and I am very glad you raised it, because my interpretation was that you could not just put in one separate vote including everything over $5 million. My thought was that everything of a capital expenditure or acquisition that costs over $5 million should be shown.

Mr. Cafik: You would end up with 1,000 more votes than you have.

An hon. Member: 2,400.

• 1255

The Chairman: Mr. Cloutier has suggested a couple of words here that might clarify this. I will start at the beginning of No. 5:

> 5. As capital investment today can well mean increased Administrative cost tomorrow, spending proposals involving more than $5 million for Construction

and Acquisition within a departmental program shall always be the subject of a separate vote.

Mr. Cafik: I think that can be clarified a little better because "within" could still mean the same thing as Mr. Winch thought it originally meant.

Mr. Bigg: Could you clarify that by saying "for the purpose of that capital expenditure"?

Mr. Cafik: I think what you want in there is the gross amount of the capital expenditure in any given department, and if it exceeds $5 million then it becomes the subject of a separate vote.

Mr. Cloutier: In the program.

Mr. Cafik: Yes.

Mr. Bigg: Mr. Chairman, I would be satisfied if that added amount, say, spilling over from capital to administration was for the purposes of...

Mr. Cloutier: Of the program.

Mr. Bigg: ...of the program, but not in the case like we had where they sort of went around and gathered up all the stray bits they could and put it into a special pot to pay this general...

Mr. Cloutier: This is why, sir, the addition of the words "within a departmental program"...

Mr. Bigg: I see no loss of right there.

Mr. Cloutier: .. would restrict it to the objectives of that departmental program as outlined in the details of the first...

Mr. Bigg: So if you related that extra salary to the fact that you had a bigger building and needed an administrator or something like that...

Mr. Cloutier: Within the departmental program"...

Mr. Lefebvre: Would you read that out once again, Mr. Chairman?

The Chairman: Yes.

> As capital investment today can well mean increased Administrative cost tomorrow, spending proposals involving more than $5 million for Construction and Acquisition within a departmental program shall always be the subject of a separate vote.

Mr. Crouse: Mr. Chairman, it has been mentioned here that the suggestion of Mr. Winch would increase the votes by some 2,-400. I do not know just where that figure came from, but would the Auditor General care to comment on that statement that was made?

Mr. Henderson: It is my impression that that point has been cleared up, has it not, Mr. Crouse? The $5 million limit is purely on the sum total in the proposal, not on the individual items. It would be impossible to say how many votes would be involved if it were articles or things at the $5 million level.

Mr. Crouse: Could I ask Mr. Henderson this question then, Mr. Chairman?

If we moved to lower that figure in paragraph 5 to $1 million what would be the result in votes?

Mr. Henderson: I asked if there had been any calculation made of that. I have not made a calculation, but on the basis of the way we did it yesterday I would estimate that it would emerge with approximately the same number of votes that you have now, 236—give or take a few votes either way.

Mr. Crouse: But there would be greater control if that was done.

Mr. Henderson: We are only basing this by going through the 1968-69 Revised Estimates and seeing what those figures were; some years they would be more and some years they would be less. But I think Mr. Cloutier would agree that if we had taken it at $1 million it would have emerged something like that. Would you not say so?

Mr. Cloutier: I did not hear the figure.

Mr. Henderson: I said I thought, give or take a few votes either way, it would be about the 236 that we started with.

Mr. Crouse: Mr. Chairman, I do not know if this is the point to move on this, but I would like to move that that figure, $5 million...

The Chairman: Wait a minute.

Mr. Henderson: It could be ascertained but we would need some time.

An hon. Member: Let us finish the motion.

The Chairman: All right. I think adding the words "in total" here will solve what you are getting at.

> As capital investment today can well mean increased Administrative cost tomorrow, spending proposals involving more than $5 million in total for Construction and Acquisition within a departmental program shall always be the subject of a separate vote.

This takes care of it; it is a total of $5 million.

Mr. Bigg: Over.

The Chairman: Yes, we have that. "More than $5 million" means over.

Now the sixth one:

> 6. Similarly, as Grants, Contributions and Subsidies are of a special nature, requiring a different type of consideration, they too will be the subject of a separate vote when the total under any program exceeds $5 million.

That is it. I ask for a formal motion.

Mr. Lefebvre: I so move.

Mr. Allmand: I second the motion.

• 1300

The Chairman: The motion is up for discussion. Mr. Fleming?

Mr. Flemming: Mr. Chairman, I wanted to have Mr. Winch cite his objection again because I did not follow it right through.

The Chairman: Well, I am sure Mr. Winch will be more than obliged.

Mr. Winch: I think that clarification goes a long way to meeting my objection, because it is now clear that the total $5 million must be in there so we are not going to have a dozen where we could have the $5 million being transferred, if it was less than $5 million in the main one. I think it goes a long way to meeting the point that I had in mind.

Mr. Flemming: I take it that it is because it is within a department.

Mr. Winch: Within a department. They must lump the whole thing together if it is more than $5 million.

Mr. Bigg: And it has to be related to a previously warned program.

The Chairman: Mr. Crouse, you had...

Mr. Crouse: Mr. Chairman, I stated earlier that I felt the figure of $5 million was excessive, and I still feel, since it will not increase the number of votes, but would provide Members of Parliament with greater control, that the amount should be lowered to $1 million, and I would so move an amendment. Otherwise the rest of the package I am willing to accept. But in Nos. 5 and 6, I feel that a figure of $1 million would give members of all parts of the House greater control.

The Chairman: Well, I accept that as a sub-amendment. I do not think you need a seconder. Mr. Flemming.

Mr. Flemming: I am influenced to second the motion by the fact that Mr. Henderson has said that this would not increase the number of votes to more than the original 236. I attach no great significance to the number of votes, whatsoever. It is the purpose for which the money is going to be spent. That is what should be the determining factor, and I have great pleasure in seconding the amendment.

Mr. Henderson: It would be necessary to go through and apply that to see whether or not my estimate has any validity. That is the general impression I gained, and I think Mr. Cloutier would agree.

We would have to go through the Blue Book and come back to you with the result. You do not mention the question of the million dollars applying to the grants. Bear in mind that the grants as set out here are detailed in the estimates. You know where that money is going. Not the contributions, but the grants are detailed.

Mr. Flemming: May I ask this question of Mr. Henderson? Generally speaking, the grants are statutory, are they not?

Mr. Cloutier: They are not in the statutory votes.

Mr. Flemming: They are not.

Mr. Cloutier: A great number of grants are voted annually.

Mr. Flemming: Then may I ask Mr. Cloutier the question? Generally speaking are they established to a certain degree or some of them by custom?

Mr. Cloutier: Some of them are, by custom.

Mr. Flemming: A good many of them are year-after-year grants?

Mr. Cloutier: A good many of them are the continuing type of grant. A good many are ad hoc.

The Chairman: Mr. Bigg.

Mr. Bigg: It seems to me that this amount in some departments would be very generous, but in the Department of National Defence it might be very restrictive. I am really more worried about the purpose for which the money is voted and the non-spilling over of these expenditures into purposes for which we, in Parliament, never anticipated they would be used. If we voted for 10 battleships and we had to have 11, obviously we could expect a change in the salary structure.

Mr. Henderson: Well, it would not apply, Mr. Bigg, you see, because having achieved whatever limit is set, the Defence Department would be one vote. Are you speaking of construction or grants?

Mr. Bigg: Well, actually, do you not lump construction and capital together?

Mr. Henderson: There would be three votes there because of the sheer size of the figure. Right now you have them locked together.

Mr. Bigg: We are voting now on a total for a whole department, so the Department of National Defence would be limited to a $5 million change in the whole department.

The Chairman: If it is over $5 million.

Mr. Henderson: Well, if it is over $5 million at present, then it would be a separate vote in any case, so you do not have any problem with that, as I see it.

The Chairman: Gentlemen, we have an amemdment before us. If there is not further discussion we will vote on the amendment first. We will call for the vote on Mr. Crouse's amendment. Mr. Flemming.

Mr. Flemming: May I ask one question first? In the Department of National Defence is it considered that when, we will say, they purchase a ship for a few million dollars, is that not within the ordinary purview of the ordinary expenses, or is that considered capital?

Mr. Cloutier: Capital.

The Chairman: The amendment is that the figure of $5 million be reduced to $1 million. All those in favour? Those opposed?

I declare the amendment lost.

Now we will vote on the main motion, which I have read to you with the additions, and I would think that the observations that Mr. Lefebvre made about the Auditor General's scrutinizing will be taken care of in a general report. So we will vote on the motion that was read to you just a minute ago. Those in favour? Opposed?

On division.

Well, gentlemen, thank you for your indulgence.

Mr. Winch: Just before we adjourn, could I ask whether or not you are going to ask for a vote now on the recommendation of the steering committee that item No. 8 be the proposed format? That was the recommendation that was read out and there has not been a vote taken on it. Or do you want to lay it over?

The Chairman: There might be a little technicality here. I rather thought that the Committee had accepted the subcommittee's report. Is that a fact?

Gentlemen, we do not want to detain you, but those who want to remain and see the dummy—I am not referring to the Chair—of the proposed new format of the estimates, are welcome to stay and see it. Mr. Cloutier brought it.

Mr. Winch: That is No. 8?

The Chairman: That is No. 8. Your subcommittee will meet again, and I think we are in a position now to draft up a temporary report to submit to the Committee.

Mr. Cafik: When will the subcommittee meet, Mr. Chairman?

The Chairman: At the call of the Chair.

Mr. Cafik: That will be after the recess?

The Chairman: I would like to meet before we go home for Christmas, if we may.

The meeting is adjourned.

OFFICIAL REPORT OF MINUTES

OF

PROCEEDINGS AND EVIDENCE

This edition contains the English deliberations and/or a translation into English of the French.

Copies and complete sets are available to the public by subscription to the Queen's Printer. Cost varies according to Committees.

Translations under the direction of the Bureau for Translations, Secretary of State.

ALISTAIR FRASER,

The Clerk of the House.

HOUSE OF COMMONS

First Session—Twenty-eighth Parliament

1968-69

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: Mr. A. D. HALES

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 11

THURSDAY, JANUARY 23, 1969

TUESDAY, JANUARY 28, 1969

Public Accounts, Volumes I, II and III (1966 and 1967)
Reports of the Auditor General to the House of Commons (1966 and 1967)

WITNESSES:
(*See Minutes of Proceedings*)

INCLUDING FIRST REPORT TO THE HOUSE

THE QUEEN'S PRINTER, OTTAWA, 1969

29583—1

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. A. D. Hales

Vice-Chairman: Mr. T. Lefebvre

and Messrs.

Allmand,	Flemming,	Nowlan,
Boulanger,	Forget,	Rodrigue,
Burton,	Major,	[3] Tétrault,
Cafik,	[1] Mazankowski,	Thomas (*Maisonneuve*),
Crouse,	Noble,	Winch,
Cullen,	[2] Noël,	[4] Yanakis—20.

(Quorum 11)

Edouard Thomas,
Clerk of the Committee.

Pursuant to Standing Order 65(4)(b),

[1] Mr. Mazankowski replaced Mr. Rock January 24, 1969.

[2] Mr. Noël replaced Mr. Rock January 24, 1969.

[3] Mr. Tétreault replaced Mr. Rondeau January 16, 1969.

[4] Mr. Yanakis replaced Mr. Gibson January 16, 1969.

REPORT TO THE HOUSE

WEDNESDAY, January 29, 1969.

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

FIRST REPORT

The members of your Committee were appointed on October 8, 1968. Since that date a total of twelve meetings has been held.

On October 29, 1968, the House passed the following Order of Reference:

Ordered,—That the Public Accounts Volumes I, II and III for the fiscal year ended March 31, 1966, laid before the House on January 9, 1967, and the Report of the Auditor General thereon, and the Public Accounts Volumes I, II and III for the fiscal year ended March 31, 1967, laid before the House on January 22, 1968, and the Report of the Auditor General thereon, be referred to the Standing Committee on Public Accounts.

In keeping with the tradition established in July 1958, your Committee elected a member of the opposition, Mr. A. D. Hales, as its Chairman. Mr. T. H. Lefebvre was elected Vice-Chairman. On November 7, 1968, it was announced that the Sub-Committee on Agenda and Procedure would consist of the Chairman, the Vice-Chairman and Messrs. Cafik, Rodrigue and Winch.

Pursuant to the above order of reference, your Committee held two meetings to study the 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 view of the inability of your Committee to handle the heavy schedule which would have been involved at this time in examining the Reports made by the Auditor General to the House for the fiscal years ended March 31, 1966 and 1967, the members decided to postpone their examination of these matters until the Auditor General completes his Report to the House for the fiscal year ended March 31, 1968 and it is referred to the Committee. In the interim, your Committee has delegated a Sub-Committee consisting of Messrs. Allmand, Burton, Crouse and Rodrigue to study the use of Governor General's Special Warrants. To ease the burden placed upon your Committee by the House, it may become necessary to appoint other sub-committees.

Your Committee noted that as at October 31, 1968, the position of 55 outstanding Committee recommendations that had been reported to the House was commented upon by the Auditor General as follows:

29583—1½

Category	Number
No action as yet	20
Executive has indicated disagreement with recommendation	16
Progress being made	13
Implemented	2
Soon to be implemented	2
Action taken not satisfactory	1
Withdrawn by the Public Accounts Committee	1
	55

Your Committee wishes to stress that if parliamentary control of public funds is to be effective, more prompt and effective action must be taken by Ministers, Deputy Ministers and other responsible government officials towards implementing your Committee's recommendations or a reasoned explanation given as to why such recommendations are not acceptable.

On November 18, 1968, the House passed the following Order of Reference:

Ordered,—That booklets illustrating the proposed form of Estimates be referred to the Standing Committee on Public Accounts.

In the period November 21, 1968 to January 23, 1969, your Committee held nine meetings to study the proposed new form of Estimates. At the first meeting on this order of reference, the President of the Treasury Board, Hon. C. M. Drury, assisted by Mr. S. S. Reisman, Secretary of the Treasury Board, made a statement to the Committee and appealed for suggestions.

During the course of the meetings, the following officers were in attendance and provided immeasurable assistance to your Committee:

From the Treasury Board: Mr. Sylvain Cloutier, Assistant Secretary of the Treasury Board; Mr. J. G. Glashan, Director of Estimates and Supply Procedures Division. And from the Auditor General's office: Mr. A. M. Henderson, Auditor General; Mr. G. R. Long, Assistant Auditor General.

In his introductory remarks on November 21, 1968, the President of the Treasury Board indicated that the 236 votes in the present Vote structure would, following the introduction of the revised form of Estimates, result in a reduction of approximatively one hundred votes. The members agreed with the primary objectives of the new form of Estimates which is to develop a meaningful and informative presentation of the votes of all departments and agencies. Concern was expressed over the reduction in the number of votes and the possible weakening of parliamentary control of public expenditure. Officials of the Treasury Board and Auditor General's staff collaborated in defining effective criteria as to the amounts and areas of spending which merited a separate vote of the House. These criteria are recommended by your Committee for use in determining the votes required under the proposed revised form of Estimates beginning 1970-71:

1. In the revised Estimates, the proposed spending under a program is to be set forth under the three basic headings of

(*a*) Administration, Operations and Maintenance (or operating costs);

(b) Construction and Acquisition (or capital costs); and

(c) Grants, Contributions and Subsidies,

so this information will be available to the members of the House in the same manner as seen in the example submitted to the Committee of the proposed form of estimates given for the Department of Indian Affairs and Northern Development regarless of whether there is to be one, two or three votes.

2. Each department, agency or legal entity shall require one or more votes as the case may be.

3. In all cases where agencies or Crown corporations are incurring a deficit or related deficits which must be covered by an appropriation, these will be the subject of a separate vote.

4. The special circumstances surrounding any particular expenditure, e.g. Contingencies, Treasury Board Vote 5, be made the subject of a separate vote.

5. As capital investment today can well mean increased Administrative cost tomorrow, spending proposals involving more than $5 million in total for Construction and Acquisition within a departmental program shall always be the subject of a separate vote.

6. Grants, Contributions and Subsidies being of a special nature, therefore requiring a different type of consideration, will be the subject of a separate vote when the total within a departmental program exceeds $5 million.

It would be incumbent on the Auditor General to note the manner in which these criteria have been applied and to advise the House thereon in his next appropriate report.

Your Committee further recommends that, in addition to the criteria enunciated above,

(a) explanatory notes accompany the votes to indicate the percentage increase in staff and the justification therefor;

(b) the original cost estimate be provided wherever an increase occurs in construction programs.

The proposed new form of Estimates differs substantially from the current form and your Committee recommends that Treasury Board make available adequate explanations to all Members of Parliament on the background and details of this new procedure of presenting the Estimates.

Following extensive study of the various methods of presenting the new form of Estimates and the production costs relating thereto, your Committee is of the opinion that the Estimates should take the form of a bilingual text available in bound books.

Recognizing the strides already taken towards the improvement of the Committee system, your Committee wishes to recommend that the officials of the House continue their efforts with particular emphasis given to the availa-

bility of the printed Minutes of Proceedings and Evidence. It is desirable that they be available in both languages on the day following a Committee meeting such as is done with Hansard.

A copy of the relevant Minutes of Proceedings and Evidence (*Issues Nos. 1 to 10 inclusive*) is tabled.

Respectfully submitted,

A. D. HALES,
Chairman.

MINUTES OF PROCEEDINGS

THURSDAY, January 23, 1969.
(12)

The Standing Committee on Public Accounts met this day at 9:43 a.m., in camera, the Chairman, Mr. A. D. Hales, presided.

Members present: Messrs. Boulanger, Cafik, Crouse, Flemming, Forget, Hales, Major, Noble, Nowlan, Rodrigue, Thomas (*Maisonneuve*), Winch (12).

The Committee considered a draft interim report on the results of its examinations to date and on the proposed revised form of Estimates.

By leave of the Committee, Mr. Winch moved and,

Agreed,—That the portion of the report of the Sub-Committee on Agenda and Procedure which reads

> "The Sub-Committee, after due deliberation, concluded that alternative No. 8 i.e. Bilingual text—Combination of booklets in binders and separate booklets should be recommended to the Committee for adoption"

and was adopted at the meeting held December 17, 1968 be rescinded.

Following discussion, Mr. Winch moved and,

Agreed,—That the draft report be adopted as amended and presented to the House.

At 11:00 a.m., the Committee adjourned to the call of the Chair.

TUESDAY, January 28, 1969.
(13)

The Standing Committee on Public Accounts met this day at 9.45 a.m., the Chairman, Mr. A. D. Hales, presiding.

Members present: Messrs. Allmand, Cafik, Forget, Hales, Major, Noble, Noël, Nowlan, Rodrigue, Tétrault, Thomas (*Maisonneuve*), Winch—(12).

Also present: Messrs. Deachman, Bell.

In attendance: Mr. A. M. Henderson, Auditor General of Canada; Mr. G. R. Long, Assistant Auditor General; Messrs. Buzza, Douglas and Hayes of the Auditor General's staff.

Moved by Mr. Winch and,

Agreed,—That the Chairman be authorized to hold meetings to receive evidence when a quorum is not present provided there be no less than five members in attendance, and to cause the printing thereof—

Following a discussion of paragraphe 101 of the Auditor General's Report for the fiscal year ended March 31, 1967—*Refit and improvement of HMCS Bonaventure,* Mr. Winch moved and it was

Agreed,—That the responsible officials of the Departments of Defence Production and National Defence be called to appear before the Committee at the earliest possible date re matters affecting the refit of the *HMCS Bonaventure.*

The Chairman advised the Committee that the following items of the Auditor General's follow-up report would not be considered at this time:

Item 2—Departmental Operating Activities

Item 3—Internal Financial Control

Item 4—Unemployment Assistance

Item 5—Findings of the Royal Commission on Government Organization

Item 6—The Form and Content of the Estimates

Item 10—Canadian Broadcasting Corporation—Report of the Royal Commission on Government Organization

Item 11—National Defence Administrative Regulations and Practices

Item 12—Unauthorized Use of Crown-Owned Vehicles

Item 16—Discretionary Awards of Service Pensions

Item 19—Accounts Receivable

Item 32—Post Office Savings Bank

Item 42—Internal Audit Group—Department of Indian Affairs and Northern Development

Item 44—Department of External Affairs Missions Abroad

Item 46—Transportation on Leave Allowance

Item 52—Federal Losses from Bankruptcies

Item 53—Municipal Winter Works Incentive Program

Item 55—Application of Canadian Hospital Accounting Manual to Federal Hospitals

At 10.39 a.m., the meeting adjourned to the call of the Chair.

Edouard Thomas,
Clerk of the Committee.

EVIDENCE

(Recorded by Electronic Apparatus)

Tuesday, January 28, 1969

• 0946

The Chairman: Gentlemen, we have a quorum. First of all I would like to welcome as our assistants this morning, two page boys who have been delegated to our Committee to assist. I understand the page boys are being distributed throughout all the Committees to be of assistance, so if any of the members wish help from them I know they will be happy to assist and their names are Beland and Deault.

Mr. Winch: Are they allowed to give evidence?

The Chairman: They are not allowed to give evidence, sir. Yes, Mr. Allmand.

Mr. Allmand: Mr. Chairman, it has just been brought to my attention that in this Committee we have not as yet passed a resolution to...

The Chairman: That is the next matter of business, Mr. Allmand, so I will now present that to you.

As you know, under the new House rules—and we can read 65(7) into the Minutes:

> (7) The presence of a quorum shall be required whenever a vote, resolution or other decision is taken by a standing or a special committee, provided that any such committee, by resolution thereof, may authorize the chairman to hold meetings to receive and authorize the printing of evidence when a quorum is not present.

What is your wish?

So moved.

The Chairman: Now, do you wish to put in there the number of people who must be present?

Mr. Winch: No.

Mr. Allmand: Some Committees have, sir, and some Committees have not. Some had five and some had none.

The Chairman: I would much prefer to have a number in there, because I could call a committee meeting all by myself and I do not wish to do that.

An hon. Member: In every case you have to give notice to all members.

Mr. Winch: I would move that not less than five members be present.

Motion agreed to.

The Chairman: Gentlemen, I hope this does not mean that any member of the Committee will feel that he does not have to be here at 9.30 because there will be a quorum of five and that he can arrive at 10. I would like all members of the Committee to be here just as though it was necessary to have a quorum of 11. Please try and come on time so that we have our full complement of members.

Now, at our last meeting, we were discussing what procedure or agenda we might follow and it was agreed that we would ask Mr. Henderson to appear before the Committee and we would like to look into Paragraph 101 on page 54 of the Auditor General's Report of 1967 which deals with the refit and improvement of HMCS *Bonaventure*. Mr. Henderson is here and I hope you have your reports in front of you at page 54 and we will ask Mr. Henderson for a statement on this matter and then decide how far we should go with this particular subject.

The thought at the last meeting was that our Public Accounts Committee should be as current as possible in its work. This matter had been in the press and we felt that we should delve into it right away while the subject was current and that was the purpose of asking Mr. Henderson to open the matter this morning. Before I call on Mr. Henderson, Mr. Cafik has a question.

• 0950

Mr. Cafik: Mr. Chairman, I would like to raise a point here. It is a matter of information. I noticed in the Friday January 24, edition, of the *Telegram*, a report attributed to an interview to yourself following an in camera meeting of this Committee which was held on Thursday, January 23. I had the impression that an in camera meeting was held so that the press would not be involved and so that members would be free to express themselves without inhibitions that might arise with the press present. I may be incorrect in this assumption, but I think it is very important for members of this Committee and for myself in particular, to know what an in camera meeting is, because if an in camera meeting means that the press cannot come in but a member of the Committee can go out and tell everybody what was discussed, then I think we are going to have to behave a little bit differently in camera meetings. You may know the report, I could give you some highlights of it, if you wish, but in that report you had indicated that the Committee had decided to go into the matter of the Bonaventure, as well as a number of other matters and to call Judy LaMarsh. I was present at that meeting and although such matters were discussed, to my knowledge there was no formal resolution or no formal agreement to that effect. I know at the time I felt it was a matter in confidence between all members of this Committee. I would like your views on it and the views of other Committee members so that we will have guidelines for our actions following in camera meetings.

Mr. Winch: Before you comment, Mr. Chairman, may I say that I, personally, was placed in a very embarrassing position last week. I was phoned by a member of the press gallery who quoted a press report but did not say who had issued the statement. He said that he was trying to reach Mr. Hales, the Chairman, to have confirmation on the information and, as he could not reach Mr. Hales because he was not in Ottawa, would I, as a member of the steering committee and therefore of the in camera meeting, please comment. My answer, Mr. Chairman, was that an in camera meeting of the Committee itself was not to be commented upon in any way nor any press release given, and that therefore I was unable to confirm or deny the statement which appeared in the press. That was the position I took, sir. I refused to confirm or deny what had taken place in an in camera meeting. It was not until the day afterwards that I discovered that it was you, yourself, who had made the statement.

The Chairman: I have nothing whatsoever to hide or keep from the Committee. It is quite true that we had an in camera meeting last week to discuss and to draft the report to the House. Such meetings are always held in camera. The matters that were discussed after the report was drafted dealt with matters that had already appeared in the press, namely, dealing with the matter of the Bonaventure or the CBC. I was called by the press and asked if we were going to proceed with the matters of the Bonaventure or the CBC. I told the press that the Committee had decided to look into the case of the Bonaventure and, if time permitted and if it was the wish of the Committee, to go into the CBC matter. I felt that I did no divulge anything outside of the in camera meeting because, as I say, it was to deal with the report alone and I did not think that the other matters were in camera because they had already appeared in the press. If I have broken your confidence in that regard, I apologize. However, I felt that I was within the jurisdiction of the Chairman in telling the press what procedure we were going to proceed with. Those are the facts.

• 0955

Mr. Winch: Having heard that, I move that we proceed and hear Mr. Henderson.

The Chairman: All right. Mr. Cafik.

Mr. Cafik: There is one other point. Of course, I am not 12 years old. I realize that what appears in the press often has very little connection with what was said. For this reason I am very happy to accept your comments. I do think, however, it was important that this matter be brought up and that in the future we hold in camera meetings, and if, in the view of the Chairman or anyone else present, he feels we have gone past the in camera stage of the meeting, that he should say so publicly at that particular time. Then the rest of the people present will realize that the in camera session is concluded and we are into a public session. That might be an important thing to bear in mind.

The Chairman: I think your point is well taken, Mr. Cafik.

Mr. Cafik: The second thing is that I believe it is the Committee, itself, which decides the order of witnesses and so on and this press report—and I am not attributing it to you—gives the impression that the Committee, itself, had decided on these particular witnesses and to study these particular charges. Although I think that was implicit in the meeting—and it is easy to walk away with that understanding—I do not think that the Committee itself, as a committee, had really made such a decision. I just make that observation before we conclude this point.

The Chairman: It is only to be expected, Mr. Cafik, by members of the Committee or people outside the Committee, that witnesses dealing with the *Bonaventure* would be national defence or defence production people. Anybody could guess that without having to be told who the witnesses might be. However, if you are agreeable, we will proceed. Mr. Henderson.

Mr. A. M. Henderson (Auditor General of Canada): Mr. Chairman, the comments in Paragraph 101 at page 54 of my 1967 report recite the increases which took place in the cost of the mid-life refit and improvement program of HMCS *Bonaventure*, an aircraft carrier which cost $30 million when commissioned in 1957. Planned originally in 1964, expenditures on this mid-life refit and improvement program increased, as the note shows you, from $8 million, the estimate which is submitted in January 1965 and approved by the Treasury Board, to a total expenditure which had reached $11,492,000 in November, 1967—that is a little over a year ago—and which at December 31 last had totalled $12,030,000. I am informed that an additional $320,000 will still be required to complete this program.

The causes of this increases represent the unhappy combination of costs having been underestimated largely because they were not able to define the extent of some of the work until the ship was opened up, which is a perennial problem faced by the Department in this type of thing, and, of course, the effect of spiralling prices generally across recent years with which members of this Committee are so familiar.

I want to point out to you here that the cost figures given are direct costs; that is to say, they represent the accumulated actual costs as charged to the Department of National Defence by the outside contractor who did the work and, of course, the supplies of equipment. They do not include additional costs which would be attributable to work on the job done or otherwise incurred by the Department of National Defence. I will have something more to say about this presently.

As is explained in paragraph 101, this mid-life refit program was first estimated in January 1965 to cost $8 million. Contracts were awarded in the spring of 1966 up to $7,144,000 which left only $856,000 to cover contingencies and important refit work which unfortunately were not included in the refit contracts because there had been insufficient time to complete the drawings and specifications, and because the work could not be precisely described for the draftsmen. If you want to know why that was so, we would wish to have a departmental witness present to explain the why's and wherefore's of these reasons. As a consequence, Treasury Board approved an increase in November 1966 of $3.8 million in the over-all estimate which brought the estimated cost at that time to $11,770,000.

• 1000

Other costs caused by the underestimating and approved by Treasury Board are explained in this paragraph. These were largely caused by the fact that the additional work required exceeded its original estimate by more than 200 per cent, with a new charge-out rate being negotiated for labour and the contractor being paid the *per diem* rate for services from April 1967, until the ship was delivered in September, 1967. The particulars are contained in this paragraph.

The case involving alleged fraud, which has appeared in the press lately, in connection with equipment supplied to this aircraft carrier first came to our attention in the Audit Office in early 1966, when, following investigation by the RCMP, charges were brought against the president of a Montreal firm which was the agent of a German manufacturer.

The case involved overcharges in connection with the supply of compressors and spare parts. The compressors were installed in this aircraft carrier during a previous refit which took place in the early 1960's, and related to purchases between 1960 and 1965 amounting to approximately $210,000. Thus, it is only to the extent that some of these maintenance spare parts were used during the 1966 refit and improvement program to the aircraft car-

rier that this case can be said to relate to the expenditures dealt with in paragraph 101 of my 1967 Report.

The prosecution against the president of the Montreal firm was terminated in August 1966, principally because of difficulty in obtaining evidence from Germany, although the Minister of Justice said in the House last Thursday that it was his view that if new evidence were furnished there would not be a bar to new proceedings.

At, all events, subsequent to the termination of the criminal proceedings the Minister of Industry in January, 1967, under Section 21 of the Department of Defence Production Act, made an order directing payment to the Receiver General of Canada of the amount considered in excess of fair and reasonable cost. It was by virtue of that order that the firm, the agent of the German supplier, named by the Minister in the House on January 20 last as Cardinal Engineering and Machinery Company Limited of Montreal, was directed to pay to the Receiver General of Canada the sum of $111,643.66.

This firm is presently appealing this order through the Exchequer Court of Canada, and as the Minister of Justice informed the House on, I think, January 20, last week, the matter is now pending before that court. This is a factor that you will want to ake into consideration relative to what further information can be gained from witnesses on the point, Mr. Chairman.

• 1005

I would just like to say, on the subject matter of paragraph 101, that the costs of H-M-C-S Bonaventure, as I said earlier, are by no means all-inclusive. They simply represent the amounts paid out by the Department to the contractor carrying out the work and for the equipment. Thus, they do not include indirect costs such as those of the Naval Central Drawing Office the records of which show that some $600,000 was spent in 1965 and 1966 chargeable to this work. Neither do they include departmental overheads, stores issues, labour provided by service and departmental staff and freight, express, cartage, and so on—all those other cost factors which, as you know, are charged out in private commerce.

It has never been—and I emphasize this to the Committee—and still is not, the practice of the Department to produce total costs in the manner followed by private industry and which the Glassco Commission recommended so strongly over six years ago. We are again assured by the Department that this is one of the goals that they hope ultimately to reach.

That is all I have to say to open up the subject, Mr. Chairman.

The Chairman: Mr. Cafik?

Mr. Cafik: Again for information, as there is at the moment a court case involving the details of this refit is it proper for this Committee, at least in public, to discuss it, bring evidence and go into all the details? Would this not perhaps have an unfair bearing on the outcome of the court case?

Mr. Winch: I have a supplementary to that. If it is to be decided whether it is *sub judice* and that we cannot discuss this particular matter because it is before the Exchequer Court, could we also have some information about what the situation will be if it is not heard by the Exchequer Court for a few months, or a year? Would that not wipe out the right of the Committee to examine the matter, because by the time it has been dealt with by the Exchequer Court we will have reviewed and reported on the Auditor General's Report for 1967?

You see the point I am making? If it is *sub judice* now and we cannot go into the matter, is there not the strong possibility that we will be denied the right of so doing in the future?

In my opinion, that is a very important question, Mr. Chairman.

Mr. Henderson: If I may make a small contribution here, Mr. Chairman, I think Mr. Cafik has a good point.

I do not suppose that any member of the Committee would want to have a protracted discussion of this or to inquire into it to the point that it might prejudice, or delay, collection by the government of this debt from the firm, whether through the Exchequer Court or by any other means.

I understand that not only is the case before the Exchequer Court but it is also before one or two other courts, not the least of which, I believe, is the one in Germany, which is not yet concluded. Therefore, it is being very closely watched.

On Mr. Winch's point, we would regard it as our duty in the Audit Office to review this case, and if there are any aspects of it that members of this Committee might wish to

charge me with bringing to their attention later on, or in my next report, as the case may be, they have only to so state.

I imagine that there have been a number of cases in the past where debts have hung over from previous years, have remained as accounts receivable and perhaps the collection of which has not been hurt at all by the fact that the Committee had ceased discussing them, Mr. Winch. That would be my reaction to that.

Mr. Winch: So long as you bring it forward in the new report as being at the request of the Committee. Am I correct on that?

Mr. Henderson: That is right. That would assist us, yes, and ensure that it is not overlooked. Mr. Chairman, I am entirely in the hands of the Committee on this. We have not obtained any legal view on your point about whether or not it could be discussed. I am simply told by the Department that because of the considerable interest in this they are hoping that they will make some yardage in terms of collection. That is their hope, naturally.

• 1010

Mr. Major: Mr. Chairman, what is to prevent the Committee from listening to the responsible department head who authorizes these refits? Could we not interview him, or the naval architect, or engineer who carries out the regular procedure relating to the refitting a ship of this nature? Is there anything to prevent our doing that? At least we would know how they go about it.

The Chairman: My answer to that, Mr. Major, would be that the case that is before the Exchequer Court really deals with this prior to 1964 and what is in the Report of the Auditor General before us is from that time on. I would think that we would be free to ask the witnesses whatever questions the Committee might wish to ask them.

Mr. Winch: In view of paragraph 101 in the Report is there anything that could stop this Committee from asking appropriate witnesses to explain how they go about a refit, how they estimate for it and, in particular, whether or not there is any evidence on the allegation that the Department concerned was aware of the type of bills being sent—overcharges and two different types of bills. That to me is a matter of general policy and perhaps we could get that type of information if we were to proceed.

Mr. Cafik: I agree. I do not want to put myself forward as someone opposed to getting information in respect to the refit of the HMCS *Bonaventure*. I am not one of the contractors, I have nothing personally to hide, I would like to see all the information but, at the same time, I would not want to see the government's or anyone's position really prejudiced by this. You may well be right, Mr. Winch, but the procedural aspect involved in this refit, the methods employed by the Government—good, bad or indifferent, I think can well have a prejudicial effect on somebody's position in this particular case, even though it is a period following the event. I am inclined to think that it would have a prejudicial effect. If we discussed in camera meetings in this regard, that might be one problem, but if we held public meetings such as we are holding at the moment, with the press and the general public allowed in—I think they have a right to know and that we have an obligation to supply answers—can we supply those answers right now, as much as we would all like to do so, without interfering with this case before the court? That is the real question and I do not think you have answered it, Mr. Winch, by the particular approach, you took.

The Chairman: I think what Mr. Winch had in mind was that it would be all right if the Committee proceeded as long as they stuck with the audit procedures and the matters related to the...

• 1015

Mr. Winch: —calling for tender and the changing of prices. And, at the same time—mind you, this is very important—take up the matter raised by Mr. Henderson as to the actual cost, because what we have does not include all the items in the last sentence on page 56—the cost of materials supplied from stores, certain charges lor freight, express and cartage.

Mr. Cafik: Excuse me, Mr. Chairman, but there is not just ourselves, as a Committee, involved. I think we might be able to skate our way very gently and properly around any legal problem involved here, but when it gets out to the press I am not too sure that it is all going to end up as straightforward as we would like to see it.

Mr. Winch: Also, with all due respect, Mr. Cafik, just based on your own statement, I personally, as a longtime member of this Committee, do not believe it is our job to skate around an issue but to study it in depth.

Mr. Cafik: I am talking about skating around the legal problem of interfering with the court case—and that is all I am talking about.

Mr. Winch: I agree, we want the facts.

The Chairman: If we knew when this case was going to be before the Exchequer Court we might postpone our proceedings until it was over, but there is no indication of when it will be heard or how long it will take.

Mr. Cafik: Could the Department of Justice give us any legal advise on this?

Mr. Winch: Could I ask Mr. Henderson whether or not there has been any indication from the departments concerned that they would like this Committee to proceed now to investigate this matter of the HMCS Bonaventure refit?

Mr. Henderson: No, I do not think we have had any such indication. I will ask Mr. Douglas to confirm that. Have we had any such indication yet?

Mr. J. R. Douglas (Director, Auditor General's Office): No, we have not, Mr. Chairman.

Mr. Cafik: Would it not be wise, Mr. Chairman, to get some legal advise on what we should do, then accept that advice and proceed? Perhaps the Auditor General might want to get some independent legal advice, as opposed to our going to the Department of Justice. I think we had better know our legal position in this regard before proceeding. Would you not agree with that?

Mr. Winch: The Auditor General has the authority to seek outside legal advice if, in his opinion, it is necessary.

The Chairman: Gentlemen, there seems to be a difference of opinion whether we should proceed in view of the fact that this is before the Exchequer Court.

Mr. Winch: We might have a general statement from the Department of Defence Production, if they are prepared to make one now. That might help us in reaching a decision.

Mr. Nowlan: Mr. Chairman, I appreciate the remarks made by Mr. Cafik, that perhaps consideration should be given to seeking a legal opinion on the particular point involving the court case. However, as I see it, there are two separate problems. There is the general question of the refit as set out here in paragraph 101. Tenders were submitted and I, as a Committee member, would like to know how many tenders were submitted, by whom, what the range was, why one tender was picked against the others, and so on. There must be someone in the Department of Defence Production, or perhaps a group, involved in this and I am interested in ascertaining if there was someone down the totem pole who grossly under-estimated the work. In other words, there is the general question of the refit set out in paragraph 101 which I do not think necessarily relates at all to the particular court case—it is just one part of the whole. I think we are in danger of skating on potentially thin ice if we start our own judicial enquiry into the allegations about this one particular item in the contract, but I cannot see for the life of me why we, as members of the Public Accounts Committee, cannot ascertain what procedures are followed in general and what procedures in particular were followed here separate and apart from the Cardinal Engineering and Machinery Company Limited.

• 1020

As the Auditor General says, there were tenders. It might be interesting to know if the other tenders were more realistic than the one actually chosen, if the one chosen was grossly undervalued, why the Department did not look at it more closely, and so on. This would be separate and apart from any particular allegation of fraud against anybody because that allegation is just part of the sum total. However, I must say that the Cardinal Engineering case, which is before the Exchequer Court and the German Court, is another question altogether and, frankly, I think we would be duplicating much effort if we went into that before the court case was resolved.

The Chairman: Suppose nothing whatsoever had appeared in the press about further evidence on this refit, that we as a Committee had commenced consideration of paragraph 101 and were, in fact, in the midst of discussing the Report of the Auditor General on it

when a press release broke about the further evidence, does the Committee think for a minute that we would cease our investigations at that time? Would we not proceed?

Mr. Cafik: I am not too sure that we would not stop. I think that you might at that stage seek out some legal advice on the point. I am not too sure it is self-evident that we would just continue. It would depend whether the evidence and the information we were bringing was going to have a prejudicial effect on the outcome of the court case.

As far as Mr. Nowlan's remarks are concerned, I agree with them, I think he is probably right when he says that these are two distinct matters. I am not trying to say that they are not. Perhaps I am too cautious or a little too conservative, if I could use that term, but I really think that we ought to have some legal advice. And I am inclined to believe that if the Auditor General were to seek legal advice on this they would say to go ahead but go ahead within certain limits and spheres, and keep away from certain things. I think we would be given sort of a guideline on how we ought to go about it. Do you think it advisable to seek some kind of legal opinion how we ought to proceed, if we do proceed?

Mr. Henderson: You are asking me?

Mr. Cafik: Yes, I am.

Mr. Henderson: I do not think it would do any harm but, personally, I do not see just exactly what we need. I should have thought that if you were to decide on calling as witnesses the Deputy Minister of National Defence or of Defence Production perhaps at your next meeting you could ask him to make a statement on the status of this and perhaps in advance of his appearing he could obtain some legal guidance if he so wished. But he is the man that is handling the case and to whom we look for whatever redress we can obtain. So if we should decide to have him as a witness I would hope that he would say something about it, and if he indicated that it was not particularly helpful to him to discuss it, then presumably you would go on to the other aspects that have been mentioned.

Mr. Cafik: In conclusion, it is not a case, it is just an observation, Mr. Chairman. I am obviously quite willing to proceed and go along with whatever this Committee decides in this regard. I felt it an obligation to bring the point up and it is the Committee's responsibility to make its decision and...

Mr. Noble: Mr. Chairman, it seems to me that after the courts have had their day on this it will be superfluous for us to go ahead and make any investigation. Will not everything be brought to light and all the facts made known?

Mr. Cafik: Just one point will have been discussed in the courts and I think we have to get the facts. We have to get some some time and the sooner the better, of course, provided we do not get into legal difficulty. That is my view.

The Chairman: How would it be to summarize your thoughts this way: that we call witnesses next week and decide which ones you want first, from the Department of Defence Production or the Department of National Defence, and let them make a statement and let them seek advice and, if they feel they should not give evidence before this Committee in view of all the circumstances, it will be up to the Committee to decide then.

Mr. Cafik: That is fair enough with me, Mr. Chairman.

The Chairman: All right. Is that a good approach?

Some hon. Members: Agreed.

Mr. Winch: May I ask a question, Mr. Chairman? Actually who is responsible, the Department of Defence Production or the Department of National Defence?

Mr. Henderson: I would like to ask Mr. Douglas, my Director in charge, if he could answer that question.

• 1025

Mr. Douglas: Mr. Chairman, I think it would be of interest for you to have both officials present. The Deputy Minister of Defence Production, of course, is responsible for the actual contracting but, on the other hand, the Deputy Minister of National Defence would be responsible for a lot of the basic work that went into the program before the contracting stage, that is the Naval Central Drawing Office operations and the naval end of it in general, so I think it would be of value to have both officials here.

Mr. Winch: Mr. Chairman, I move that for our next meeting this Committee requests the attendance of the responsible officials of the Department of National Defence and the Department of Defence Production relative to matters affecting the refit of HMCS *Bonaventure*.

The Chairman: Did you say the Deputy Minister?

Mr. Winch: No, I said "responsible" because we just do not know; it may be one or it may be that half a dozen will have to turn out.

Motion agreed to.

Mr. Cafik: The motion is, Department of Defence and Department of Defence Production, is it?

The Chairman: That is right. Now, with regard to where we go from here, the other day Mr. Crouse mentioned that perhaps we should look into the CBC. I do not think you are in a position to decide that until we know whether we get involved in this first. Let us clear the decks on that first and then decide about the other.

Then we come to the follow-up report; we have only a half hour. If you have your follow-up reports with you, I would like to give you a suggestion that has been made as a result of a little study on this matter by Mr. Henderson and me regarding what steps we could take to move along a little faster with this follow-up report in view of the fact that a lot of them are going to come forward in the 1968 Report. Have you got this with you?

Mr. Cafik: I have.

Mr. Nowlan: Do you have a copy of that?

The Chairman: The reason I would like you to have a copy is that we are going to mark some off.

Gentlemen, here is a memo that I think solves our problem nicely. Mr. Henderson's memo reads:

> It seems to me that before the Committee moves to my 1968 Report to the House it might dispose of a number of these 55 items in several ways. The first could be referral of a number of them back to the Auditor General, so to speak, for future handling and comment when called for in his future Reports to the House. Many of them cover areas which are his continuing responsibility and he would always bring any shortcomings to the attention of the House. The number involved here totals ten.

I will give you those numbers and lead with the thought that these will be coming up again in the 1968 Report and we could cross them off. The first one is on page 2, item 2...

Mr. Cafik: Would you go just a little slower, please?

The Chairman: Page 2, No. 2 at the bottom of the page, just put a big "X" through there, "Departmental Operating Activities".

On page 3, cross out that whole page. Page No. 4 deals with "Unemployment Assistance", at the top of the page—cross that out. That will be a follow-up. No. 5 is included on that page.

• 1030

> 5. Findings of the Royal Commission on Government Organization.

That will be a follow-up, so cross all that out.

On page 5, cross out the top part but leave No. 6. We have dealt with it:

> 6. The Form and Content of the Estimates.

Mr. Cafik: Excuse me, Mr. Chairman. No. 6 is not in that new category you mentioned, but just completed, is that correct?

The Chairman: That is right, cross it off. Put a circle around (b) on that No. 6(b). Just keep that section.

Mr. Cafik: Yes. We dealt with that. A brief note.

An hon. Member: A brief note. That is in our report to the House.

The Chairman: Yes, that is in. Yes, that is all right. No. 11 comes out and it will be on page 7. That whole page is crossed out except No. 13 at the bottom. Keep that in.

Mr. Cafik: So Nos. 11 and 12 are gone?

The Chairman: Right. Nos. 10, 11 and 12. We will leave No. 13. No. 16 at the bottom of page 8 comes out; that will be a follow-up. No. 19 at the bottom of page 9 comes out; that will be a follow-up. Now we jump over. We keep everything in there and turn to page 16.

No. 32 at the bottom comes out, "32. Post Office Savings Bank." And the top of page 17, the comments by the Auditor General, also come out.

Now, turn to page 22, No. 42 and the comments by the Auditor General will also come out. The next, page 23, No. 44, comes out, and the bottom of the page, No. 46 comes out. Page 25, Nos. 52 and 53 at the bottom come out, plus the comments by the Auditor General at the top of page 26, and the bottom of page 26, No. 55, comes out. Now that makes quite a difference to that follow-up report.

Mr. Major: Mr. Chairman, what did you suggest was coming out at the beginning?

The Chairman: At the beginning, No. 2 at the bottom of page 2 comes out. Did you get page 3, Mr. Major?

Mr. Major: Yes, thank you.

The Chairman: Now, that reduces the number to 45, and then the number could be further reduced by six more by removing the following, and we did take those out. The remaining 39 items might then, I suggest, be usefully discussed forthwith by the Committee, and that is where we stand.

Mr. Cafik: Mr. Chairman, I may have misunderstood your opening remark. I thought that there were 10 items that were to be put into a follow-up and referred back. I have a list of 16.

• 1035

The Chairman: That is right. I will tell you what I did. As we went through I put them all together. The other six were listed separately, but there are 16. You are right.

Mr. Cafik: Well, the other six, what category is that?

The Chairman: Most of them have been implemented. Post Office Savings Bank, mostly implemented.

Mr. Cafik: Well, would you give me a list of the numbers that you consider implemented, in other words, the six?

The Chairman: All right. I will give you this list. That will be the simplest way.

Mr. Cafik: All right.

The Chairman: Or I can give you the numbers; that will be simpler. Nos. 10, 32, 42, 44, 52 and 55.

Mr. Cafik: Thank you.

The Chairman: Now, that leaves 39 items on the Follow-up Report, and depending on what the witnesses say next Thursday, we will either go ahead with the witnesses or go into this Follow-up Report, and if there are no further questions I think we might adjourn at this point. It is not normal to let you out so early, but the way things are today and unless Mr. Henderson has any observations first...

Mr. Henderson: No, I have nothing further to say, Mr. Chairman, other than one slight point I might add to Mr. Cafik's query. That is, the last six are not all implemented. Two of them have been withdrawn. It was suggested two of them be withdrawn. Two of them were implemented when you were considering the Follow-up Report before Christmas in the fall, and two have been implemented since. So this brings the position right up to date with my next report, my 1968 report, which is now out to the printer.

So therefore, that accounts for your six. And if you take 16 off 55, it makes it 39. And that is a more manageable list, or so it seems to the Chairman and me, for discussion. If you could proceed to discuss these until my 1968 report is tabled, it will automatically—I would hope—be able to dispose of a number of matters which are in that 1968 report, because as we hit each subject I would update you.

Mr. Cafik: There is only one small area of continuing confusion here, and that is No. 6 which we have knocked off, but I gather is not contained within your...

Mr. Henderson: Item No. 6 you will consider as having been implemented when you have tabled your next report, which I understand is today.

Mr. Cafik: Tomorrow.

Mr. Henderson: But item No. 6 (b) is not implemented, subitem (b). It is in your report, I understand. The Chairman told me, but that is still awaiting action.

Mr. Cafik: Well, item No. 6 then probably would be more accurately described as reported to the House.

Mr. Henderson: Yes, correct. That would be right. When Mr. Hales and I made this list, you had not moved that far, but that would be quite right. There are in effect 38 effective items for discussion, you see.

Mr. Cafik: Right.

The Chairman: All right. Meeting adjourned.

HOUSE OF COMMONS

First Session—Twenty-eighth Parliament

1968-69

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: Mr. A. D. HALES

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 12

THURSDAY, JANUARY 30, 1969

Including Reports Nos. I, II and III (1966 and 1967)

of the Auditor General of Canada to the House of Commons (1966 and 1967)

WITNESSES:

(See Minutes of Proceedings)

QUEEN'S PRINTER, OTTAWA, 1969

HOUSE OF COMMONS

First Session—Twenty-eighth Parliament

1968-69

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: Mr. A. D. HALES

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 12

THURSDAY, JANUARY 30, 1969

Public Accounts, Volumes I, II and III (1966 and 1967)

Reports of the Auditor General to the House of Commons (1966 and 1967)

WITNESSES:

(*See Minutes of Proceedings*)

THE QUEEN'S PRINTER, OTTAWA, 1969

29585—1

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. A. D. Hales

Vice-Chairman: Mr. T. Lefebvre

and Messrs.

Allmand,	Flemming,	Nowlan,
Boulanger,	Forget,	Rodrigue,
Burton,	Major,	Tétrault,
Cafik,	Mazankowski,	Thomas (*Maisonneuve*),
Crouse,	Noble,	Winch,
Cullen,	Noël,	Yanakis—20.

(Quorum 11)

Edouard Thomas,
Clerk of the Committee.

MINUTES OF PROCEEDINGS

THURSDAY, January 30, 1969.
(14)

The Standing Committee on Public Accounts met this day at 9.44 a.m., the Chairman, Mr. A. D. Hales, presiding.

Members present: Messrs. Cafik, Crouse, Forget, Hales, Lefebvre, Mazankowski, Noble, Noël, Nowlan, Thomas (*Maisonneuve*), Winch (11).

Witnesses: Mr. A. M. Henderson, Auditor General of Canada; Mr. G. R. Long, Assistant Auditor General; Mr. H. E. Hayes, Audit Director.

The Committee reviewed items 13 to 17 inclusive of the Auditor General's follow-up report and questioned the witnesses.

At 11.00 a.m., the meeting adjourned to the call of the Chair.

Edouard Thomas
Clerk of the Committee.

29585—1½

EVIDENCE

(Recorded by electronic apparatus)

Thursday January 30, 1969

● 0943

The Chairman: Gentlemen, at our last meeting we decided to invite witnesses from the Departments of National Defence and Defence Production. They agreed to come but were unable to come today. They will come next Tuesday.

This morning we will proceed with our follow-up report and, if possible, get over as much of it as we can. At the last meeting we marked off the items that have been handled or will be in the follow-up report of the Auditor General. Page 7, Item No. 13, is where we will start.

You may be asking why we are not doing No. 9 but we will refer to that when we come to Item 30 and combine the two of them. Mr. Cafik.

Mr. Cafik: Mr. Chairman, it does appear to me that Item 1 of this report, although a great discussion was held on it, was not taken care of. I do not have a category to put that in.

The Chairman: Second class mail.

Mr. Cafik: Yes.

The Chairman: We felt that it had been taken care of because of the Post Office amendment to the Post Office Act excepting the one area in which the Auditor General made mention in his comments that even with the increase in rates, it will still not overcome the deficit. If you like I will ask Mr. Henderson to comment on that.

● 0945

Mr. Cafik: No, I am not looking for a comment. I am just wondering what class we are now putting this into because it was not mentioned the other day when we ran through the considerable number which were either implemented or referred back to the Auditor General.

The Chairman: Mr. Henderson.

Mr. A. M. Henderson (Auditor General of Canada): It might be useful to clarify this, Mr. Chairman. The ones that were referred back to the Auditor General were simply those items here which it seemed to me and to the Chairman, but entirely subject to your approval, might better be taken off this list on the basis that I would report to you any further developments as may come in later reports, and that no particularly useful purpose was served by continuing to discuss them.

I do not know whether you agree, as members of the Committee, with each of the items that were put into that category. These were purely suggestions. I gave your Chairman some of them I personally would like to see discussed. But you may feel that the follow-up report would be more manageable by reducing the numbers. That was the purpose of referring it back. The Post Office rates could, I suppose, have been in that category. I shall be dealing with that in my 1968 report. The facts are as stated here in my comment.

We felt in going over it that this item still remains open because the recommendation of this Committee—unless, of course, this present Committee wants to change it—was that early consideration be given by Parliament to ways and means of covering the loss in handling second class mail. Ways and means have been given but the loss has not been covered. The Postmaster General himself has stated that. Therefore it seemed to me that this should remain open, but as far as I am concerned, the matter is in your hands. I merely made these suggestions to your Chairman to facilitate reducing the size of this follow-up document to, shall we say, more manageable proportions.

Mr. Cafik: I do not know that my point has been adequately understood. I have no objection to any of the recommendations that you have made, at least on the surface of things. But the reason I bring up Item 1 is that we are now moving on to Item 9, or whatever is suggested by the Chairman, and Item 1 is not thrown into a category of either referred back to you or implemented or reported to Parliament. I wonder why we are by-passing it and whether we should refer it back to you. What are we going to do with Item 1?

The Chairman: Mr. Cafik, you want it categorized into one of these items here—implemented, not implemented, or action taken but not satisfactory and so on. This is what you are wondering.

Mr. Henderson: We called it "progress to date", that was the category we put it in. I do not think you can say it is implemented. There is progress on it and you report progress and it stays there. That was the way it seemed to me you would want to handle this.

Mr. Cafik: That is fine. I just wanted to know. What do we do in respect of that, then? In our report to Parliament do we report that on Item 1 certain progress has been made?

Mr. Henderson: That will be up to the Committee in its next report to the House when it says it considered the follow-up report, presumably, and would have the following comments to make. And it might like to pick this and 10 others when you get through the follow-up report.

Mr. Cafik: All right, fine. In other words, this is in the category being considered by this Committee for its next report to Parliament.

Mr. Henderson: That is right.

Mr. Cafik: And you feel at the moment that there has been sufficient discussion on the matter and that we can move on to other items. Is that the way it sits?

The Chairman: I think the feeling was, in view of the discussion in the House on the Act by the Postmaster General, that this had been implemented with the exception of that one part where, as Mr. Henderson has just said, the former Committee suggested that the second class mail should cover itself and the cost of second class mail should be such that there would be no loss. Well, there still is a loss, so this Committee will have to decide whether we think enough action has been taken to put this in the category of implemented or action taken but not satisfactory.

• 0950

Mr. Cafik: Or action taken and satisfactory—whatever we happen to decide.

The Chairman: Yes, so when we come back to make our report we will classify it then.

Mr. Cafik: Very good. Thank you, Mr. Chairman.

The Chairman: Item 13—Financial Assistance to the Town of Oromocto, N.B. This has been on the books for a long time and those who are new on the Committee might like a few comments from the Auditor General.

Mr. Henderson: Mr. Chairman, could I ask Mr. Long to speak to this problem?

Mr. G. R. Long (Assistant Auditor General, Auditor General's Office): Mr. Chairman, this is one of several instances where money is paid from appropriations, not as an expenditure, but as a loan. However, it is a loan made to someone who does not have the resources to pay it. The Town of Oromocto received these capital assistance loans several years ago. The town of Oromocto every year receives an operating grant to take care of the deficiency of their revenues to cover their costs. One of their costs is the interest on this loan, and the principal repayment. The point is that there is no point in making a loan to semebody who has no resources to repay it. If you are going to have to appropriate money to pay it eventually, it would be better to make it as a grant. This is one item under this category. There are several others of much larger proportion. This is a fairly small one.

The Chairman: Any questions?

Mr. Cafik: What is the purpose of the loan, Mr. Chairman?

The Chairman: It is a loan made by the government to the Department of National Defence to set up the National Defence Headquarters or Town of Oromocto, in New Brunswick, and it has been operating for many years. As Mr. Long has just said the Auditor General feels that this should be in the form of a grant, not a loan, and there are other examples where this same sort of thing occurs, chiefly in the National Capital Commission. They too are given money as loans and the Auditor General feels they should be listed as grants.

Mr. Winch: Mr. Chairman, I agree with that. Oromocto, actually, is the residential area of the army camp of Gagetown.

The Chairman: Yes, that is what it is.

Mr. Winch: And I think it is quite obvious that the money is never going to be paid, so I most certainly from my own point of view think if you know money is not going to be paid and every year you have to make an additional grant to cover the interest and the principal of a loan you have already made, then surely it is common sense to ask the government to say "Do not put this in as a loan in future. Put it in as a grant, which you know it is anyway". I think it is as simple as that.

The Chairman: I would like to ask Mr. Henderson, on the new form of the estimates will this not appear under the section that deals with grants?

Mr. Henderson: Of course, the point is this is not a grant. This is being made as a loan. It comes under the section of the estimates that you know now, which will appear in the new form of estimates called the

Loans and Advances, that are made. The principle that Mr. Long has referred to, and the point that you, Mr. Chairman, and Mr. Winch have made is covered beginning at page 125 in my 1967 Report. If the members have the book and could open it they will see that this is continuation of a practice which started in 1957-58.

> ..... when funds required by the National Capital Commission for the purchase of lands in the Greenbelt were recorded as loans to the Commission instead of budgetary expenditure as had formerly been the case. They were given the appearance of being revenue-producing by asking Parliament to appropriate money to the National Capital Commission with which to pay interest on the loans. The Public Accounts Committee, which holds the view that outlays on property in the Greenbelt are expenditures of the Crown rather than income-producing investments, has on two occasions requested the Department of Finance to review the existing practice with the National Capital Commission with a view to placing the financing of the Commission on a more realistic basis.

• 0955

You are going to come to this item in the Follow-up Report because there is no action on it.

The next major exception to this policy, occurred in 1964-65 which I pointed out in 1965 when the funds required by the CBC to meet its capital expenditures during that year were provided by means of loans instead of grants. You know how much funds the CBC would have available to repay loans, those loans are being repaid by giving the CBC money on its operating grant so as to make a payment each year on principal and interest.

The next major exception took place in 1965-66 when the Expo grants that had been made became exhausted and Parliament was asked to approve loans, rather than additional grants. Because of the deficit forecast by the Corporation, it was obvious that a substantial portion of the loans could never be repaid. Right now those loans are sitting there as assets of Canada.

There are other exceptions too, that have come in: loans made to the Government of the Northwest Territories, loans to the Government of the Yukon Territory, loans to the Northern Canada Power Commission, and, rather junior down the list, is Oromocto the subject of this particular note. The whole story is explained in this paragraph 196, but I think the effect of this is summed up in the last paragraph namely:

> The practice of making loans of this type instead of grants has had the effect of understating the Deficit shown in the Public Accounts each year since 1958. To the extent that grants are made in later years to provide for repayment of the loans, the Deficit will increase or the Surplus decrease in those years.

So, this is the situation that I have been raising and continue to raise to the House and with which this Committee has been dealing, and Oromocto is one. You will come to the National Capital Commission; you will come to the note on the Expo '67, as we move through the Follow-up Report.

The Chairman: I would like to say to the Committee that previous years we have had the Department of Finance here. I recall the Deputy Minister, Mr. Bryce, appeared before the Committee to give his views on this matter, and he did not seem to think that they wanted to do it, or could do it, or should do it, and we are still at the same position. The Auditor General suggests it should be done, the Committee supported him on this thinking but the Finance Department has not as yet agreed. Am I correct on that, Mr. Henderson?

Mr. Henderson: That is correct, Mr. Chairman. You will notice that in the case of Oromocto, and in the case of some of the others that on the statement of Assets and Liabilities, and I think this was put in following Mr. Bryce's appearance or at about the time, Mr. Bryce appeared before the Committee, they are being designated under the heading of Assets, as recovery likely to require Parliamentary appropriations. Therefore, obviously it is admitted that they are going to have to charge them up to budgetary revenue one day.

Mr. Winch: I wish I could balance my books that way.

Mr. Cafik: Mr. Chairman, I totally agree with the position that this Committee has previously taken in this regard. I cannot understand why the government would do anything different than that. However, I would like to ask you a couple of questions for information purposes because of my being a new member of Parliament. In the matter of loans, does Parliament have to approve loans that are given out or is that done by Order in Council or done in some other manner other than through the estimates and through the approval of Parliament.

The Chairman: Mr. Long?

• 1000

Mr. Long: Mr. Cafik, loans are made through your L votes in the estimates. There is a section at the back of your Blue book with all the loans in it. So Parliament approves the loans. The thing is that they are not charged off as expense and do not enter into the final

deficit or surplus of the year. They are set up as an asset.

Mr. Cafik: Right. I presume, then, that if Parliament approves a loan it would presume that the loan would be repaid at that particular time, if it was a loan, or do they divide them up into loans that will become bad debts and loans that might be recovered? I do not suppose they do that?

Mr. Long: I do not think we have seen any discussion on that.

Mr. Cafik: No. I was just wondering if this was a device by which you should grant money to someone without getting approval of Parliament.

Mr. Henderson: The Minister has certain rights to make loans under the Financial Administration Act, but I think I am correct in saying that in all of these cases, they have been put in the estimates under this loans and advances section. Would that not be right?

Mr. Long: Yes.

The Chairman: Gentlemen, you have had a general discussion on this. It is going to come up again with loans to other corporations, and so on, and it is quite likely we will have the Deputy Minister of Finance before the Committee in due course. I think at that time we should review it and ask him for his views, particularly for the benefit of the new members of the Committee. If you are in agreement we will now move on to the next item.

Perhaps we should pause here and indicate how we are going to classify each one as we go along. I do not want to appear to be slipping over anything here. I think we would have to say "no action as yet" to that one.

Mr. Henderson: Yes.

The Chairman: Is that agreed?

Some hon. Members: Agreed.

The Chairman: We will now move on to paragraph 14.

14. ASSISTANCE TO PROVINCES BY THE ARMED FORCES IN CIVIL EMERGENCIES. The Committee noted that certain provinces had not settled outstanding accounts with the Department of National Defence relating to assistance provided by the Armed Forces in civil emergencies in prior years. It also noted that as the Department had not been successful in collecting the accounts, they had been referred to the Executive for direction but such direction had not as yet been received. The Committee directed the Auditor General to inform it of the final outcome of these matters.

Comment by the Auditor General: I am not aware of any policy guidelines having been established that will lay down in advance the nature and amount of such assistance. In the meantime further expenditures have been incurred in 1967 amounting to $295,000, including $215,000 for the Department of National Defence and $80,000 for the Department of Transport. The total amount outstanding and unpaid by the provinces in respect of this assistance is now $845,000.

This is a case where the federal department is called upon in emergencies to help in flood or forest fire conditions or any other type of emergency. The cost of these services have not been paid to the federal government by the provinces. There is some money outstanding which is owing to the Crown. Apparently these emergencies arise and there is no discussion before they go with respect to what it is going to cost or who is going to pay for it. The federal government is then left holding the bag to the extent of the figures shown in the comment by the Auditor General. Mr. Henderson or Mr. Long, do you wish to add to that?

Mr. Henderson: The situation at the present time is that Canada is not being reimbursed for these loans. During 1967 a cost of $80,000 was incurred by the Department of Transport in providing similar assistance to one of the provinces, and this amount also remains unpaid. The amounts owing at the present time to the Department of National Defence and the Department of Transport by four provinces are $705,000; $77,000; $43,000 and $20,000.

I can only say that in our view the appropriations of the Department of National Defence and the Department of Transport do not provide any scope for the absorption of charges relating to assistance to the provincial governments in civil emergencies of this bind. Therefore to this extent these appropriations have been applied to a purpose and in a manner not authorized by Parliament.

Mr. Winch: I understand the position of the Auditor General but I have not changed the position which I have expressed in previous years. That is, that in the event of an emergency—be it fire, flood or anything else—that it is only when it is not within the scope of the province to handle that assistance is asked. If my memory is correct, the request for assistance has to be official. I believe it goes through the Attorney General of the province. My view remains as I have just expressed it, but I believe there should be a change in policy and that under circumstances where there is an official request we should not expect to collect the money from the provinces. It should be a contribution by the federal government because of a dire need situation in any province. I have expressed my feelings on this before and I certainly have not changed my mind.

• 1005

Mr. Nowlan: I have something to say on paragraph 14 but I would first like to go back to paragraph 13 for a moment. I do not want to rehash it but I missed part of the last meeting and I do not know what categories you are putting these paragraphs under. In the report we are looking at, paragraph 13 was previously under the heading "the executive has indicated disagreement with the recommendation". Did you decide at the last meeting–and I missed the last part of it–to reduce the categories? There is a difference between "and no action taken" and, in effect "some action somewhere but a disagreement with the executive". Item 13 is under "executive has indicated disagreement with recommendation". I am just asking for information on whether you have reduced the categories?

The Chairman: Your point is well taken, Mr. Nowlan. Nothing was set at the last meeting. You are quite correct, we originally classified it as "the executive has indicated disagreement with recommendation" and, as I mentioned, I think with the agreement of the Committee it should be left in the "no action as yet" classification.

Mr. Nowlan: There is a difference, Mr. Chairman, between "no action as yet" and "an executive has indicated disagreement." To me that means you have gone beyond the recommendation, then, put it up to someone and someone said "no". "No action as yet" means it has not got off dead centre.

The Chairman: You are quite right, and with the agreement of the Committee we should leave it at "the executive has indicated disagreement with the recommendation". We will review these four finally.

Mr. Nowlan: With respect to paragraph 14, I have to say that I agree generally with the principle Mr. Winch stated, but, I know of a case where, through a civil emergency, assistance was given to a municipal school board–not a province–because of a base that was right next door, and there was a disagreement and a mistake made in calculations. Mr. Henderson may or may not know about this, although it was in one of his Reports, that the school board of this county owed several hundred thousand dollars and the government continued to press for this money. A settlement was finally effected but I wonder, where the government has been trying to collect money for these unusual events, what the procedure is to change in midstream now? I appreciate that this was not a fire or flood but it had every bit as much financial effect on the municipality as if it were a fire or flood.

Mr. Winch: Yes, but paragraph 14 does not deal with that aspect of it at all.

Mr. Nowlan: It is a civil emergency but all I am saying, Mr. Chairman, is that it is a civil emergency under fire or flood, and I quite appreciate the difference. However, if you are suggesting we should not collect for civil emergencies, I question why we would collect where there was an honest mistake which involved an emergency on school construction because of armed service personnel and the influx of children.

The Chairman: Mr. Henderson?

Mr. Henderson: Mr. Chairman, I would think this is an instance where the views of this Committee–through the medium of its report–would probably be some help to the government in deciding to what degree it should press. You will notice that your direction to me is to keep you informed of the final outcome of these matters. These debts have been on the books; should they be written off, should they be pressed for, should they be collected? Obviously the Department is in the unenviable position of not knowing how far to go and perhaps an expression of views by a committee of the House would be helpful to it. I simply suggest that. As I see it, it is money being spent in a manner not authorized by the appropriation, and under my statutory responsibilities I must say that to the House.

• 1010

The Chairman: I think that point is well taken. This Committee should give some guidance and direction on what they think should be done. Are there any views on this? Mr. Lefebvre and then Mr. Cafik.

Mr. Lefebvre: Mr. Chairman, I agree with Mr. Winch's observation. If I remember correctly, I believe some years ago they had a very disastrous flood around Winnipeg and I believe the federal government stepped in and declared a national emergency. I doubt very much if any attempt was ever made or any thought was ever given to recovering from the Province of Manitoba the millions of dollars that were spent there. I think the examples set out in paragraph 14 would be similar to that although probably on a smaller scale, but in the same general way the province could not hope to cope with this type of disaster.

Therefore, perhaps we could recommend that if this type of help is required of, and given by, the federal government it should be within the scope of the type of help that was given to the Province of Manitoba at the time of the great flood disaster.

I do not know whether the other members agree, but I would like to hear further comments.

The Chairman: Perhaps the Committee should recommend that the Federal Government continue to give assistance in times of emergency, that the cost of these emergencies be recorded, and that the government not press for collection of these accounts but be advised about how much money was spent and also

into what category or appropriation it should fall so that the Auditor General can verify the books.

Mr. Nowlan: Is there no federal statute at the moment, such as a civil emergency act, that would. . .

The Chairman: Perhaps Mr. Henderson or Mr. Long could comment on that.

Mr. Long: Mr. Chairman, I am not aware of any statutory authority to pay money for such things. I cannot speak positively, but I think the Winnipeg flood money was appropriated by Parliament for that purpose.

Mr. Lefebvre: It was a special fund.

Mr. Long: You have to keep in mind, of course, that certain provinces who have had this assistance relative to forest fires have paid. As a matter of fact, in the case of the money spent in 1967-68 the provinces signed agreements that they would repay.

Mr. Lefebvre: That is rather different. What provinces were involved, Mr. Long? If I remember correctly most of this was because of a forest fire in Newfoundland. Is that correct?

Mr. Long: I am not sure about its representing most of it, but Newfoundland was involved.

Mr. Lefebvre: Yes; last year I believe it was Newfoundland; but I am. . .

The Chairman: It would be interesting to the Committee to know the names of the provinces.

Mr. Long: Three of them were Newfoundland, Prince Edward Island and Nova Scotia.

Mr. Lefebvre: Can you give us the amounts to each, and for what reason the help was given?

Mr. Long: The amounts paid to the four provinces, as Mr. Henderson stated, were $705,000, the largest, $77,000, $43,000 and $20,000.

Mr. Lefebvre: And to which provinces?

Mr. Long: I am afraid we do not have that information here. We can get it by telephone. We are speaking from the galley of our next report and we do not have the working papers behind it. But we can get that for you by telephone.

The Chairman: Thank you.

Mr. Lefebvre: If I remember correctly, Mr. Chairman—and I do not want to take all morning on this—I believe it involves the movement of Canadian Armed Forces personnel to the scene of the disaster. The cost does not include their wages, or anything like that, which is already paid for, but is the cost involved in moving them there, their upkeep while they are there, and supplies and material. Is that correct?

• 1015

Mr. Long: I believe that is correct. It also includes at least one helicopter that was lost—anything that was lost.

Mr. Lefebvre: During one of the fires?

Mr. Long: During the fire, yes.

Mr. Lefebvre: In the case of the Winnipeg flood it was done by a special act of Parliament because it was a major disaster, but where do you draw the distinction between a major and a minor disaster? How do we make up our minds that a fire that costs $705,000 is a major disaster and one somewhere else that costs $3 million may not be? I do not know how we can make up our minds on that.

Mr. Nowlan: Perhaps, Mr. Chairman—and this may be what you are recommending—the law officers who have studied this problem could try to draft an appropriate civil emergency act to set up some guidelines and to define the circumstances that Mr. Lefebvre has mentioned, where government does step in.

I recollect that in the case of the Winnipeg—Red River flood it was done by a special act of Parliament because that was a special situation, but in the summer there can be forest fires in every province.

Have the legal officers who have examined this problem found that it is just impossible to draw up guidelines and that it has to be dealt with on an *ad hoc* basis? Perhaps Mr. Winch could tell us.

Mr. Winch: I do not quite see the need for that kind of thinking. First of all, a request has to come from the province to the federal government. The federal government has to decide whether or not it is a disaster and it should move in.

If the federal government, in its discretion, decides that federal assistance is required then whether it is $20,000 or $4 million I think, as a principle, it should not be chargeable. That is as it strikes me.

Mr. Lefebvre: Mr. Chairman, as Mr. Long has pointed out, certain provinces involved in this particular item have already signed agreements to repay the federal government.

Mr. Winch: I do not believe in discrimination between the provinces. A new policy is required.

Mr. Lefebvre: Some of them have already paid. What are you going to do? Are we going to refund the money to those provinces that have paid, or are we going to start a new policy altogether?

Mr. Winch: I suggest we start a new policy.

Mr. Lefebvre: When called on in an emergency you sometimes have to make a very fast decision because you do not want to be blamed for not sending the right amount of help at the right time. Emergencies can arise quite quickly.

The Chairman: Perhaps this Committee should recommend that this matter be discussed at the next federal-provincial conference and that some arrangement be arrived at relative to the payment of these costs in emergencies. They may be able to come up with the answer to the problem we are discussing.

Mr. Lefebvre: May I also interject here, Mr. Chairman, to ask what are the functions of the Emergency Measures Organization? Are they also involved in this?

Mr. Winch: No.

The Chairman: No, not in this.

Mr. Crouse: Mr. Chairman, would it not be desirable, at the same time, for this Committee to recommend to the executive that we believe that assistance provided by the federal government in times of emergency should be provided at no cost to the provinces? In other words, that we should make a recommendation on policy? This is my feeling.

We in the Atlantic Provinces have a coastguard, for example. We utilize it only in times of emergency. There has been talk of minor and major disasters. If only one fisherman loses his life in a storm I submit that that is a major catastrophe for him. We cannot define minor and major disasters.

The armed forces are called upon to provide extra service only in times of heavy storm, flood, or fire, over which no province has control. The forces are available and are being paid. I see no reason for their not being utilized.

• 1020

We should go all out to provide the service that is required. We should propose a policy whereby this service will be provided to all provinces by whatever federal forces are available. This would be non-discriminatory and would offer to every provincial premier the hope that he can lean on the federal government in a time of major catastrophe.

The Chairman: Thank you. Mr. Cafik?

Mr. Cafik: Generally speaking, I agree with the comments that are being made, but perhaps we ought to be cautious in our approach to this problem. If we are not careful the provinces could make requests for all kinds of assistance under the guise of there being emergencies in order to get the federal government to pay many of their costs. We have seen enough of that now where the provinces are constantly looking for more and more funds from the Federal Government and we have to keep raising taxes and so on in order to do it. I do not think it is as clear cut as it might appear. It seems to me that the best approach is for them to make an official request as they appear to do at the moment, and agreement made at that particular time as to whether it would be contributed by the Government, free of charge, or whether they would pay 50 per cent or 10 per cent or 20 per cent or whatever amount is worked out.

Mr. Winch: That is all very well, but while the negotiations are going on the fire is raging and the flood is on.

Mr. Cafik: You always have an half an hour or so to work this thing out even if it is en route.

Mr. Winch: Between governments?

The Chairman: Governments do not move that fast, Mr. Cafik. Mr. Nowlan?

Mr. Nowlan: I agree with part of what Mr. Cafik says. Obviously there must be some bones of contention because the thing has not been resolved before and while Mr. Winch's and Mr. Crouse's position of taking it whenever the emergency arises may be correct, I think there should be some consultation between the governments involved. Why should we lay down guidelines if the provinces themselves have not come to the Federal authorities and tried to resolve this problem? That would be, with respect, a little presumptuous. If the provinces themselves do not feel that this is such an acute problem then perhaps we should act as the catalyst for consultation and discussion with them if there has not already been consultation and discussion on this problem. As to your suggestion, of this being done at a joint provincial-federal conference, I feel it should be between the working officials. This does not have to clutter up any federal-provincial conference in the foreseeable future, but certainly officials of the provinces and the Federal Government should look at this and perhaps come up with some suggestions to Parliament.

Mr. Noble: Mr. Chairman, it seems to me that these accounts have been carried here for some time, have they not, Mr. Henderson? I believe that the Federal Government has been giving some consideration to the fact that these provinces have not had the ability to pay. When you mentioned Newfoundland, we know

that it is a poor province, so they are not pressing them because they know they are not in a position to pay this amount of money. I feel that in any emergency there should not be any hesitation at providing help in case of fire or flood or whatever the emergency might be and I think that your suggestion, Mr. Chairman, was a good one, that this should be left to a provincial-federal decision when they get together because I do not think that we can deal with it satisfactorily in Public Accounts. These people know the details of these matters much better than we do and I believe we should leave it to the Federal-Provincial conference.

The Chairman: All right. I think we have had a good discussion on that.

Mr. Nowlan: With the provisor, of course, that the Auditor General at some stage, whatever we put in the report, comes back to see if there has been any discussion, and follow it up. The people who worked with the problem have to help define the terms of reference.

The Chairman: I think it would be the wish of the Committee to direct the Auditor General to keep us informed as usual on this matter.

Just for a curiosity how did the Department of the Auditor General pick this up in the books? When you are auditing, say, the Department of Transport, and there are $80,000 for this type of thing, how did you pick it up and how did it appear on the books of the Department of Transport?

• 1025

Mr. Long: Mr. Chairman, the Department carries out the steps that they are supposed to carry out. They obtain from the province, when the assistance is requested, an agreement that they will repay. They set it up as an accounts receivable from the province. Then when they try to collect the money and it is not forthcoming, prior to the Department of Transport which is a more recent one, the whole problem has been referred to the executive. It seems to me that it is a case where the Government should do one thing or the other: either collect or ask Parliament to approve the expenditure.

The Chairman: Then, one following question: there had to be an Estimate passed by Parliament to provide that $80,000 and they must have taken that out of one of the appropriations that we passed?

Mr. Long: Yes. It is taken out of the ordinary appropriations of the Department but it should not remain a charge there. It is taken out on the understanding that it would be recovered.

The Chairman: I see. Gentlemen, shall we pass it now? We will have to categorise that the same as before. We had it listed as no action. Shall leave it in there. That is what it was before.

Mr. Cafik: When we ultimately make our report in this particular item 14, would we not make a completely and totally new recommendation the next time?

The Chairman: Yes, Mr. Cafik. Along the lines of this discussion this morning.

Mr. Henderson: Yes, Mr. Chairman, I think that is a very good point. It is not so much the categorisation as the later views of the Committee on the problem. You have had a good discussion on this and if you feel that you want to commend some thoughts to the House on it, then that is your medium for doing so.

Mr. Cafik: Could I ask one further question of information? In the outstanding amounts with the four provinces that have been mentioned, I gather from comments you have made that there are signed agreements between the Federal Government and those provinces in respect of these indebtednesses?

Mr. Long: There are definitely signed agreements for the payments that were made in 1967-68, as will be mentioned in our report when it comes out.

Mr. Cafik: But that does not cover the total outstanding amount?

Mr. Long: I believe there were agreements in the other cases too but I cannot say positively.

Mr. Cafik: I would like to point out one observation, that if there are signed agreements that provinces are willing to pay and agree to pay, I personally think they ought to be made pay for it. There are lots of people with an NHA mortgage who cannot afford to pay the mortgage but you do not write it off and let them keep the house. Any province which signed the agreement ought to pay. If you want to change the policy later, that is different.

The Chairman: You are saying, Mr. Cafik, that in all cases where there is a signed agreement the money is due and payable and we expect it to be paid?

Mr. Cafik: We have plenty of ways in which to get it, I would presume, particularly with those provinces.

The Chairman: All right. We will come back to this when Mr. Hayes has the information as to the provinces and the amount owing from each province, that was requested by Mr. Lefebvre.

15. Pension Awards Effective at an Early Age.

The Department of National Defence.

Mr. Henderson: Mr. Chairman, you asked me to keep you informed as to what progress the Department of National Defence was making toward introducing deferred pension benefits for servicemen retiring at comparatively early ages. In my 1967 Report I refer to this subject again and explain how in 1966 we reported that 752 servicemen aged 40 and under were released during that year with immediate annuities aggregating $1,020,000 ranging in amounts from $308 to $3,863. In 1967 an additional 436 servicemen in this category were retired with annuities totalling approximately $664,102.

The Public Service Superannuation Act provides for deferred annuities payable at 60 where people retire prior to the specified minimum retirement age. The question was asked why the Department of National Defence could not similarly introduce deferred pensions. Since I think Mr. Armstrong, the Deputy Minister, appeared before this Committee and told you about it, there has been a review under way and I told you last year that the review had been completed and the Department has submitted its proposals, including the matter of deferred pensions, to a committee of the Cabinet. We now come along to 1968 and I can only tell you that we still understand that the Cabinet's final consideration of the departmental proposals has now been deferred until certain financial questions have been resolved. I do not know just what those financial questions are, but in dealing with the matter again in the 1968 year I point out that an additional 219 servicemen age 40 and under were released with immediate annuities aggregating $332,000, which brings to 1,407 the total number of servicemen under 40 released during the past three years with immediate annuities totalling $2,016,000. So you might say the matter is progressing, but rather slowly. That is where this stands.

• 1030

The Chairman: Are there any questions?

Mr. Nowlan: Mr. Chairman, having looked at the 1966-67 Report and after hearing the Auditor General's comments, do I understand the situation is that the report we are waiting for from the Cabinet is in effect retroactive legislation to make legal these deferred payments which came long before the 60 year age limit specified in the Superannuation Act?

Mr. Henderson: I think these would have to do with appropriate amendments to the Canadian Forces Superannuation Act designed to provide for some form of deferred pension benefit. The Department has made its proposals to the Cabinet. We have not seen those proposals. We have been assured the matter is in hand and that is where it stands right now. I am not able to give you any additional information.

Mr. Nowlan: That really was not my question. You have not seen the proposals to Cabinet. Is the purport of those proposals in effect to introduce legislation to make legal. . .

Mr. Henderson: These are legal, Mr. Nowlan; there is nothing illegal about these.

Mr. Nowlan: How do they come under your eye, then?

Mr. Henderson: We feel that where the Public Service Superannuation Act has a deferred pension arrangement, a similar arrangement would be more practical in the case of servicemen, particularly when they retire at such an early age. We think it is a good question and so did this Committee.

Mr. Nowlan: I do not see in your 1967 Report. . .

Mr. Henderson: Paragraph 92.

Mr. Nowlan: Well, in the 1966 and 1967 Reports you refer only to the Public Service Superannuation Act as providing deferred annuities at age 60.

Mr. Henderson: Well, some other similar type of arrangement could presumably be made, and the pension could be held in the case of people who are leaving at an early age.

Mr. Nowlan: My question is: what statutory authority provides for the deferred annuities to the servicemen?

Mr. Henderson: The Canadian Forces Superannuation Act provides only for immediate annuities. It does not have any provision for deferring the annuities. However, the Department agreed with this Committee and with us that there were grounds on which they should consider a deferred annuity. Right now they give an immediate annuity in cash.

The Chairman: Mr. Cafik?

Mr. Cafik: Mr. Henderson, if you went to the deferred annuity method, as you are suggesting here, what is the financial benefit to the federal government?

Mr. Henderson: Well, I should think there would be financial benefit in that the annuity would be paid only in later years, as is the case in civilian life, so to speak. If you are going to pay an annuity to a person of 30 years of age, obviously it is going to cost you a lot more than if you have only to begin paying it when he passes the age 60 mark, or something of the kind. These can be quite expensive.

• 1035

Mr. Cafik: Yes, but let us compare an annuity at age 40 and an annuity to the same person for the same service and under the same rules and the same pension plan at age 60. I presume that it would provide four times as much money at age 60.

Mr. Henderson: No, I do not think so.

Mr. Cafik: He gets the same retirement benefit, only payable . . .

Mr. Henderson: No, no, it would be geared to age 60. A number of insurance companies have this type of an arrangement, but if you want it earlier you pay for it, that is all. However, there is no facility under the present Canadian Forces Superannuation Act to do otherwise than they are doing.

Mr. Cafik: I still do not feel satisfied that there is any financial saving. Perhaps you could elaborate on it. There must be something I am missing.

Mr. Henderson: Well, if you pay an immediate annuity to a person aged, shall we say, 30 or 40, it is going to cost you, who provides that annuity, more money than if you start paying it to them at age 60, or 55 or 65, is it not?

Mr. Cafik: I presume what you are in effect saying by this recommendation is that we should cut down the amount of pension payable to servicemen after 20 years of service?

Mr. Henderson: No, I do not think I am saying that, I am merely pointing out what this Committee has endorsed consistently, and what the Department itself is considering; namely, that there is a case for putting it in line what that they do with the Public Service Superannuation Act for the public servants.

Mr. Winch: And the House of Commons Act.

Mr. Cafik: Yes, I agree with that, but if it is going to cost the federal government less money, then it is obviously going to give fewer benefits to the recipient. So that is what I am trying to get at. What are we really proposing here? Are we proposing that we reduce the amount of pension payable to service men by changing the date of the annuity?

Mr. Winch: No, he is just saying that he cannot collect until age 60. Even if he is past age 40, he cannot collect until he is 60.

Mr. Nowlan: Mr. Chairman, this all arises as a result of integration and unification, as I understand it, and . . .

Mr. Henderson: Oh no, this has been going on for years.

Mr. Nowlan: Well, the numbers you are talking about in your 1965 and 1966 reports were the early retirements that helped move quite a few of the officers and men out of the service and made rather an acute problem.

Mr. Henderson: Oh, I see what you mean.

Mr. Nowlan: That is what I mean. I am like some of the other members; I may not have your point and I may be missing something, but in effect they got the payment in a lump sum because there was the direction from the commanding officer or the Minister to get out early, for whatever reasons. What would they . . .

Mr. Henderson: These are not lump sum payments. The annuity begins for them at these ages.

Mr. Noble: Mr. Chairman, I do not think I understand this thing thoroughly. I always had the impression that these earlier retirements were offered to the servicemen as an enticement to the Forces. It was an incentive to get them to join up because this was the proposition that was presented to them, that they would be able to retire at a certain time at a certain pension. Now am I right in this thinking?

Mr. Henderson: I do not know that I can answer that question, Mr. Noble. I suppose it is one of the attractions for going in the Forces; yes, I imagine that would be reasonable.

Mr. Nowlan: When you compare this to the Public Service Superannuation Act and the Canadian Forces Superannuation Act you have the difference, do you not, that these servicemen were, in effect, invited to leave for either medical reasons or integration reasons or other reasons? Whereas, you do not necessarily get the same invitation to the person in the Public Service to get out early.

Mr. Henderson: I do not think it would be medical reasons; I think these would be just straight departures. I think if they were to leave for medical reasons there would be another benefit.

Mr. Nowlan: All right, let us remove the medical grounds, and there is a different calculation used on a medical discharge. However, these ones you mention in your 1966-67 Report do refer to integration, and it is a situation where there was early retirement because of a direction, in effect, from the Department. I wonder, do you get the type of direction from the Public Service that you had with these servicemen, some of whom, as you say, were 40 years old?

• 1040

Mr. Henderson: Mr. Long would like to answer that.

Mr. Long: Mr. Nowlan, in the Public Service if anybody has to retire on account of ill health, they do get the annuity starting immediately. If their position is abolished, they will get the annuity starting immediately. This may be true in the last two or three years during integration in the Canadian Forces, that some people were requested to leave, but this problem existed before that.

I do not think that you can point to any other pension plan where you start a man on an annuity in his thirties or forties. This takes a tremendous amount of money to carry him through the rest of his life. He might earn his full pension in 20 years, as anybody in the Public Service does in 35 years, but nobody can get it until they are 60 in the Public Service. A person should be capable of working and maintaining himself up to that time. The annuity, of course, would be payable because of ill health or something like that. It is very costly.

The Chairman: Mr. Noël had a question.

[*Interpretation*]

Mr. Noël: Mr. Chairman, why is it that it costs more to the government to pay the pension of someone who has served in the armed forces if that person retires earlier for instance at thirty, thirty five or forty than for a civil servant who has to retire at sixty or sixty five? Everything is calculated on an actuarial basis. So, if someone retires from the army at thirty, the amount of the pension will be very small compared to the civil servant who will retire at sixty or sixty five. Everything is calculated mathematically, isn't that so?

[*English*]

The Chairman: Mr. Long?

Mr. Long: Mr. Noel, the normal retirement age in the services is not in the thirties or forties.

Mr. Noel: No.

Mr. Long: The pensions are not geared to that. It would cost a tremendous amount to retire people at that age. This is the same annuity they would get at 60; it is not being discounted, because they are getting it at an earlier age.

Mr. Noel: Oh, that is why you say that it would cost a tremendous amount of money. . .

Mr. Long: Yes.

Mr. Noel: . . . when they retire at an early age.

Mr. Long: They are getting the same annuity they would if they had a 60 retirement age.

Mr. Noel: In that case, the method of calculation of annuities is wrong. It should be changed instead of changing the system, because when you go into the Army you are induced to do so because you have the guarantee that when you retire at 30, 34, 35, 36, 38 you can have something. You just have to change the method of calculating, that is all—not change the whole method. That is my opinion.

The Chairman: Mr. Thomas and then Mr. Noble.

[*Interpretation*]

Mr. Thomas (Maisonneuve): Mr. Chairman, Mr. Long just said that there are no pensions at the age of forty in the army. Is that what you said Mr. Long?

[*English*]

Did you say there was no pension at 40?

Mr. Long: We are talking about 200 people that have obtained pensions at that age. . .

Mr. Thomas (Maisonneuve): Yes.

Mr. Long: . . . but I say that is not the normal retiring age for the Armed Forces.

[*Interpretation*]

Mr. Thomas (Maisonneuve): I think there are two pension plans in the army. I believe that one applies after twenty years of service, and the other one at a certain age. I know someone who, for one reason or another, cannot fulfill the requirements of the army and would be ready to retire. But he has only seventeen years of service. He might have a defered pension, but he will have to find a good reason, such as inability to serve. They are not going to pay a defered pension to someone because he is fed up with being in the army and does not serve the number of years for which he had signed up.

If a defered pension were paid for ill health, then I might perhaps agree.

[*English*]

The Chairman: Mr. Noble?

• 1045

Mr. Noble: Mr. Chairman, I would like to ask Mr. Henderson what procedure he would recommend to correct this situation, because it seems to me that the only way it could be changed would be by changing the legislation.

Mr. Henderson: That is completely right, Mr. Noble. You might perhaps ask Mr. Armstrong when he is here next week where the matter stands, because that is what they had in mind doing. Now, it has been complicated by the integration that came along after this matter was first raised, and we are following this matter up at regular intervals with the Department and it could be that he would have something further to add. The law will have to be changed to do this. As it stands, I am not suggesting anything illegal about this.

Mr. Nowlan: You are just suggesting the Forces should be brought under the same terms of reference as the Public Service.

Mr. Henderson: It was considered to be a proper question to raise. I still think it is and the successive committees have thought that, and the Department has come around to that way of thinking, too.

The Chairman: Gentlemen, is it agreed that we follow this up when Mr. Armstrong is here, ask some questions on it, and list it as we have now—no action?

Mr. Cafik: Mr. Chairman, I think it might be advisable for the Auditor General in the interim to give us some kind of schematic or graphic view of the condition of these pensions, the ages at which members of the Forces retire and the amounts that are payable in the various categories so that we could look at it and see what we are really talking about.

Mr. Henderson: Mr. Hayes has a tabulation already among our papers that might be helpful. Will you read off some of the cases?

Mr. H. E. Hayes (Director, Auditor General's Office): These are some examples in respect of the Navy. A person aged 39 received an annuity of $2,630. Another one, 34 years of age . . .

The Chairman: That is annually? After how many years service?

Mr. Noël: After a few years service when I am 39, if I receive $2,630 I am going to quit my job right away.

Mr. Hayes: The length of service is not given.

Mr. Noel: That is what we want.

Mr. Cafik: That is a very pertinent item.

Mr. Thomas (Maisonneuve): We want all the information.

An hon. Member: That is very important, the length of service.

The Chairman: Just a minute, gentlemen; they cannot record properly. Mr. Long, you make your statement and then someone may ask a question.

Mr. Long: I just wanted to say, Mr. Chairman, that the annuity is being calculated on the actual service. There is no question of an improper calculation there.

The Chairman: Now, Mr. Noel, did you have a question to that?

Mr. Noel: No.

The Chairman: Mr. Thomas?

Mr. Thomas (Maisonneuve): Does it mean that both the service and age have something to do with it, not one in particular?

Mr. Henderson: No.

The Chairman: Then we will proceed with the other cases, and perhaps they can add to this the length of service in each case later on.

Mr. Hayes: We will get the length of service later on. A person 29 years of age received a pension of $1,080.

Mr. Crouse: Twenty-nine?

Mr. Hayes: Twenty-nine.

Mr. Noble: What about the 34 year old?

Mr. Hayes: His pension was $1,736.

Mr. Lefebvre: Some of these guys were pensioned off the same day they joined up.

Mr. Hayes: Another 37 years of age received $1,811. A 27-year-old received $825.

Mr. Winch: That is for life?

Mr. Hayes: Per year for life. A 40-year-old received $3,242.

• 1050

The Chairman: I think those are enough examples to illustrate that we want a little further information on the length of service.

Mr. Cafik: Mr. Chairman, may I pursue this, as I introduced this particular problem? You may not be able to give me an exact answer, but take any one of these examples, let us say the 39-year-old who ended up with $2,630. We do not know his length of service, but suppose he stayed in the Armed Forces until he was 49, would he end up with a higher pension?

Mr. Henderson: Well, sure.

Mr. Cafik: You do not know what the figure would be?

Mr. Henderson: No, but obviously it would be higher because he would have more service.

Mr. Cafik: Yes; all right.

Mr. Henderson: I do not know how many years he had—we will find that out for you—but suppose at 39 he had 10 years service; if he stays until age 49 he would have 20, so he gets more pension.

Mr. Cafik: The import of your recommendation here would be, I presume, that this 39-year-old, if the government were to act upon the recommendation that you make, and you make it along the same lines as civil service pensions, would receive no money until he was 60. Is that correct? At age 60, would he still receive the $2,630 per year?

Mr. Henderson: That is right, but they would not have to pay it for so many years.

Mr. Cafik: Of course. That is the point I raised before. What we are really in effect saying is that we want to reduce the pensions payable to those in the armed forces.

Mr. Henderson: I did not say that.

The Chairman: You put the words in his mouth, Mr. Cafik.

Mr. Cafik: I thought I took them out, frankly.

The Chairman: Gentlemen, you have the picture and we will come back to it. We have not left it by any means. There has been no action and we will want to know why there has not been action. Mr. Crouse?

Mr. Crouse: Does the witness have the figures there for the retired admirals? Some were retired at 47. I am just curious as to the amount of annuity they are receiving annually.

The Chairman: We will revert to the question that was asked about the amount owing by each of the provinces. Mr. Long, would you have those now?

Mr. Long: I gave you the amounts before. Newfoundland owes $705,000; Nova Scotia, $77,000; Prince Edward Island, $43,000; and the other province is British Columbia, with $20,000.

The Chairman: Do you know if there was an agreement to pay in all of those cases? There must have been.

Mr. Long: There was, but this is part of the rules that the Department follows.

The Chairman: No, but had the provinces signed an agreement?

Mr. Long: Yes, the Department will not act until they do.

The Chairman: Mr. Cafik?

Mr. Cafik: Are these amounts one-time debts or an accumulation of debts over a number of years? If they are one-time debts, in what year did they occur?

Mr. Long: It is a case of both. Some are one-time and some are an accumulation.

Mr. Cafik: NHA rates on interest, I presume.

An hon. Member: The Farm Improvement Loans Act.

The Chairman: Mr. Crouse?

Mr. Crouse: Mr. Chairman, for how many years have these amounts been outstanding? I may have missed that.

The Chairman: This is just what they are going to tell us now. Mr. Hayes.

Mr. Hayes: We do not have the total information, but I notice from the work sheets here that in 1961 this was part of the Newfoundland debt. It was $410,000 for the fighting of forest fires on four occasions.

• 1055

Nova Scotia is $77,000. I have not got the date there, but it must have been about the same time, in 1961. And it is the same with Prince Edward Island, $43,000.

Mr. Winch: Of course you cannot expect them to pay. They only have a couple hundred million surplus or something like that.

Mr. Nowlan: I thought British Columbia did not have any debt.

The Chairman: Gentlemen, when we hear these crossfires it is time to move on. We will be adjourning and will just do one more, No. 17. This is a case of the Public Service Superannuation Account and we have asked the Auditor General to keep us informed on what improvements have been made. It appeared and was brought to the attention of the Committee that that Department was not following a system of proper examination of the employees' contributions in relation to their salaries and so forth, and the whole system was apparently not operating on a business-like basis as it would in an up-to-date insurance company's

office. The Auditor General has noted this and brought it to the Committee's attention and now we would like to know if there has been any improvement. Have you any further comments, Mr. Henderson?

Mr. Henderson: As several members of the Committee will know, this has been before the Committee for a number of years. As my note said in my 1967 Report, Note 70, this Committee has always been recording its concern that the matter takes so long to be corrected. On June 16, 1966, the Comptroller of the Treasury appeared before the Committee and the Committee noted in its Report to the House that immediate steps were going to be taken to provide that the internal auditing procedures of the Superannuation Branch include an examination of the employee's contributions in relation to his salary and the documents on file along the lines recommended by the Auditor General.

> The Committee understood and went on to say: ... "the introduction of this particular check should eliminate the majority of the errors and requests the Auditor General to continue to keep it fully informed on this matter"

Unfortunately, the situation is still before us and in my forthcoming report to the House I shall be advising you that there has been little improvement in this situation during 1967-1968 and that the number of errors in the calculations continues to be high in relation to the files examined in our test audit.

We attribute this high incidence of error to carelessness and a failure to carry out accurately the required procedures. The Department has outlined to us some further steps—various steps that it proposes to take towards the improvement of the administration of the superannuation accounts. In my view this is a relatively straightforward procedure; in other words, the calculation of the pensions of the retired civil servants. I do not think it should require any tremendous effort to eliminate these mistakes. I am frankly disappointed, Mr. Chairman, that I cannot report any better progress to you. You, I think, are familiar with this.

The Chairman: Yes. It is a matter where some civil servants are being paid too much and some are not being paid enough and some are receiving superannuation to which they are not entitled. Was there not a case where a man had been dead for three or four years whose death had not been proven and whose pension cheque continued to be taken by his relatives for three or four years? Not quite that? That was in annuities. I am sorry. That was in the government annuities.

Mr. Cafik: Mr. Chairman, is this not calculated by computer? Is this a hand operation?

Mr. Henderson: It calls for reference to files, the record of employment and this kind of thing, and in the process of verification we have been coming across what we consider altogether too many mistakes.

• 1100

Mr. Cafik: But is it all computerized?

Mr. Henderson: I think it has been proposed to shift it over to computers now. This is a branch that is an established section of the Department of Finance and it seems to me that it should have been possible to remedy it by this date.

The Chairman: Gentlemen, we will close on this point. I think this is a department we ought to look into, and we would ask the Auditor General to give us some concrete examples of these errors—of the worst types of errors they have found—and then have the head of that department appear before our Committee and account to the Committee as to why steps have not been taken to correct the errors.

Gentlemen, the meeting is adjourned.

HOUSE OF COMMONS

First Session—Twenty-eighth Parliament

1968-69

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: Mr. A. D. HALES

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 13

TUESDAY, FEBRUARY 4, 1969

Public Accounts, Volumes I, II and III (1966 and 1967)
Reports of the Auditor General to the House of Commons (1966 and 1967)

WITNESSES:

(See Minutes of Proceedings)

29603—1

The Queen's Printer, Ottawa, 1969

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. A. D. Hales

Vice-Chairman: Mr. T. Lefebvre

and Messrs.

Allmand,	Flemming,	Noble,
Boulanger,	Forget,	Noël,
Burton,	[1] Leblanc (*Laurier*),	Rodrigue,
Cafik,	[2] MacLean,	Tétrault,
Crouse,	Major,	Thomas (*Maisonneuve*),
Cullen,	Mazankowski,	Winch—20.

(Quorum 11)

Edouard Thomas,
Clerk of the Committee.

Pursuant to Standing Order 65(4)(b),

[1] Mr. Leblanc (*Laurier*) replaced Mr. Yanakis on January 30, 1969.

[2] Mr. MacLean replaced Mr. Nowlan on February 3, 1969.

(*Text*)

MINUTES OF PROCEEDINGS

TUESDAY, February 4, 1969
(15)

The Standing Committee on Public Accounts met this day at 9.36 a.m., the Chairman, Mr. A. D. Hales, presiding.

Members present: Messrs. Allmand, Boulanger, Cafik, Crouse, Cullen, Forget, Hales, Leblanc (*Laurier*), Lefebvre, MacLean, Mazankowski, Noble, Noël, Thomas (*Maisonneuve*), Winch (15).

Also present: Messrs. Forrestall, Watson.

Witnesses: Dr. P. M. Ollivier, Law Clerk and Parliamentary Counsel; Mr. A. M. Henderson, Auditor General of Canada; Mr. E. B. Armstrong, Deputy Minister, Department of National Defence; Mr. G. W. Hunter, Deputy Minister, Department of Defence Production; Capt. T. W. Maxwell, Director of Maritime Systems Engineering, Department of National Defence.

Moved by Mr. Lefebvre and

Agreed,—That the particulars of pensions paid at an early age be made an appendix to this day's proceedings. (*See Appendix E*)

The Law Clerk and Parliamentary Counsel outlined the items under litigation concerning the *HMCS Bonaventure.*

The Committee questioned the witnesses on the refit of the *HMCS Bonaventure.*

At 10.59 a.m., the questioning continuing, the Committee adjourned to the call of the Chair.

Edouard Thomas,
Clerk of the Committee.

29603—1½

(Text)

EVIDENCE

(Recorded by Electronic Apparatus)

Tuesday, February 4, 1969

• 0938

The Chairman: Gentlemen, at our last meeting item No. 15 in our follow-up report—pension awards effective at an early age—was referred to but not completed. Some members wanted to know the years of service of those who had been pensioned. Mr. Henderson has that information today and I will have him give it to you now. After he has given up this information we will proceed with our new business.

Mr. A. M. Henderson (Auditor General, Office of the Auditor General): Mr. Chairman, as you have said at the first meeting more precise particulars of pensions paid at an early age were requested by the Committee.

I have here particulars of six cases taken from our working papers. If you wish, I could give the particulars now for placement in the minutes. These are servicemen ranging in age from 28 to 39 with periods of service ranging from 11 to 20 years, reasons for retirement having been for economy and efficiency and, in two cases, having been voluntary. As you know, in the current and previous reports that I made to the House, we have commented on the number of servicemen who were retired at ages ranging from the late twenties to age 40 with immediate annuities. I would like to make it clear that my comments in no way related to servicemen reaching the retirement age specified for their ranks but rather for retirements before the ages specified.

As you know, the Department of National Defence has been considering the advisability of introducing deferred pensions similar to those available to civilian employees for men being retired at these early ages. Departmental proposals have been considered by the Cabinet but, other than the statement made by the Minister in the House the other day, details have not been released. That is all I have to say on that, Mr. Chairman.

The Chairman: Thank you, Mr. Henderson.

Is it agreeable that we print this as an appendix?

Some hon. Members: Agreed.

(See appendix attached)

• 0940

The Chairman: Gentlemen, your Public Accounts Committee agreed to proceed with the refit and improvements of the HMCS *Bonaventure*, the particulars of which will be found in paragraph 101 on page 54 of the English copy of the Report of the Auditor General, 1966-67.

Before proceeding I would like to introduce to you the witnesses here this morning. I would ask each deputy minister to introduce his own men. On my right and beside Mr. Henderson is Mr. Elgin Armstrong, Deputy Minister of National Defence. Mr. Armstrong, would you introduce your officials?

Mr. E. B. Armstrong (Deputy Minister, Department of National Defence): I have with me Captain T. W. Maxwell, Director of Maritime Systems Engineering in the Department of National Defence.

The Chairman: At Mr. Armstrong's right is Mr. G. W. Hunter, Deputy Minister of Defence Production. Mr. Hunter, would you introduce your staff?

Mr. G. W. Hunter (Deputy Minister, Department of Defence Production): Thank you, sir. I have Mr. J. S. Glassford, Assistant Deputy Minister (Purchasing), Department of Defence Production; Mr. R. D. Wallace, Associate Director of Shipbuilding, Shipbuilding Branch, Department of Defence Production; Mr. L. E. St. Laurent, an official of the Shipbuilding Branch, Department of Defence Production.

The Chairman: Thank you, Mr. Hunter. On my left we have Dr. P. M. Ollivier, Parliamentary Counsel and Law Clerk, House of Commons. Dr. Ollivier is well known to the Committee. He will answer any questions pertaining to the legal aspect of this.

Mr. Henderson does not need any introduction to the Committee. We have present from his staff this morning Mr. G. R. Long, Mr. H. E. Hayes, Mr. A. G. Cross, Mr. J. C. Burrows and Mr. J. R. Douglas.

Gentlemen, your Committee was made aware that there is presently an appeal before

the Exchequer Court dealing with one small area of the subject matter before us. I would ask Mr. Hunter to tell the Committee the basis of the appeal before the Exchequer Court.

Mr. Hunter: Mr. Chairman, I think this was covered in some detail by the Auditor General at your meeting a week ago. This concerns the case of Cardinal Engineering and Machinery Company Limited, the suppliers for a German firm, Junkers Machine and Metal Company, of compressor spare parts for the pumps and equipment on the HMCS *Bonaventure*. The case referred to really covers the period between 1960 and 1962 but there were small orders after that date. It was originally charged in a German court that the Canadian firm had used invoices, the amounts of which were larger than the original costs to them, when billing the Canadian Government. This case was subsequently taken up in the courts in Ottawa but was actually dropped because of lack of available information from Germany. As a result, the Department of Defence Production issued an order against Cardinal Engineering and Machinery Company Limited for the recovery of what we deemed to be excess profits—roughly $110,000. This is now before the Exchequer Court. It has been appealed by Cardinal Engineering. The Department of Justice is acting on our behalf in this case. Possibly this is all we should say at the moment because I believe we could certainly prejudice the case we have against them if any more were said at this time.

The Chairman: Mr. Winch?

Mr. Winch: In view of the fact that the amount mentioned is small compared with the over-all increase in cost and that in this regard our investigation may be limited, I think it would be advisable to have Dr. Ollivier clearly set out our positions on this entire matter.

The Chairman: Mr. Winch, I was just going to call for Dr. Ollivier's remarks in this regard.

• 0945

Mr. Winch: May I say that great minds think alike, sir.

The Chairman: May I add that small ones seldom differ, Mr. Winch. Dr. Ollivier, would you please comment.

Dr. P. M. Ollivier (Parliamentary Counsel and Law Clerk, House of Commons): Mr. Chairman, the words *sub judice*, of course, mean that the subject matter that you were referring to is before a judge or a court—in other words, under judicial consideration. I have no difficulty in this case saying that the matter referred to—that is, the Crown trying to recover $110,000 before the Exchequer Court—is certainly *sub judice*. There would be more difficulty if the case were before a royal commission or some other body, but when it is before the court there is no difficulty in seeing that the matter in the present case is *sub judice* and according to all our precedents in our rules—for instance, in May's Parliamentary Edition I find that:

> A matter whilst under adjudication by a court of law, should not be brought before the House . . .

or before a committee of the House

> . . . by a motion or otherwise.

Of course, this does not apply to a bill. A bill could be introduced in spite of that to change the law.

Also, in the same edition:

> Matters awaiting the adjudication of a Court of law should not be brought forward in debate, except by means of a bill.

I am not going to give you all the quotations —I have got plenty of them and also decisions of the Speaker. One is found in Beauchesne's Third Edition. It reads:

> The rule is that when a matter is under adjudication by a court of law, whether it affects an individual or a collectivity of individuals, whether it affects one man or a province, it cannot be brought before the House by motion or otherwise.

Then in Redlich the following appears:

> Nothing has been done to weaken the force of another rule of a similar kind that no reference must be made in debate to matters before the courts of law in some pending litigation.

I do not think I need give more references.

I believe the trouble in the present case would be to limit your investigation to subjects that are outside of this very limited case, as you have said. There is the case of the Crown in the right of Canada suing or being sued in the Exchequer Court for $110,000 by virtue of the Defence Production Act. It is Section 21, more especially subsection (6) which reads:

(6) An amount payable to the Receiver General of Canada pursuant to a direction of the Minister under this section is recoverable in the Exchequer Court of Canada or any other court of competent jurisdiction, with full costs of suit, as a debt due to Her Majesty.

In the present case, of course, it is the Exchequer Court and the claim of the government is that they have made an overpayment of $110,000 out of $210,000. I think that when you come to consideration of that case it would have to be up to the Chairman to prevent the Committee from delving into any of those subjects, which does not prevent you from playing all round it.

The Chairman: Thank you, Doctor. I think that is clear to the Committee. We will proceed and ask Mr. Henderson to introduce the subject of the *Bonaventure* and then we will be open for questions or, perhaps, hear from the two witnesses first. Mr. Henderson?

• 0950

Mr. Henderson: Mr. Chairman, for the benefit of those present I presume you would wish me to perhaps recapitulate some of the things that I said at the last meeting. Briefly, the comments in paragraph 101 which is at page 54 of my 1967 report recite the increases which took place in the cost of the mid-life refit and improvement program of this aircraft carrier which cost $30 million when it was commissioned in 1957. It was planned, I think, in 1964 that expenditures on this mid-life refit and improvement program would be made and over the years they increased from the $8 million which had been approved by the Treasury Board in January, 1965 to a total expenditure which had amounted to $11,492,000 by November, 1967 and which had reached $12,030,000 at December 31, 1968. I am informed that an additional $320,000 will be required to complete this program.

The causes of these increases would appear to represent the unhappy combination of costs having been underestimated as well as the effect of spiralling prices generally. It should be noted here that the cost figures given are direct cost—that is to say, accumulated actual costs as charged to the Department of National Defence by the outside contractors who did the work. They do not include any other additional costs which would be attributable to work on the job or otherwise incurred by the Department.

Now, as paragraph 101 states, this mid-life refit program was first estimated in January, 1965 to cost $8 million. Contracts were awarded in the spring of 1966 up to $7,144,000 leaving at that time only $856,000 to cover important refit work which, unfortunately, was not included in the refit contracts, apparently because there had been insufficient time to complete the drawings and specifications or because the work could not be precisely described.

As a consequence, Treasury approved an increase in November, 1966—you see this at the top of page 55—of $3.8 million in the over-all estimate, thereby bringing it to an ultimate estimated cost of $11,770,000. Other costs approved by Treasury Board caused by the underestimating are explained in the paragraph and, as you will see, these were largely caused by the fact that the additional work needed exceeded its original estimate by something like 200 per cent, with the contractor being paid a per diem rate until the ship was delivered in the spring of 1967.

I can only add, Mr. Chairman, that the costs as I said earlier for this work are not all-inclusive. A reference is made to this in the last paragraph of this note on page 56 of my report. Thus, the cost figures you have do not include a number of indirect costs such as, for example, naval central drawing office, whose records show that some $600,000 was spent in 1965 and 1966, chargeable to this work. Neither do they include other overheads: the departmental stores issues, labour provided by service and departmental staff, freight, express, cartage, and so on.

It has never been and still is not the practice for the Department of National Defence to produce total costs in the manner followed by private industry and which, as you know, the Glassco Commission had advocated be adopted. However, I do believe, and Mr. Armstrong will probably elaborate, that the Department is working toward this objective. That would be all I would have to say at this point, Mr. Chairman.

The Chairman: I think it would be the wish of the Committee, in view of the fact that it was the decision of the Department of National Defence to refit this ship, that we should hear from Mr. Armstrong next, and since they in turn asked the Department of Defence Production to purchase the items, we would then call on Mr. Hunter. Is that procedure agreed?

Some hon. Members: Agreed.

Mr. Armstrong: Mr. Chairman, perhaps it would be useful to the Committee if I were to say a word or two about the *Bovaventure* itself.

• 0955

It is a light fleet aircraft carrier of the Royal Navy *Majestic* class. It was laid down in 1942 and was still under construction when the war ended and work was suspended at that time. The hull was acquired by Canada in 1952 and the ship was commissioned in the Royal Canadian Navy in 1957. The total cost to Canada was approximately $30 million. The *Bonaventure* is a 20,000 ton ship with an over-all length of 704 feet and a deck beam of 128 feet. It could be described as a mobile airfield, carrying fixed and rotary wing aircraft.

These aircraft are maintained and repaired in three hangars aboard the ship. Her complement when she is fully operational is about 1,200 officers and men, all of whom, of course, have to be accommodated, fed, and looked after in terms of their medical and dental requirements, and so on.

To provide these services the ship contains restaurants, bakeries, hospital and dental facilities and, of course, living accommodations. She has a power plant to provide her own electricity which is equivalent to that of a small village. Because she is a mobile vehicle she contains high powered machinery and because she is designed as a fighting vehicle, she has a great many watertight compartments to enable her to suffer damage and still remain a floating, fighting unit.

These compartments, coupled with the accommodations that I mentioned earlier, including the air traffic control facilities and so on, total in excess of 800 and are distributed between 9 decks. Her primary role is anti-submarine warfare and she has a complement of 13 Tracker aircraft and six Sea King helicopters, all of which are equipped for anti-submarine purposes. She has a secondary role of sealift for the mobile forces and she is quite useful for carrying mobile force helicopters and vehicles.

Following the refit that we are discussing today and conversions, the ship should be satisfactory until the mid 1970's.

Perhaps I could say just a word about the cost figures. Our records indicate that the shipyard costs—these are the final costs although they are not completely determined—will amount to $10.290 million and the government-supplied material is $2.068 million, giving a total of $12.358 million. This does not include some of the figures the Auditor General has mentioned; the costs in the drawing office were approximately $600,000 as indicated by the Auditor General. There are what we would believe to be minor freight and sales tax charges that would not be included in these figures. The customs and sales tax on items purchased in Canada are included in the item cost and therefore charged into the figures I refer to.

On imported items the sales tax would be charged to a special allotment—this was a matter of convenience—and certain of the freight charges would be charged to a special freight allotment. We would estimate that all told these figures might run as high as $150,000 which are not included in the figures I mentioned earlier.

• 1000

There is reference also to the question of materials from government stores other than the government supplied materials in the contractual arrangements. Materials are supplied from government stores during the refit for the normal maintenance of equipment on board, and our records show that these amount to approximately $950,000. Also during a refit of this nature we maintain on the ship a part of the ship's crew. They have several functions. One of course is to maintain in the normal way certain of the equipment on board. They also assist the technical officers concerned with the refit—the naval overseer's staff and so on. Most particularly, we need a nucleus of the crew on board during the refit so that they will be familiar with the ship when it is completed. The number on board during the refit of the ship would be something a little less than 10 per cent of the normal crew; it ran up to about 125 officers and men during the refit. Of course that is not costed in any of the figures I have given you.

Mr. Chairman, that is perhaps all I need say at the moment.

Mr. Boulanger: May I ask a question before we go any further?

The Chairman: To keep continuity, perhaps we should hear Mr. Hunter and then come back to the questions, if you do not mind. Please make a note of your questions.

We will hear from Mr. Hunter now.

Mr. Hunter: Mr. Chairman, we were asked to do the contracting for the work known at

the time that the Department of National Defence decided to do this mid-life refit.

I might say that this was one of the most ambitious and challenging shipbuilding jobs that was ever undertaken by a Canadian shipyard. As it was the first major refit of an aircraft carrier neither ourselves nor anyone involved could really have known from experience what one might run into. The planning of the work could not really be predicted in advance because, being the first of its kind, it was a case of ourselves, the Department of National Defence, the ship builder and some 50 contractors getting together, getting their best estimate down and going ahead with the work.

When it was finished we really felt that the price paid for the work done was certainly reasonable. In doing this we had been able to use pretty advanced techniques for calling tenders. In fact at least 60 per cent of the total cost was done under competitive tender and competitive tender prices were obtained. Only 39 per cent of the man hours used had to be negotiated and, looking back on it, we felt a pretty reasonable job had been done. Granted, the cost was perhaps 50 per cent over the original estimate, but perhaps the main fact is that the Canadian government got value for the money spent.

I do not know whether we should go into any more detail. There are a number of questions relating to contracting but perhaps we should hold them until later.

The Chairman: Thank you, Mr. Hunter. I have on my list Mr. Lefebvre, Mr. Winch and Mr. Noel.

Mr. Lefebvre: Is it correct that this ship was approximately 15 years old by the time she was launched?

Mr. Armstrong: Well yes—construction started in 1942 during the war, was suspended and then started again. In 1952 we acquired the ship and it was actually commissioned in 1957.

• 1005

Mr. Lefebvre: Between the years 1942 and 1957 she had never been in the water or served during any period of time?

Mr. Armstrong: Oh no; it had not been completed.

Mr. Lefebvre: It cost at that time in the neighbourhood of $30 million?

Mr. Armstrong: Yes.

Mr. Lefebvre: Could it have been $31 million? "In the neighbourhood" sometimes can be quite vague. Could it have been $32,000,000?

Mr. Armstrong: I am not really giving you the odd dollars and cents.

Mr. Lefebvre: Is it closer to $30 million than to $31 million.

Mr. Armstrong: Yes.

Mr. Lefebvre: I note from the figures that to date approximately $13 million has been spent on the ship through various contracts, bringing the price to approximately $43 million.

Mr. Armstrong: In the refit we are speaking of we estimate $12,358 million, as the completed cost. To that you could add, if you wished, the $600,000 in respect of the drawing office and some of the other figures I mentioned.

Mr. Lefebvre: In any event, it would be fairly close to $43 million.

Mr. Armstrong: That is right.

Mr. Lefebvre: What would the replacement cost of that ship be today?

Mr. Armstrong: We would not replace it as it stands, naturally, but to buy a light aircraft carrier today, which would be a different ship than this one, would probably cost $150 million. I would say the replacement of this ship—although we would not replace it—would be roughly $100 million.

Mr. Lefebvre: By, saying you would not replace it are you saying that this ship is now obsolete?

Mr. Armstrong: No. I am syang if we were building a new ship today we would not build a ship with a 1957 design. We would build a different ship.

Mr. Lefebvre: Could you also tell us, sir, what the names were of the firms involved in this bidding, and the name of the winning contractor?

The Chairman: Mr. Hunter will answer that question?

Mr. Hunter: The three firms were Davie Shipbuilding, Saint John Shipbuilding and Canadian Vickers.

Mr. Lefebvre: What were the amounts of their tenders?

Mr. Hunter: The bids for the known work were as follows: Davie Shipbuilding, $4,913,-541 Canadian Vickers, $4,784,789 Saint John Shipbuilding, $7,473,606.

The Chairman: It might be wise to give the locations of those firms.

Mr. Hunter: Mr. Chairman, if I might just add a supplementary remark, those bids I gave show that Vickers were slightly less on the known work—which is what I gave you. However, we had to make an assessment of the known work. We told each contractor what it would be and asked him to set a charge-out rate for what this unknown work could be based on 200,000 hours and 10,000 hours drawing work. These bids then came out: Davie Shipbuilding $5,768,682, Canadian Vickers $5,863,341, Saint John Shipbuilding $8,572,928.

The Chairman: Mr. Hunter, could you tell us the location of those three firms?

Mr. Hunter: Davie Shipbuilding is at Lauzon, Quebec, Canadian Vickers is at Montreal, and Saint John Shipbuilding Dry Dock is at Saint John, New Brunswick.

Mr. Lefebvre: And the winning contractor was Davie Shipbuilding?

Mr. Hunter: That is right.

Mr. Lefebvre: I understand that in the unknown work the $3.95 per hour was the Davie Shipbuilding bid?

Mr. Hunter: Yes.

Mr. Lefebvre: What were the other two in respect of the unknown work?

• 1010

Mr. Hunter: The Canadian Vickers charge-out rate for unknown work was $5.00 an hour, the Saint John Shipbuilding charge-out rate was $5.05 an hour.

Mr. Lefebvre: I believe this was up to and including 210,000 hours. Was that the agreement?

Mr. Hunter: That is right. That was 200,000 hours and then there was a charge-out rate for drawing hour time which varied slightly. I will give you those figures: $5.40 for Davie, $6.45 for Vickers, $7.50 for Saint John.

Mr. Lefebvre: I believe that one of you gentlemen stated that 61 per cent of the work was done under the competitive first bid.

Mr. Hunter: That is right, sir.

Mr. Lefebvre: And I understand this was considered quite good.

Mr. Hunter: It is normal, sir, but I would think for a first-time where there were so many unknowns, we would assume that it was very good.

Mr. Lefebvre: Where is this ship now?

Mr. Armstrong: The ship is assigned to Maritime Command for service in the Atlantic. Right at the moment it is on an exercise called Maple Spring in the South Atlantic.

Mr. Lefebvre: And is it correct that it is being used and has been used extensively since commissioned in 1957.

Mr. Armstrong: Oh yes, sir.

Mr. Lefebvre: Since the major sums of money have been spent on the refit has it been giving very satisfactory service?

Mr. Armstrong: Yes, I understand it has. I did ask the Maritime people about this. They said they were quite happy with the workmanship that had been done. Since the refit the over-all maintenance cost of the ship has been $422,941, which is regarded as being very favourable for a ship of this character.

Mr. Lefebvre: Are you prepared to say that it meets our needs today, sir?

Mr. Armstrong: Yes, it does meet our needs today.

Mr. Lefebvre: Therefore, as a matter of fact, we have a $43 million vessel that would cost well over $100 million today?

Mr. Armstrong: Yes, if you were to replace it it would certainly cost over $100 million.

Mr. Lefebvre: Mr. Chairman, as there are many other members who wish to ask questions I will pass.

The Chairman: Mr. Winch and then Mr. Noël.

Mr. Winch: Mr. Chairman, may I ask three immediate questions. This question is directed to Mr. Armstrong, Mr. Hunter, or both. Over the years the Department of National Defence and/or the Department of Defence Production have had considerable experience on the conversion and refit of destroyers for the purpose of carrying the helicopter Sea King. As a result of that experience did you not get an

indication of the unknowns? If so, can we have an explanation why, when it came to the refit of the *Bonaventure*, of the total original refit cost estimate of $8 mililon only $200,000 was put in for the unknown.

Mr. Lefebvre: That was 200,000 hours.

Mr. Winch: No, I am speaking of dollars—page 54. In view of your experience, in view of the fact it was the first time you were refitting an aircraft carrier, why did you only allow $200,000 of the $8 million, which was your estimate, for the unknown?

Mr. Armstrong: Perhaps this is a question that I should answer. This is the $200,000 for contingencies. As I see it, in the original costing the original shipyard contract was $4.9 million and the original estimate on the government-furnished equipment was $1.675. That gives you about $6.6 million. So there was actually a little more than $200,000 covering this extra man-hour work and so on that might arise.

• 1015

Now to answer your question in more general terms, you asked me why we did not allow for more in terms of experience, and I think I do have to answer that question. When we examine this in retrospect—and we had no experience with an aircraft carrier because this was the first time we had undertaken a major refit of this character for the aircraft carrier—based on experience with destroyers we did not allow enough. Normally this does run—I think it is something like 40 per cent; am I right on that, Captain Maxwell? So, we were at fault on that.

Mr. Winch: May I ask a supplementary question on the first question? In view of the fact that your Department's estimate of the refit was $8 million, and on the tender, which must have been based on your specifications for the $8 million, you got a contract price of $4.9 million. If you go on your figure of 40 per cent, you then have the difference between $4.9 million and your estimate of $8 million. How does that relate to the fact that the cost now is approximately $13 million?

The Chairman: Mr. Armstrong?

Mr. Armstrong: If you took the 40 per cent that I mentioned which was the general experience with destroyers...

Mr. Winch: I am sorry. Could I ask whether that 40 per cent is on your $8 million, or 40 per cent on the $4.9 million for which you let the contract?

Mr. Armstrong: I am talking about 40 per cent on the $8 million. So that you would get up to a figure of around $10 million or a little more than $10 million, based on that experience.

Mr. Winch: So on that experience, then, how do you explain the additional $3 million over and above the $10 million—and I am using your own figure now?

Mr. Armstrong: I could go into some explanations of this in detail if you would like me to. Would you like to have a more detailed explanation?

Mr. Winch: Perhaps a little bit later because I do not want to hold things up. I would like that kept in mind.

On the 39 per cent which you had to carry later, was that done by a tender from Davie, a tender from anybody else, or was it granted to Davie without tender on a T and M plus profit? Mr. Hunter. By the way, I am speaking in contractors' terms, T and M being time and material plus.

Mr. Hunter: Sir, this was done on the basis of a negotiated rate for the hours after those hours which had been estimated to be spent during the 12 month period it was originally intended to take on the refit. It took, as you know, an additional 18 weeks, and it stated in our contract that any additional time after that period would be at a negotiated rate. So that, we actually negotiated the time, cost and the material, and this was something that we do have good information on.

Mr. Winch: As you negotiated the time and material, what was the basis of negotiated profit on that 39 per cent?

Mr. Hunter: 7½ per cent, sir, on material.

Mr. Winch: How about on time?

Mr. Hunter: Same on time.

Mr. Winch: 7½ per cent?

Mr. Hunter: 7½ per cent on all of them.

Mr. Winch: Thank you. Now, my third question, I believe, would be for Mr. Armstrong. I think it was in 1964-65 that this Committee made a recommendation that had to do with the inventories of naval stores. You gave us a figure of $900,000 I believe...

Mr. Armstrong: $950,000.

Mr. Winch: ...$950,000 on the supplying of stores. In view of the information contained in the latest Auditor General's Report that we have in front of us at the present time, I note the statement, and I quote from page 12, because it certainly enters into this:

• 1020

> Because of the size and nature of the program and the number of studies involved, it is expected that a fully operational system providing priced inventories of stores will not be completely installed for several years.

Mr. Armstrong, on what basis do you place the value of $950,000 on the supplies from your naval stores on the refit of the Bonaventure? Was it the actual cost, handling charges or what?

Mr. Armstrong: These stores would be priced at the contract price of the stores, the price at which we acquired them, and are recorded. These are stores that are stored in our own depot. Of course, we do have a knowledge of what we paid for them.

Mr. Winch: So this $950,000 is your cost of originally purchasing the stores which were then supplied on the refit of the Bonaventure?

Mr. Armstrong: That is right.

Mr. Winch: Perhaps now I might get the detail that Mr. Armstrong said he was prepared to give.

Mr. Armstrong: The government supplied material and the original cost was $1.675 million, and the final cost that I mentioned was expected to be $2.068 million. There were two items that accounted for this. One was the Fresnel Landing System which was estimated to cost $150,000 and actually cost $350,000.

Mr. Winch: Can you explain the reason for that?

Mr. Armstrong: The reason is basically an incorrect estimate. The Fresnel System is a system that was being used or installed by the U.S. Navy and our naval people, based on an estimate from them, expected it to cost about $150,000. The System was bought through the U.S. Navy off a U.S. Navy production contract for $350,000, so it was simply an incorrect estimate of the ultimate cost of the System. This sometimes occurs in a case like this where they had not at that point had a system actually come off production contract when the $150,000 figure was given to us.

The second item was the cost of the laundry equipment which amounted to $200,000 and that...

The Chairman: What was the figure, Mr. Armstrong?

Mr. Armstrong: $200,000 for the laundry equipment. In the original estimate no provision had been included for replacing the laundry equipment. On the subsequent survey it became clear that the laundry equipment simply had to be replaced, and that was added. That was $200,000.

Those are the two items that account for the difference between the original $1.675 million and the $2.068 million final figure.

On the shipyard costs, the original contract was for $4.913 million. There was an increase in labour of $48,000 for the late arrival of the government-supplied material, which the Auditor General has mentioned in his Report. There was additional sales tax arising from an increase in sales tax, and that amounted to $106,000. There was the increased cost of services for the 126 day longer period of refit; that was $364,000. The balance was made up of what is called in the jargon of ship refits "refit work arising", and that amounted to $4.2 million.

• 1025

Mr. Winch: That amounted to $4.2 million?

Mr. Armstrong: $4.2 million. Perhaps I could give you some of the significant items on this. I will run through them for you. The boiler uptakes, $241,000. There was no provision included in the original estimate at all for that.

Painting for flight deck $216,000, the ship's sides $86,000, internal painting $495,000, and underwater painting $156,000. The original allowance for painting of the ship, which was for topside painting only, was about $150,000. There was, therefore, a very large amount of painting that was not in the original estimates.

Repairs to furniture $226,000 and there was no provision in the original estimate on that.

Tiling, $42,000 and the original estimate was $50,000.

Auxiliary machinery $300,000; the original estimate was $100,000.

Insulating pipes and other insulation, $129,000; the original estimate was $15,000.

Refrigeration machinery, an increase of $35,000, the original estimate being $10,000.

On boilers, retubing the superheater, $56,000; there was no provision in the original estimate.

The main machinery, the turbines including reblading one turbine engine, $87,000; there was no provision in the original estimate.

Installation replacement fans, $195,000; work in that area was included at $100,000 originally.

Structural repairs to ship's bottom, fuel tank and flight deck gutters, $73,000; no provision originally.

The Fresnel lens landing control system, and this is the installation of it as against buying the system itself, $208,000; and it was originally included at $150,000.

The laundry equipment—this is again installation—$62,000.

Then there was the labour rate increase for the work in excess of 210,000 manhours which amounted to roughly $512,000.

Those are the significant items of change. In addition, of course, there were a great many minor items.

Mr. Winch: Mr. Chairman, we have now got a pretty good idea, so could I just ask one supplementary? Mr. Armstrong tells us that this amounts to just over $4 million; is that right, Mr. Armstrong?

Mr. Armstrong: That list I gave you comes to about $3.5 million.

Mr. Winch: On the $3.2 million which you have now outlined, would you mind telling the Committee who is responsible when costs go as much as 300 per cent or 400 per cent higher than the estimates? Why, on the list you read off, are there so many expenditures that had to be made which were not included at all? You knew this refit was going on for a long, long time. Where does the responsibility lie for being up to 300 per cent out on contract estimates and for so many items not even having been considered when the House of Commons was given this bill of $8 million?

• 1030

Mr. Armstrong: I think there are probably, first of all, two or three general explanations. The Bonaventure was in service in the two years preceding its going into the shipyard for this refit. The surveys that were made to determine the extent of the work had to be made while the ship was in service. This is certainly some handicap in coming up with the most complete details in this respect. At the same time, while the ship is in service there is further deterioration. After you have surveyed an item it is going to deteriorate some more before it is finally put into the shipyard.

But most particularly, in a refit of a ship of this kind it is not practicable to determine in a number of areas the actual work that will be required until you open the ship up and take a real look at it. This I think accounts for the fact that there is inevitably in an overhaul and a major refit of a ship of this kind a good deal of work that will not be determined initially. This can be overcome, I think, only by what we were discussing earlier—a general assessment that there will be 40 or 50 per cent of unknown work after you have determined what is known.

I think that in this case we were at fault—I said that to start with—in not assessing this a good deal higher than we did.

The Chairman: Gentlemen, we have several questions here. I am just wondering if you would like to stay on this particular subject of incorrect estimates or go on to the general questions you have. We will go on with the questions, then. Mr. Noël, Mr. Boulanger and then Mr. Crouse.

Mr. Noël: Mr. Chairman, I have only one question to ask Mr. Henderson. I heard Mr. Armstrong say that that ship cost approximately $30 million. Mr. Lefebvre referred to that question. I would have been more satisfied if you had put in your report, instead of "in the neighbourhood of $30 million", the real cost price because that is an auditor's report. May I have the real cost price? I know that Mr. Armstrong is talking about "approximately" because they were estimating jobs and work and it was pretty hard to estimate accurately the cost of the job. But the cost of that ship would be clearly defined because you paid by cheque or by . . .

Mr. Henderson: I think, Mr. Noël, we would have that in the working papers. I confess to you we do take the liberty of rounding our figures for convenience.

Mr. Noël: Well, as long as it stays between $1 million and $½ million I think the Committee should be satisfied, but when we argue about $100,000 and $10,000 I think we should be more precise in such a big difference.

Mr. Henderson: I have here in my working papers an adding machine tape which gives the cost for the Treasury record and the total is $29,917,832.35. This led us, and I think Mr. Armstrong, to use the expression "in the neighbourhood of".

Mr. Noël: Yes, but I hear questions about $10,000 and $2,000 and we lose a lot of time around here. When we speak of the neighbourhood of $30 million I think in the auditor's report we should have a precise figure—at the bottom or the start, the footing.

The Chairman: Does that answer your question, Mr. Noël?

Mr. Noël: I have the answer.

The Chairman: Thank you. Mr. Boulager and then Mr. Crouse.

• 1035

Mr. Boulanger: I will try in English. Mr. Armstrong, you said you had bought it at the beginning for $30 million. I want to talk strictly business common sense. Would you consider that when you made the buy at $30 million this figure was what we call in business a damn good deal, a good buy?

Mr. Armstrong: Well, you are going back a long way.

Mr. Boulanger: That is the beginning of the story.

Mr. Armstrong: My recollection of this is—and you are asking me for an opinion—that it was a good deal.

Mr. Boulanger: It was a good buy.

Mr. Armstrong: It was a good buy, yes, in money.

Mr. Boulanger: And, of course, it was also a good deal in money. In business if you were my manager and told me you had brought me a car for $4,000 which was worth $7,000 I would say you made a darn good buy. That is what I mean. At that time $30 million was a good buy.

Mr. Armstrong: Yes, I think it was a good buy.

Mr. Boulanger: You answered Mr. Lefebvre saying that today in 1969 if we were to buy a ship with all the new improvements, accessories and equipment we would not get that ship for less than, or close to, your figure of $150 million.

Mr. Armstrong: I said if you were buying a new one today it would be a different ship, somewhat larger if you were going to accommodate modern aircraft on it. It would cost, I am sure, $150 million.

Mr. Boulanger: Yes, so when you decided to have that ship repaired and put in perfect order for the service you needed it for, it was all completed in 1966.

Mr. Armstrong: Yes.

Mr. Boulanger: What would be the difference between the cost of a ship that year of 1966 when you had it all fixed and ready to go, and the cost in 1969, which you figure is about $150 million? Would it then have been close to $150 million or thereabouts in 1966, considering the work that had been done?

Mr. Armstrong: In terms of three years—you are saying from 1966 to 1969—I would not change the figure very much. We had a look at the price of carriers, oh, I guess two or three years ago. Even buying a secondhand carrier that was available at that time would have cost $60 million, and we estimated the modifications to it that were needed to make it a usable modern carrier would have been another $60 million. That was $120 million for that.

Mr. Boulanger: While the work was being done after the contract had been awarded to Davie Shipbuilding Limited, you mentioned a while ago that you had what you called a skeleton staff on the ship. Was that staff there as a kind of official inspector or surveyor, or did you have an extra staff to watch the work that was going on?

Mr. Armstrong: There is what is called a naval overseer who is responsible for the work as it progresses from the point of view of the customer. He gets assistance from that staff—the 120-odd people that I mentioned were on board.

Mr. Boulanger: I do not understand. He gets assistance from your people?

Mr. Armstrong: From our own people, yes. That staff, though, have in addition the primary responsibility of maintaining during the period of the overhaul the equipment that is on board. As I mentioned it is very important in a very complicated ship of this kind to have at least a nucleus of the crew so that when the ship comes out they know what has gone on. You then have somebody who knows where to turn the right buttons and all the

other things involved in running a ship of this kind. That is why we keep them on board.

• 1040

Mr. Boulanger: Yes. Could you tell me, or perhaps Mr. Hunter could, how many employees Davie Shipbuilding Limited had on hand while the work was being done? How many people were working? I mean Canadian—I know they were all Canadian people working. During that work, roughly how many people were employed?

Mr. Hunter: The total shipyard employment at that time was around 2,400 men. During the course of the work, there was a minimum of 231 people on the job. There was a maximum of 977 at certain times, but an average of 500 men on this job from the time it started to the end.

Mr. Boulanger: Mr. Winch asked you a question on details a while ago. In answer to his question you apparently said you had made a mistake on the approximate cost of the repair. Do I understand correctly that because of this experience being your first one, and being very new in the department, you admit that lack of experience resulted in the difference between the $8 million and approximate figure of $12 million now given? Are you agreeing that you made a mistake?

Mr. Armstrong: What I am saying is that this was the first time we had refitted the carrier. Up to this point there had been only overhauls. They ran about maybe $1 million an overhaul. So this was a new thing for us and this is quite a complicated thing. I am saying that if we had applied the experience that we had from major refits of destroyers, which indicated that there would be probably 40 per cent of the work that we would not determine in the survey—as you open the ship you discover what has to be done—we would have increased this estimate. That is what I said.

Mr. Boulanger: Well, then, I will not ask any more questions but I will say from business common sense that when you can get a ship out on the sea with good service as you had for $42 million, or as Mr. Noël would say, approximately $42 million or $43 million, compared with a boat at $100 million or more, I would say that as far as I am concerned you have saved us money.

Mr. Armstrong: Mr. Boulanger, I am very glad to hear you say that.

Mr. Boulanger: You might not hear it again.

The Chairman: There may be some more observations later, Mr. Armstrong. Mr. Crouse, Mr. MacLean, and then Mr. Cafik. Mr. Crouse.

Mr. Crouse: Mr. Chairman, it would seem that the Committee this morning has been given a statement by Mr. Armstrong which would indicate some colossal bungling on the part of his department and his staff and the Department of Defence Production. I can only say that it is fortunate for him and his staff that he is backed up by the resources of the Canadian Government because if a similar staff were operating for a private company I fear that there would be some heads rolling as the result of an increase first from $4.9 million, or almost $5 million, to $8¾ million, to a final figure this morning of $12,358,000. These figures, gentlemen, on one refit, call for a much better and a much more detailed explanation than I have heard this morning. For example, page 55 of the Report of the Auditor General, 1967, reads as follows:

• 1045

> The increase of $658,000 in shipyard costs included $48,000 to compensate for late delivery to the shipyard of materials purchased by the Department of Defence Production.

I would like to ask Mr. Armstrong what type of materials were purchased by the Department of Defence Production. I would like to ask him the names of the manufacturers who supplied these materials to the Department. I would like to know the name of the purchasing officer or officers, because in this report we are informed that the Department has been unable to establish who was responsible for the delay. I can assure the Committee, speaking as a former shipowner, if a mistake of that magnitude had been made in my organization I would not rest until I found out who was responsible for the delay. I would like to know who was responsible for making up the original estimate. In reply to Mr. Winch's question we were told that they did not estimate to paint the flight deck and there were no estimates made to paint the sides of the ship. It is obvious that the man who made that original estimate—and I have nothing against farmers—certainly was not familiar with ships. He must have been a farmer or an electrician.

An hon. Member: Thank you.

Mr. Crouse: He was certainly not a ship engineer. I would like to know if a government inspector was appointed on this job. I would like to know his name and I would like to know how much experience he had in this type of work, because if he had been experienced, these things certainly would not have happened.

If we turn to the next page, page 56 of the same report, we learn of the change in the charge to the government for services, including fire guards and utilities, the normal overhead items paid by shipyards. In this instance this contractor made additional charges and these additional charges obviously came about as a result of the delay caused by the delivery of parts by the Department of Defence Production. In my view, Mr. Chairman, the Department of Defence Production is on trial here this morning, and unless we can get more specific answers to some of these questions I feel we are going to have to continue this survey for quite some time. For example, Mr. Hunter said that the cost of the work done was reasonable. How can he equate his statement with the cost which was provided to us and the fact that the delays were caused by someone in the Department of Defence Production through faulty purchasing practice, and that the Department is unable to state who was responsible for this delay. I think I have asked enough questions. I would now like some answers, Mr. Chairman.

The Chairman: Mr. Crouse, I think those questions will keep us going for a couple of meetings. Mr. Armstrong, this will illustrate to you the interest of the Public Accounts Committee. We go from good buys to poor buys and back again, and here we are running true to form. I think possibly Mr. Hunter could answer these questions. Is that right, Mr. Hunter?

Mr. Hunter: Yes. The reference to the increased shipyard costs of $658,000 and the comment that we were not able to establish responsibility is not quite in accordance with the facts. We are well aware of the eight key items which constituted the $48,000. I have the names of the contractors here. Four of them happen to be Canadan prime contractors with United States sub-contractors who had a Viet Nam priority on the work of the sub-contractors, which came ahead of the Canadian work because the Viet Nam situation was just breaking at that time. Those were four key items. There was one item which we were buying directly from the United States government, the Department of the Navy and this was put ahead and we recognized that they would put it ahead of our requirement. So, there were five items there, any one of which could have held back the placement of all of this equipment in the ship. That accounts for the $48,000. The $610,000 was represented by the increase in time from the 12-month period I mentioned to the additional 18 weeks It actually went to 18 months, but the difference in the rate for the excess time went from $3.95 to $5.10 per hour. This actually represented the $610,000, which was due to the increased length of time taken to complete the work on the ship and which was held up by those key items which you mentioned were delivered late. That accounts for the $658,000.

• 1050

Mr. Noble: Mr. Chairman, may I ask a supplementary question?

The Chairman: Yes. I was wondering if Mr. Hunter had finished or if he wants to proceed. However, we will take your supplementary, Mr. Noble.

Mr. Noble: I would just like to ask Mr. Hunter if in good business you do not make all this material available before you start any contract?

Mr. Hunter: This would be virtually impossible, Mr. Noble. There are delivery times on all of these items. We order them just as soon as we can and we make the best delivery arrangements possible so that they will fit into the various stages of the refit of the ship. As Mr. Armstrong mentioned, the ship keeps deteriorating, they set a time when they want the refit done and we do our best. I think of the thousands of items we ordered, to have only eight key items, and those only late delivered mainly because of the Viet-Nam situation, is not too bad, but that is the way these things really have to be handled. There is considerable lead time on most of these component items.

Mr. Crouse: Thank you, Mr. Hunter, for answering one of my questions. I directed a few other questions to Mr. Armstrong, such as who and how many people were responsible for making up the original estimate and who are these men that ignored the fact that the flight deck needed to be painted, that the sides of the ship needed to be painted and that the bottom of a ship, once it is hauled out, would obviously need to be coated with red lead and anti-fouling compound before it

could be put back into the water. Who were these people that looked at the ship and made such a faulty estimate?

The Chairman: Perhaps Captain Maxwell can answer that question directly.

Captain T. W. Maxwell (Director of Maritime Systems Engineering, Department of National Defence): With respect to the painting, I would like to explain the process they use in refits. Until a ship is drydocked and until it is in the hands of the builder and a lot of the compartments are opened up and examined it is not possible to write a specification on which the builder can accurately tender. So, it has been the custom to state what painting is known in the first list on which the builder tenders and then, after the ship arrives in the shipyard, to make rather more thorough survey, and in the supplementary list another specification is prepared and the addition to the contract is negotiated. In this case the original specifications for the ship were prepared jointly by the Maritime Commander and the Principal Naval Overseer, Montreal, and the original $8 million estimate was prepared by the Director General (Ships) in Ottawa. In the case of work arising when the machinery or equipment is opened up in the shipyard, the decision as to what work needs to be done to put it in good operating order is made by the principal Naval Overseer at the shipyard.

Mr. Crouse: Was the Director General (Ships) not informed of the date on which this ship was last refitted? If he was, his experience in the maintenance and refitting of ships should have told him automatically that his estimate of some $200,000 for contingencies was not enough, because the action of the sea would have eroded paint and he would have automatically known that that ship's bottom, sides and top deck would have to be repainted if he were made aware of the date on which it was last refitted. Was this information not made available?

• 1055

Mr. Winch: May I ask a supplementary on the same point?

The Chairman: All right, Mr. Winch, a supplementary.

Mr. Winch: Did you call this person the Director General (Ships) in Ottawa?

Captain Maxwell: Yes. The names have changed, sir.

Mr. Winch: I mean whoever that was. Do I understand from an answer you gave Mr. Crouse that the Director General (Ships) in Ottawa is the man who was responsible on the unknowns for only putting in $200,000 for the entire refit?

The Chairman: You are referring to the painting only?

Mr. Winch: No, the entire amount was $200,000 and the painting alone was more than that. Is he the man on whom the ultimate responsibility must fall for recommending a total of only $200,000 on the unknowns of the refit?

Mr. Armstrong: I think one ought not to say that the ultimate responsibility falls on him. The Director General (Ships) is responsible for making the estimate. That estimate is ultimately submitted to the Assistant Deputy Minister of Logistics, who is responsible for reviewing it. It then goes to the Minister, who submits it to the Treasury Board, they review it again and it is finally authorized. That is the process. That is how it...

Mr. Winch: How in the world did this get by after all that?

Mr. Armstrong: I endeavoured to explain a little how it got by. There is no question about it, there was an underestimate of the probable arisings.

The Chairman: Gentlemen, I think at this point we will close. I think the Committee would like to know a little more about this item of painting. I think it is something we all understand and perhaps we will pick it up at the next meeting, which will be on Thursday morning at 9:30. Mr. Crouse, you are not quite finished with your questions. After you have finished we will have Mr. MacLean and Mr. Cafik.

Mr. Cafik: Mr. Chairman, before you close off, please. On page 54 of the Report of the Auditor General, Section 101, there are a number of items listed and I gather the various government departments do not particularly agree with the way it is expressed. I have picked this up from the comments made by the two gentlemen who are here today as witnesses. I wonder if it might not be a good idea if prior to our next meeting they could table some documentation in reply to Section 101. If they have areas of disagreement with the way it is expressed or the implications involved they might table it and we can look

at it and thereby direct our questions in a more intelligent way.

Mr. Henderson: If I might speak to Mr. Cafik on that point, Mr. Chairman, I would point out that before comments of this character are finalized they are submitted to the deputy minister and his associates for verification as to the correctness of the facts, therefore the department would have seen the text of this before it appeared in print. That is always the rule in my office with respect to everything the reports contain.

Mr. Cafik: Then what gives rise to these apparent contradictions?

Mr. Henderson: We would have the answers to some of them. In fact, I have a file here in readiness to answer one of them completely, if you wish.

The Chairman: What Mr. Henderson is saying, Mr. Cafik, is that before these paragraphs appear in print they are given to the deputy ministers of the various departments before they appear in this report.

Mr. Cafik: All right, but I still think it would be a good idea to give us the justification at least for these things.

The Chairman: The meeting is adjourned.

APPENDIX E

At the last meeting more precise particulars of pensions paid at an early age were requested by the Committee. The following are particulars of six cases taken from our working papers.

Pension No.	Rank	Age	Amount of annuity	Length of Service		Reason for retirement	Bases of Calculation		Salary on which based
				Yrs.	Days		CFSA Annuity		
			$						$
A1691	Chief Petty Officer 2nd Class	39	2,630	20	93	Economy and Eff.	10(3)(d)	100%	6,493.55
A1746	Petty Officer 1st Class	37	1,811	20	—	Voluntary	10(6)(c)	75%	6,038.11
A1911	Lieutenant Commander	40	3,242	17	339	Economy and Eff.	10(3)(d)	100%	9,041.61
A2102	Leading Seaman	30	871	13	42	Economy and Eff.	10(3)(c) (ii)(B)	70%	4,748.55
A2225	Petty Officer 1st Class	38	1,637	20	—	Voluntary	10(6)(c)	75%	5,455.00
B8822	Sergeant	28	745	11	29	Economy and Eff.	10(3)(c) (ii) (B)	70%	4,805.61

In the current and previous reports we have commented on the number of servicemen who were retired at ages ranging from the late 20's to age 40, with immediate annuities.

My comments in no way related to servicemen reaching the retirement age specified for their ranks but rather to retirements before the ages specified.

The Department of National Defence has been considering the advisability of introducing deferred pensions similar to those available to civilian employees for men being retired at these early ages and departmental proposals have been considered by the Cabinet, but the details have not yet been released.

HOUSE OF COMMONS

First Session—Twenty-eighth Parliament

1968-69

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: Mr. A. D. HALES

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 14

THURSDAY, FEBRUARY 6, 1969

Public Accounts, Volumes I, II and III (1966 and 1967)
Reports of the Auditor General to the House of Commons (1966 and 1967)

WITNESSES:

(*See Minutes of Proceedings*)

THE QUEEN'S PRINTER, OTTAWA, 1969

29605—1

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. A. D. Hales

Vice-Chairman: Mr. T. Lefebvre

and Messrs.

Allmand,	Flemming,	Noble,
Boulanger,	Forget,	Noël,
Burton,	Leblanc (*Laurier*),	Rodrigue,
Cafik,	MacLean,	Tétrault,
Crouse,	Major,	Thomas (*Maisonneuve*),
Cullen,	Mazankowski,	Winch—20.

(Quorum 11)

Edouard Thomas,
Clerk of the Committee.

MINUTES OF PROCEEDINGS

THURSDAY, February 6, 1969
(16)

The Standing Committee on Public Accounts met this day at 9.35 a.m., the Chairman, Mr. A. D. Hales, presiding.

Members present: Messrs. Allmand, Boulanger, Burton, Crouse, Cullen, Flemming, Forget, Hales, Leblanc (*Laurier*), Lefebvre, MacLean, Mazankowski, Noble, Noël, Rodrigue, Thomas (*Maisonneuve*), Winch (17).

Witnesses: Mr. A. M. Henderson, Auditor General of Canada; Mr. E. B. Armstrong, Deputy Minister, Department of National Defence; Mr. G. W. Hunter, Deputy Minister, Department of Defence Production; Capt. T. W. Maxwell, Director of Maritime Systems Engineering, Department of National Defence; Mr. R. D. Wallace, Associate Director, Shipbuilding Branch, Department of Defence Production.

The Committee questioned the witnesses on the refit of the *HMCS Bonaventure*, in particular the painting.

The Deputy Minister of National Defence was instructed to provide the Committee with the name(s) of the person(s) responsible for estimating of cost of the refit of the *HMCS Bonaventure*.

The Deputy Minister of Defence Production was instructed to provide details as to the department's reply to the observations made by the Auditor General prior to publication in the latter's report.

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

Edouard Thomas,
Clerk of the Committee.

29605—1½

EVIDENCE

(Recorded by Electronic Apparatus)

Thursday, February 6, 1969

• 0937

The Chairman: Gentlemen, come to order. At our last meeting, Mr. Armstrong gave us a list of items that were estimated wrongly. Among those items there was one concerning paint; the paint used for painting the *Bonaventure*. I made the suggestion at the close of the meeting that maybe we should stay on that particular point of the underestimating of the use of the paint. It was a matter of a million and twenty-one thousand dollars.

My suggestion was that this matter of paint would be more easily understood and followed, and it should have been something on which the estimating could have been more accurate. I would suggest that the Committee follow that through, and the same principles that apply in the estimating of paint would more or less apply to other things. It is not such a technical item. So I think the Committee should maybe follow that through and then we will proceed with any questions that you wish to ask.

When we closed I had a list of names; Mr. Crouse was just finishing, and we had Mr. MacLean and then Mr. Cafik. If Mr. Cafik does not come, Mr. Cullen is next and then Mr. Winch. So Mr. Crouse, were you finished at the last meeting?

Mr. Crouse: Not quite, Mr. Chairman. There were one or two questions that arose as a result of the replies received from Mr. Armstrong and Mr. Hunter. On page 55, after the refit started the Treasury Board approved $400,000 or almost half a million dollars for painting, and this later proved to be $621,000 short. They had not estimated enough, and the final costs were $1,021,000.

I would like to know what explanation can be given for this type of estimating on a simple matter like painting, a matter which is not too difficult to estimate, and which is not a highly technical matter.

• 0940

The Chairman: Have you any specific questions, or do you want a general answer?

Mr. Winch: Mr. Chariman, I wonder whether I could ask a supplementary here, and I have a very good reason for it. Maybe that will move me up the list, but I think this is the right time to raise it because it brings in this question of estimating. Not only I, but also the Committee, would not like a continuation of questioning where there might possibly be a reflection on those who did the working papers or estimates. So, therefore, could I ask—and this may clear the air—could I ask Mr. Armstrong if on the original working papers and estimates, the provision which was thought to be required for the refit of the *Bonaventure* was originally in the neighbourhood of between $12 and $14 million, and that cuts were made after that? If so, were there in the original working papers and estimates such items as Mr. Crouse now has in mind?

You see my point sir. If there was an original estimate of refit cost in the neighbourhood of $13 or $14 million, the responsibility on the cut-down and the fact it eventually ended up costing $13 or $14 million, would not rest on those who did the working papers or estimates. I hope you agree, sir, that this was a correct supplementary at this time?

The Chairman: Well, Mr. Winch, I think we covered that in our first meeting pretty well.

Mr. Winch: Not on the question as to whether or not in the original working papers and estimated, the amount was not $8 million; it was around $13 or $14 million. That has never come up before. And, I think this has a very important bearing if you are going to allocate responsibility. I am sorry if I was out of order, sir, but I thought it was the right place for it.

The Chairman: Well, Mr. Armstrong, if you wish to make a comment, I will accept it.

Mr. E. B. Armstrong (Deputy Minister, Department of National Defence): I would like to keep this separate from the paint question, Mr. Crouse's question, which we can deal with afterwards. On this particular

question, I do not recall myself specifically, but I believe it is a fact that in the original surveys that were made and came in, as they must do for examination at headquarters level, the figure was in the area of $12 million. This particular refit had been programmed. We do a five-year program. I think you are all familiar with the system. It had been programmed at $8 million.

The people who examined and had in the final analysis to recommend the work that had to be done did eliminate certain of the work and reduce the estimate quite a bit, with the expectation that the work could be controlled within the $8 million limit. That did happen. So as to your question, Mr. Winch, it is a fact that in the original papers that were worked upon this, the estimate was quite a bit higher than $8 million, and it was reduced.

The Chairman: All right.

Mr. Armstrong: Now, on Mr. Crouse's question about paint...

Mr. Boulanger: Excuse me. You said the original papers were in the vicinity of $12 million? Where are these original papers? Where are they now? I mean, was that kept as a record?

• 0945

Mr. Winch: Are they available?

Mr. Armstrong: They probably are available somewhere in the records.

Mr. Boulanger: I want to know if those papers were then shown to others who were called to make new tenders or new estimates, to go down around $8 million. Were they the same people?

Mr. Armstrong: Let me explain how this worked. I think I did explain it to some degree at the last meeting. The ship is surveyed, as I explained. It had to be surveyed during a period when it was in operational service. This survey is done essentially on the Coast, and is basically the responsibility of the Maritime Commander in the dockyard.

There are two aspects to this kind of a job on a ship. The conversion aspects come down through from that source to headquarters to be reviewed, examined and approved by the Director General of Ships at National Defence Headquarters. The refit, or the other side of the work, comes down through to the Director General of Support Facilities. At that point the two are brought together, and the actual management of the project is then taken over in total by the Director General of Support Facilities and goes down through, at that time the Chief of Naval Technical Services; now, with an integrated single service, the Chief of Technical Services. It then goes on to what is now the Vice Chief level and his staff to examine the operational side of the various changes, that are to be made.

It then comes through to the Deputy Minister, through, as I explained, an Assistant Deputy Minister who is called Assistant Deputy Minister Logistics; it is reviewed by him and eventually goes through to the Minister and then through the Treasury Board for approval.

In the way the Department of National Defence operates, we program for a five year period and normally add to that one year every year. Most of you gentlemen will recall that in 1964, we specified pretty much the program for the next five years; you will remember when the White Paper on National Defence came out, and this was one of the items in it. We had programmed at $8 million at the time.

The people who examine this, when it comes up from the East Coast, are there to put the policy aspects in from National Defence Headquarters, and they, in performing the job they were expected to do, examined this with a view to endeavouring to get the work done for $8 million—limiting the amount of work that was to be done to the $8 million in the estimate, and, in fact, that is what came out.

As I explained last week, they had hoped that they could do this and control it at this level. When they got into the ship, opened up the machinery and so on, there was just nothing they could do but to extend it, and as a result the cost went up as indicated.

I am personally satisfied, having looked at the problem as it proceeded, that the work that was done had to be done. It was necessary work, and there really was no choice but to do it.

• 0950

I am also satisfied that spending the amount of money on that asset was worth doing, that this was a valuable maritime asset in our force and that it was worth spending that amount of money on it.

In terms of the over-all budget, as you perhaps appreciate, when a thing like this

happens what we have to do is really defer something else. We do not add to the budget. We substitute this for something else, because we are operating under more or less fixed budgets in the Department of National Defence. As far as we are concerned, adding this $4 million was a higher priority than something else.

The question then arises, and this is one I have difficulty answering—it is a matter of judgment—and I am convinced there was no way of specifying in advance all this work. We might have said, "It will cost $12 million", or something like this, but you would not be able to specify it unless you took the ship apart to find out what these difficulties were. Had we said $12 million, maybe we would have had a lower estimate; I do not know. I would be rather skeptical. Our advisors in the Department of Defence Production tell me that for the amount of work that was done—and I am satisfied it had to be done—that the price was a reasonable price for it; that it was not an excessive price to pay to get that work done.

I would just like to say one more thing, if I may, because I have been a little concerned at seeing reported in various places that this is a gold-plated ship. I do not know whether any of you gentlemen have been aboard it?

Mr. Winch: Yes, I have.

Mr. Armstrong: I have been on it many times and if there is one word that does not describe this ship, it is "gold-plated". The men who work on that ship sleep in bunks that are about three deep. Thank goodness they are all slim men or they would never be able to get into them. They have very small messing facilities which are also used for their lounge room and their recreation room. They work 24 hours a day. There are people sleeping while others are sitting in the lounge, which is adjoining, trying to enjoy themselves. This is not a gold-plated ship in any sense of the word.

Mr. Winch: Mr. Chairman, if I may...

The Chairman: Wait a minute, we are getting out of order here.

Mr. Winch: On the "gold-plated", if I may...

The Chairman: Mr. Armstrong is answering the gold-plated part.

Mr. Winch: I thought he asked if anyone had been on board the ship.

The Chairman: You answered you had been on board, Mr. Winch.

Mr. Winch: And it is not gold-plated.

Mr. Lefebvre: Mr. Chairman, may I ask a supplementary here.

The Chairman: Mr. Armstrong, you are finished then...

Mr. Lefebvre: A supplementary?

The Chairman: All right, Mr. Lefebvre.

Mr. Lefebvre: Mr. Armstrong, would it be fair to say that my opinion from your answer, is that you fellows knew all the time it was going to cost around $13 million, but you were restricted to about $8 million? Did you hope to get the $8 million part approved in one year, and hope that you would get another $4 million or $5 million the following year, knowing that this refit would take more than a year to go through?

Mr. Armstrong: This was not my hope. You are saying did I hope. This is not my hope. No, I think that is not entirely right. The men who cut this estimate back to $8 million believed that they could control it to that level. When you say we would get the extra $4 million later, as I explained, we were operating under a given ceiling level of money. We were not going to get an extra $4 million. If we spend that $4 million, then we have to make the decision as to what we will not spend it on. So that there is no advantage in our saying, from a money point of view, "Let us estimate it at $8 million, and we will get the $4 million later".

Mr. Lefebvre: This is the way it ended up, though?

Mr. Armstrong: Yes, but we had to transfer it from something else, because our total budget during this period was based on a fixed ceiling. Do you understand me?

Mr. Lefebvre: I am not sure.

Mr. Armstrong: No. Our total budget in this five year program had been predetermined that it was going to be at a certain level. The usual job in examining a budget is a question of making choices. You only have so much money, and we only had so much money. So as it turned out, when we had to spend $12 million on the *Bonaventure*, which we thought it was right to spend in the circumstances, this in effect meant we had to

make a choice of where we would spend $4 million less on something else. Do you follow me?

• 0955

Mr. Lefebvre: Yes, I understand that part.

The Chairman: Yes, Mr. Crouse.

Mr. Crouse: Mr. Chairman, I have listened with interest to the reply given by Mr. Armstrong to my question but we still have not had any indication of why the cost of the painting was escalated. So far as I am concerned, we are not questioning in this Committee the necessity of spending this amount of money nor are we questioning the value which Canada received in the over-all cost of the ship. What we are questioning here, as far as I am concerned, is the qualifications of the people in high places who have authority to make faulty estimates. We have seen this happen with the National Arts Centre, where costs have escalated from $10 million to $50 million, and I am concerned with the fact that we have people receiving high salaries, and who are rated as specialists, giving wrong figures to the department; and this, from the testimony given by Mr. Armstrong, is not entirely due to his department. It seems to me that this fault rests with the Department of Defence Production. I realize I am being a little rough on Mr. Hunter this morning, but I would like to know if the cost of painting which was estimated in the $200,000 contingency amount which is listed on page 54, and, if not, why was it not listed?

Mr. Armstrong: Perhaps I could deal with the question of painting. Because of the problem of deterioration of paint work, that can take place during the refit—

The Chairman: Wait a minute, the question is was the painting included in the $200,000 in the contingency amount?

Mr. Crouse: That is right, Mr. Chairman.

The Chairman: Was it included there, Mr. Armstrong, or not?

Mr. Armstrong: The answer is that the painting was not included in the estimate.

The Chairman: All right.

Mr. Armstrong: Except to a very minor extent, as I indicated earlier.

The Chairman: That is the question, and that is the answer.

Mr. Crouse: We have been told then, Mr. Chairman, that the Director General for Ships in Ottawa is the one responsible for estimating. Mr. Chairman, it would be possible to have the Director General come before this Committee and explain the over-all reasoning for this type of very faulty estimating.

Mr. Armstrong: I would be glad to give you some explanation here, if you would like it.

The Chairman: All right. Why was the paint not included in the original estimate? That is what we want to know.

Mr. Armstrong: I was about to say there are certain reasons for this. One, as I said, is there is, in the ordinary course of events, in the course of a major conversion and refit, deterioration of paintwork because of the work that is done on the ship. It is the customary practice, as far as we are concerned, to include only a very moderate amount of painting in the initial requirement. I think I mentioned at the last session that there was a moderate amount of painting on the top side of the ship that was included. It is necessary to survey the condition of the paintwork later, as the work progresses and before the repainting is ordered, to establish precisely what is to be done, and what kind of paint is required. Those surveys are conducted after the ship is in the yard, and as little in advance of the actual work as is practicable.

• 1000

As far as the underwater painting is concerned, this does, in fact, have to await docking of the ship before an adequate survey can be made. The actual surveys in this case did show, when they were undertaken, very considerable deterioration of the paint work, and also particularly the interior painting because of the disturbance in the major work that was done to the ship. This was an on-the-spot survey that was made by not only the people in the maritime field, but in this particular case officers of my own branch and officers of the Treasury Board participated in the survey on the internal work. It was agreed, having gone through the ship, that there was no doubt that the ship had to be repainted internally. That, of course, is a very large item that cost $495,000, I believe.

I could go through and give you more detail as to the actual paintwork and the nature of it, if you are interested.

Mr. Crouse: Mr. Chairman, one question arises from that. Was the date of the last refit of this ship known when the refit was ordered?

Mr. Armstrong: This ship had never been refitted since we got it.

Mr. Crouse: Then we come right back to my point of having faulty estimators go over that ship. Anyone knowing anything about the sea would realize that a ship that had never been refitted would automatically require its bottom scraped and painted and covered with anti-fouling compound. In fact if the ship comes under the same type of inspection as that required by the department of steamship inspection for commercial shipping, it would also have to have the rudder removed if it had a rudder or if it was not using some other type of steering mechanism. It would have to have the shaft removed, it would have to have the cutlass bearings checked, the propellers checked. All these things are automatic under the department of steamship inspection. They must be done in some ships in three years, in others in four. This applies whether or not the ship is at sea; it is automatically known that the ship's bottom must be repainted. Are we to sit here and be told that this estimate by people from the Department of Defence Production was not made and that no provision was made for this type of work in the repairs? This is faulty estimating.

Mr. Armstrong: I should make it clear that the Department of Defence Production is not responsible for the estimating. The Department of Defence Production is responsible for contracting for the work. It is the Department of National Defence that specifies the work to be done. That is our job. There seems to be some misunderstanding in this.

Mr. Crouse: Mr. Chairman, we still have not been told the name of the man or men who went on board that ship and did this type of estimating which has proven to be so faulty.

Mr. Armstrong: I do not have the names of the men with me. A number of them, I think, have since retired because of age. I am prepared to give names if you want them but...

Mr. Crouse: The purpose of this question, Mr. Chairman, is to see that this does not happen again. That is the only reason. We cannot undo this costly error, but if these people are still in a position to do this type of work again, then this does not make for efficiency in government. That is the whole purpose of my question.

The Chairman: Just ask a definite question and Mr. Armstrong will try to give a definite answer.

Mr. Armstrong: I would like to. As you say, we must see that this will never happen again. I hope it will not, but believe me, these are complicated, difficult problems. I would like to quote—I happen to have read this since the last meeting—Mr. Clifford, the Secretary of Defense of the United States as he was reporting to Congress. This was dealing with carriers.

• 1005

> A year ago, plans were to begin modernizing the carrier F. D. Roosevelt in FY 1970. It has been found, however, that her sister ship Midway is taking so much more time and money than originally estimated—24 months and $88 million vs. 48 months and $178 million—that plans now are not to modernize it but merely give it an "austere overhaul."

I am just suggesting to you, Mr. Crouse, that it is not always possible in these very complicated warships to be right the first time. I would not want to indicate to the Committee that this will never happen again. I think, from my own experience, that it is quite possible that it will.

The Chairman: From the experience of the Public Accounts Committee, Mr. Armstrong, it has happened and has continued to happen. We have been through this on Public Accounts from year to year and it does keep cropping up.

Mr. Crouse: Just one final question, Mr. Chairman, and I will pass.

Was there a government estimator appointed on this job? What was his name and how much experience did he have in ship construction and repair?

Mr. Armstrong: I will have to take notice. I just do not have it in my hand.

The Chairman: All right. Mr. Allmand, on a supplementary, and then Mr. MacLean.

Mr. Allmand: Mr. Armstrong, Mr. Crouse just said he was asking these questions to avoid another great waste of money in the future. Was the final expenditure a waste of

money or is this really a situation where there had been a bad estimate of what it would cost?

The Chairman: This was answered at the last meeting.

Mr. Allmand: Yes, but I want to make it clear.

The Chairman: It is all right if it is a brief answer, but it was answered.

Mr. Crouse: I have to object to that question. I did not say it was a waste of money. What I said earlier is that we are not concerned with the final cost of the ship. We realize that the final cost was satisfactory to the Canadian public, but what we are concerned about is the type of estimating which makes it almost impossible, according to the witness' information, for a Cabinet minister to bring in correct estimates. When we have faulty estimating of this kind, it is obvious that we must take funds from once source, according to the testimony given by Mr. Armstrong, in order to make up for the errors in the faulty estimate.

Mr. Allmand: I thought you said there was a waste of money.

Mr. MacLean: Mr. Chairman, perhaps I should explain to the witness, to begin with, that I am just a temporary member of this Committee. I want to ask him, and you as well, to be patient with me if I inadvertently ask questions which have been asked already. Secondly, I have not had the opportunity to study the whole thing as closely as I would like.

With regard to the firm tender which was granted for the part of the business of this firm, am I correct in assuming that that part of the contract was done within the tender?

Mr. Hunter (Deputy Minister, Department of Defence Production): Mr. MacLean, we got the original specifications for the work that National Defence felt should be done and that they hoped to control. It came, I am told, in 31 separate requisitions. We went out to tender for all of the known work that DND were able to described at the time and, as Mr. Armstrong said to which they hoped limit it during this major refits.

As I mentioned the other day, our tender came roughly to $4.9 for the known work with an allowance of 200,000 hours for work which we expected would arise, which made it about $5.7. This was actually less than the amount shown in Mr. Henderson's comment as being $4 million plus $2.3, so that our actual tendering for the known work at that point, had it been possible to limit it to that in this refit, was actually less than had been estimated. As mentioned the other day the work arising that had to be done at the time did not stay within the 200,000 hours; in fact it was 624,000 hours, but for our original tender we were actually within the estimate that National Defence gave us.

Mr. MacLean: The contractor satisfactorily performed that original contract within the bid.

Mr. Hunter: This was a firm price, Mr. MacLean.

• 1010

Mr. MacLean: Yes, a firm price. Secondly, there has been a great deal of talk about and evidence given in the Committee with regard to this estimate being very low and finding when the ship was stripped down that there was a great deal more that had to be done.

Mr. Crouse and others have been very critical of the technicians who estimated what these extras might be. I do not feel as critical of them as some other members do. It was suggested, for example, in the House of Commons on February 3, 1966,—I might have the date wrong; perhaps it was January 7, 1966—there was a little bit of clairvoyance going on with regard to the crew of the ship knowing in advance, before the tenders were actually let, where the ship would likely be refitted. I do not want to say any more about that, but surely it is recognized that there is a bit of clairvoyance up and down the chain of command, as well as laterally, and that there might well have been a feeling that if these estimates of extras that had to be done were put in at a generous figure which would be sure to cover all of them rather than an unrealistically low one, there would be some difficulty in having Treasury Board approve of this figure as a part of the Defence estimates at that time. There is naturally—I think naturally anyway—a predisposition to estimate a bit low in situations of this sort so that they will be approved by Treasury Board. I think this is something that happens from time to time. However, I agree that even if you did not turn out to be as lucky as you might have hoped to be when the ship was stripped down and the extent of the expenditures necessary for this was found, it does not follow, in my judgment, that the

expenditure of this extra $4 million was bad business. As Mr. armstrong has said, I think all things considered it was obviously money that would be spent to good advantage.

The Chairman: Excuse me, Mr. MacLean. What is your particular question?

Mr. MacLean: The particular question is that I want to be sure that the prime contractor did not make more profit and excessive profit on these extras. I understand there was a subsidiary estimate for the extras in each of the tenders. Was the successful tender on the main contract also the lowest tender on the extras?

Mr. Hunter: Sir, there were no outside tenders called for the extras because, as you realize, this ship was in the yard of Davie Shipbuilding. The thing was opened up. There was really no way of having it closed up and calling tenders and having the possibility of its going anywhere else. In the original contract Davie Shipbuilding bid a firm price in which he included labour at $3.95 per hour.

I mentioned the other day that there were possibly 500 people, as an average, working on this ship through the whole period. During that year that he bid for this job he had a total of 2,400 people working in that yard; therefore, the overhead was being absorbed by 1,900 other people on direct labour hours. Therefore, he was able to bid quite low.

• 1015

We felt that this $3.95 was a very good rate. We deal with shipyards every day and we know that that is what could be called below cost; it is perhaps not below cost, but it covers all his variable overhead; and these other jobs were taking the difference between that and his average rate.

At the end of the 12-month period we had to negotiate with him for a further 18 weeks. The work he had foreseen, or had in the yard, had fallen off at this time.

We sat down, with the full knowledge of his costs—in fact, all his costs at this point, because we had to negotiate with him—and we negotiated a rate of $5.10 per hour. To bear out our judgment I should say that the other two original bidders had used $5.00 and $5.05, therefore we felt—in fact, we knew from full information—that $5.10 was not an excessive rate and we were quite satisfied that no extra profit was made. He actually made the cost of his materials plus 7.5 per cent, an overhead rate of $5.10 and certain direct charges to the ship, which is normal in all shipbuilding.

Mr. Crouse: May I offer my apologies? The Committee on Fisheries and Forestry is sitting at 10 o'clock. They are unable to start because they lack a quorum. I wish to be excused.

The Chairman: You are excused, Mr. Crouse.

I realize that these are technical questions and answers but we are making them altogether too long. May I ask you to keep them shorter?

Mr. MacLean: I have just one further question for the purpose of clarification. Of the original tenders, the highest, I understand, was almost $3 million more than the lowest. The figures the Minister gave in the House were $5,768,000 for the lowest and . . .

The Chairman: These were given the other day, Mr. MacLean. We have them.

Mr. MacLean: Are you satisfied that had the tender been given to the highest bidder the total cost would have been that much higher, as well? Is that a fair assumption?

Mr. Hunter: I would think so, sir; because the high bid, as you rightly say, was $8,572,000 for the known work package that went out, on which Davie Shipbuilding Ltd. bid $5,768,000. Had the same thing occurred at the end of a 12-month period we would have had to sit down with the high bidder and negotiate on material and time rate for another 16 weeks' work. Assuming they were equally efficient and had reached the same spot we would have had to do the same thing, and that would have been added on; therefore, the cost would have been. . .

Mr. MacLean: That is the point I want to make clear. You did not become a hostage to the contractor in negotiating the extras, and you got good value.

I just want to say that although the navy has not had this trouble to any great extent in the past, after all, this is an aircraft carrier and there are airplanes involved. There may have been some gremlins in the works.

Mr. Hunter: Yes.

The Chairman: May I interject here relative to one question Mr. MacLean asked, or suggested, Mr. Armstrong?

Is it a fact that the Department estimates low when putting an estimate before Treasury Board in the hope that it will be passed? Does this happen?

• 1020

Mr. Armstrong: You ask me if it is a fact; I suppose it does happen occasionally. As far as I am concerned, and in all the advice I give, we must estimate as accurately as we can.

This is a basic problem in programing. If you underestimate you must find the money from somewhere else and your program goes off kilter. The object is to get as close as you can. We do not make a practice of endeavouring to get through the Treasury Board with a low estimate. I do not think so. We try to do our best to get...

The Chairman: The Committee can have your assurance that when your Department is putting estimates before Treasury Board you give instructions to your officials that they must be as accurate as possible?

Mr. Armstrong: There is no question about that.

The Chairman: I think if is most important that the members of the Committee have this assurance.

Mr. MacLean had you finished?

Mr. MacLean: I have finished.

The Chairman: Mr. Cafik is not here. Mr. Cullen?

Mr. Cullen: Thank you, Mr. Chairman. I understand we were supposed to be limiting ourselves to the painting...

The Chairman: Yes, I would like to, although I have been lenient on it.

Mr. Cullen: Perhaps I could have this point confirmed. There was no suggestion that this $200,000 contingency in any way envisaged the $1 million paint job that ultimately took place? I believe you answered that question.

Mr. Armstrong: I think I did, yes.

Mr. Cullen: What strikes me in all of this is that is is not really a matter of a wrong estimate. It is just that it was necessary to do a job that had to be done.

Apparently, in the first instance, the estimates were correct, and once the ship was opened up there was additional work you had to do. It seems to me you took on additional work that you had not planned for in the original estimates. In other words, there was work that would have been postponed and you did at this time rather than postponing it.

Mr. Armstrong: We did it at this time because there was really no choice when it was opened up. There was work that had to be done, for example, on machinery and other things, on which we just had no choice at all.

I recollect one item. A pump was taken apart and after they did that it was impossible to put it together again. We had to replace it. It was not in the original estimate.

Mr. Cullen: On the painting aspect of it, and having looked at the estimates, one of which was for $8 million, surely this paint job could have been foreseen. Was this $1 million of paint work something you had originally intended to postpone and then did as a result of the opening up?

Mr. Armstrong: What was hoped for was that we would not have to do it; that a certain amount of patch-painting would be done, but not the extensive paint job that was finally found to be essential.

Do you wish me to deal with the individual items of painting?

Mr. Cullen: I am thinking specifically of someone estimating a job. Although I have not seen the ship it seems to me, as a layman, that the painting aspect would be obvious.

The Chairman: Before you answer that, Mr. Armstrong, may I say that I think Mr. Cullen has a very pertinent question here. He wants to know why your Department did not foresee that there would have to be roughly $1 million worth of painting done on this ship? You did not put any of it in the original estimate, or if you did, it may be in as a contingency. How much of the $1 million did your Department put in the original estimate?

Mr. Armstrong: I think I have already answered that. It was $150,000, I believe.

The Chairman: In the original estimate there was $150,00 for painting. Now we have that clear.

Mr. Cullen: Yes.

The Chairman: Proceed.

Mr. Armstrong: I think I have explained at other than this meeting that we did not include this for a number of reasons. Certain

surveys have to be made after a ship is in the course of refit.

The Chairman: This is a point we may want to know about.

• 1025

Mr. Armstrong: Let us take the flight deck which, as you know, sits up on top of the ship. Everybody can see it. The coating on the deck had not been repainted for a good many years but had been patched. Before the ship went into refit it looked reasonably good and we thought perhaps we could get by with doing no more than further patching it up. Half-way through the refit it became quite obvious that it had to be repainted.

The technical term is that the paint was "spalling" which means that there was loose paint on the deck. With the type of aircraft used on there this is very dangerous because it can be sucked up into the engines and can cause the loss of an airplane very quickly.

As a consequence, it was decided that there was no choice but to repaint the flight deck. That is a very difficult operation because it is a special non-skid paint. All the old paint has to be taken off right down to the surface, and this nonskid paint has to be put on very carefully, with a completely dry surface. After the surface is prepared the actual job is done by using a small cupboard such as you would use to fish through ice—if I can so describe it—and painting a very small patch of the deck at a time under this cupboard. It is a difficult and expensive job.

The Chairman: What was the cost for the flight deck alone, Mr. Armstrong?

Mr. Armstrong: The flight deck cost $216,000.

The Chairman: Mr. Boulanger?

Mr. Boulanger: Relative to the answer you gave on the painting of the flight deck of the ship—I will not call it a boat any more . . .

Mr. Armstrong: That is all right; call it a "she" if you like!

Mr. Boulanger: . . . while the people were working on the ship, I would say, from my experience on such contracts, that possibly the work involved in handling material, and so on may also have damaged the paint. Would that be a reason for your having paint it?

Mr. Armstrong: Exactly; that was one of the points I was making, that on such a job you really have to determine the final paint job some time later; because in the course of a major refit of this kind there are all kinds of disturbances that affect the paint.

Mr. Boulanger: Why did you not say that right away?

Mr. Armstrong: I thought I did tell you that.

Mr. Boulanger: That is an important aspect, and it would have made all the difference to someone who has had experience of such contracts.

Mr. Armstrong: I am sorry; I thought I had said that.

The Chairman: Mr. Cullen?

Mr. Cullen: I have just one other question, Mr. Chairman.

The Chairman: All right.

Mr. Cullen: Unfortunately, I cannot read my writing and I do not know which particular job this was, but it relates to an amount of $495,000—almost half a million dollars—which I think was under the heading of painting. I wondered if this was something that you had to open up the ship to find out about.

Mr. Armstrong: On the internal painting, and I think I mentioned it earlier, we did not make a specific allowance for a thorough internal paint job on that original estimate. We thought it might be possible to touch the paint up. However, the internal structural disturbance during the refit was such that there was no choice but to repaint the interior of the ship and, as a consequence, it was added to the contract. That was the largest paint item; it cost $495,000. Now, there is 1½ million square feet of painted surface inside that ship.

The Chairman: Mr. Armstrong, while you are on this could you give us the cost of painting the bottom and the sides? Then we will have complete figures.

• 1030

Mr. Armstrong: The underwater hull was $156,000. I gave you the flight deck. The ship's side and superstructure was $86,000.

The Chairman: I do not want to interrupt you but would it not be a fair assumption that the estimators should have been able to decide on the cost of the bottom, the sides of the ship and the flight deck and leave a question mark for the interior? In the original estimates none of those really hinged on the opening up of the ship. They were all visible before you started the work. Would you not have been wise to have put these figures in your original estimate at the very start?

Mr. Armstrong: I think I have already dealt with the flight deck. It was visible, of course, but the deterioration took place in the course of the refit, or at least a considerable amount of deterioration. Of course, you have to get the ship out of the water before you can examine it.

The Chairman: I know, but you would know that the bottom would have to be done because of the age of the ship. I do not think there should have been any doubt there. Follow on with your questions, gentlemen; I will keep out of it.

Mr. Armstrong: You say there should not have been any doubt. There was some doubt whether it would have to be done. The bottom had not been done for eight years but the experience with a particular type of paint—there is a very special paint on there—was good and I think there was some expectation of the possibility of not having to do the whole thing over again.

The Chairman: I do not want to be assuming the feeling of the Committee too much, but it would appear to me that you kept the first estimate you put in far too low with the hopes that Treasury Board would accept your request, and you said, "Now, we will leave out this painting. I think we may have to do it; we may not, but we will leave it out. We will not put it in the first estimate and then we will come back on the second crack and we will put it in there."

Mr. Armstrong: The motivation that you assign, I think, is not one I would personally accept in the hopes that the Treasury Board would approve it. My personal experience with the Treasury Board is that if we have a justifiable case and it is within our budget, they will approve it and I would not have been personally concerned if we had had to justify a higher estimate.

The Chairman: You said earlier that you gave your Department instructions to estimate truthfully and carefully and as exactly as they could when submitting to Treasury Board.

Mr. Armstrong: If I may say so, Mr. Chairman, the point that I am not apparently being successful in getting across is that the people who assessed this at $8 million did so in the hope that they could manage this to that level. They did not succeed in managing it to this level.

The Chairman: No wonder they did not succeed, because it is as evident as can be, I think, to the Committee that those painting jobs would have to be done and should have been in the estimates. Mr. Boulanger?

Mr. Boulanger: On a point of order, Mr. Chairman, when you say it is evident to the Committee, I do not quite agree with you.

The Chairman: All right. You express your views then, Mr. Boulanger...

Mr. Boulanger: I have been quiet because I have already asked a few questions, but I am not too prepared to say that it was all that wrong, or that bad, so do not put...

The Chairman: Words in your mouth?

Mr. Boulanger: Do not be sure that we all agree on that.

The Chairman: Mr. Cullen?

Mr. Cullen: I had one question that arose out of your comments, I think; it was the internal painting aspect of it and that it would cost about a half a million dollars. This morning when Mr. Crouse was questioning you he made some comment—and he is in this business—that regulations require for some ships after three years the hull work must be done and for others four years, and yet with this ship a paint job had not been done for eight years. Do the regulations apply to naval ships as well?

• 1035

Mr. Armstrong: I would have to ask a technical expert in order to answer your question. I am not sure of those regulations you are speaking of but apparently they do not apply to naval ships.

Mr. Cullen: I suggest, with respect, that they might be used as some form of guide. If an expert is looking over a ship and other ships require repainting after three or four years, and this one had not been done for

eight years, it might have been a good guide. I wonder why the experts would not have used that regulation even though it does not apply? They might have used it as a guide.

Mr. Armstrong: You are speaking of painting the bottom of the ship?

Mr. Cullen: Yes.

Mr. Armstrong: As I explained, there had been good experience with the type of surface that was on the bottom of the ship. Obviously, you cannot be absolutely sure until you get the ship out and examine it in drydock and in the course of a ship being out in drydock—and this ship was out for, roughly, a year and a half, I think—that type of paint deteriorates when it is out of the water. The people who did the original thinking on this thought, based on their experience with the use of that paint, that perhaps they could get by with patching up the bad spots. This did not turn out to be the case.

Mr. Cullen: Thank you, Mr. Chairman.

Mr. Lefebvre: May I ask a supplementary, Mr. Chairman?

The Chairman: Mr. Lefebvre, a supplementary.

Mr. Lefebvre: Referring to the painting, while I have had no experience in the Navy at all, I always was under the impression that the crew of a ship like this would do a lot of the painting, especially above the water line. Was this contemplated and then a change of mind resulted in the decision that the contractor might as well do it? I am asking this because if it is a normal procedure for the crew to do some painting, these men whose salaries are already paid, it might have resulted in a great saving to the taxpayer. Is this a procedure that is followed?

Mr. Armstrong: The crew, of course, do painting when the ship is in service. On your specific question, as far as the internal painting is concered, it had been hoped that if this were not extensive it would be possible for the crew to do some patch painting after the ship was refitted but, as I said, in the course of the refit because of the disturbance caused by taking the ship apart the paint was in such condition that this clearly was not a practical way of doing it.

Mr. Lefebvre: I was under the impression that it is a normal regulation for painting of these ships be kept up by the crew on a regular basis, so that it would not deteriorate to the point you said.

Mr. Armstrong: In some painting, yes. Obviously they are not going to be painting the bottom of the ship.

Mr. Lefebvre: Anything above the water line, I said.

Mr. Armstrong: Above the water line, if there is a rough spot, the crew clean it off and patch it up. They do this but this is a patch-up job when the ship is in operation. I think I am right in saying that; I had better ask my experts.

The Chairman: Mr. Boulanger?

Mr. Boulanger: There is one thing that your experts...

Mr. Lefebvre: Just a minute; he said he was going to ask his experts on this.

The Chairman: Yes, but while he is getting the information...

Mr. Armstrong: He did confirm what I said.

The Chairman: All right. The confirmation was that the staff did not help in the ...

Mr. Armstrong: No, the confirmation was that the staff do. When the ship is in commission in an operation they do patchwork in painting to keep the ship in reasonable condition if they can.

The Chairman: Mr. Boulanger?

Mr. Boulanger: Your expression should have been more precise. When you talk about paint on a ship, that is a special type of paint. I want you to make it clear because I know the difference. If that special type of paint is on the bottom of a ship, when it is taken out of the water is it not a fact that the longer it stays out and dries the more risk there is of its being spoiled altogether after so many months?

• 1040

Mr. Armstrong: This is true when it is out of water. That is what I said; it deteriorates.

Mr. Boulanger: You must go further. It deteriorates faster than any other type of paint or any other materials. You should be precise, because I know that.

The Chairman: I think Mr. Armstrong did say that, Mr. Boulanger.

Mr. Boulanger: I did not quite get it. You did not express it as well as you should and that could make all the difference between being right or wrong.

Mr. Armstrong: I am not sufficiently a technical expert on it, but perhaps Captain Maxwell would like to say a word.

Mr. Boulanger: It is important to be precise.

Mr. Armstrong: What you are saying is right.

Mr. Boulanger: That could make all the difference in your so-called mistake of prices; I know it could make all the difference.

Mr. Armstrong: Would you like to say a word on the under-water paint and the deterioration when it is out of the water?

Mr. Boulanger: Conditions are not always the same. It is cold in the winter and in the summer there is heat, and it is also different inside a shipyard. Is it not a fact that...

The Chairman: I think the Committee agree with that, Mr. Boulanger. I think it is understood by all the Committee that it is a special type of paint, special work and a special undertaking...

Mr. Boulanger: That is one other reason to prove to me that...

The Chairman: I think the Committee agree with that. Mr. Winch?

Mr. Winch: Mr. Chairman, I have only one question, but before I ask the question I hope I can make just a very brief statement to clarify my own situation. Some three years ago Maritime Command, under the Department of National Defence extended for the first time an invitation to the steering committee of the Defence Committee to spend a week on the *HMCS Bonaventure* and destroyers on a naval exercise. Therefore, I had the privilege of being on the *Bonaventure* for a full week and, by the luck of the draw, my accommodation for one week was the captain's suite.

Now, Mr. Chairman, during the course of that week I assure you that I went from the bow to the stern of the *Bonaventure*. I visited every one of the decks. From memory, I forget whether it was 9 or 11 decks but I know it is a long way, and I can assure you from that personal week that anyone who thinks the *Bonaventure* is gold-plated does not know what he is talking about. I just wanted to make that clear.

My question, Mr. Chairman, is to Mr. Armstrong. I would like to ask Mr. Armstrong if it would be possible...

An hon. Member: To go back?

Mr. Winch: Would it be possible...

The Chairman: For the whole Committee?

Mr. Winch: ...for you or your Department to look into the matter if whether or not there were not three estimates of the cost of refitting the *Bonaventure*; that from the first working papers it was in the neighbourhood of $14 million and they were asked to revise; on the second working paper it was approximately $12 million which you have already said is correct; that the third was $8 million and that, during the course of looking this up for the Committee, you will be able to advise us on either the $12 million or the $14 million and I use the figure of $14 million but my understanding was from other sources there was an original—but from your own knowledge and statement today that there was an estimate of $12 million, then whether the working papers of the first two, or that one $12 million estimate, included work, which when you opened up the *Bonaventure*, you found that you had to do. I would like to know if that can be done, and I think it would answer many of the questions we have in mind.

Mr. Armstrong: I would think it can be done. I would have to check it to see.

Mr. Winch: If you can, you will, sir?

Mr. Armstrong: Yes.

Mr. Winch: Thank you.

Mr. Noble: Mr. Chairman, I indicated last Tuesday that some mismanagement was in evidence owing to the delays in various materials, which ran into extra cost. I now ask a supplementary to this. Contributing to the delay, why were the full drawings for the work not ready when they were needed in April, 1966? This, I presume, is the direct responsibility of the Department.

• 1045

Mr. Armstrong: The full drawings were not ready because, we did not have the full details on certain equipment. One item was the

Fresnel landing system, and it was not possible to complete the drawings at that time. I think there were one or two other items—the laundry, and also the antenna. We were short of details on that Dutch antenna system that was going in and it was not possible to complete all the drawings at that time.

Mr. Noble: Mr. Chairman, it strikes me that if one is doing a job and applying good business, one usually gets all the material ready. You get your plans ready before you start. I cannot understand why this project was started without knowing the material was going to be available and when the plans were going to be ready. This is something that brings a doubt to my mind about this.

The Chairman: Would you like to comment further on this?

Mr. Armstrong: I think the problem is, one has to plan a ship conversion and refit of this kind. I think you would agree with me that in a modern warship, and this involves modernizing it to some degree, the acquisition of equipment and the details are often rather difficult when buying new equipment. So that you cannot be completely certain that you will have all of this in advance.

The Chairman: Any other questions? Mr. Leblanc.

Mr. Leblanc (Laurier): The Auditor General mentions here that the Department has been unable to establish who was responsible for the delay. Is the Department ready to give an answer on that?

Mr. Hunter: We were able to establish the reason for the delay, and I am unable to say why the explanation was not given to the Auditor General, because as he said, he passed these comments around to us. We did not know the answer then, but we certainly do now. There were five key items of equipment that were held up because of the subcontractors in the United States, and one buy we were making directly from the U.S. navy.

They were held up by Viet Nam priorities which came ahead of ours. We understood this, and could not hold the Canadian contractor responsible because this was an understanding that when you have to buy anything from the United States at a time when they are at war, they will get priority in their shops. So this really held up five key items and delayed other work. This was not the fault of the contractor; it was really no one's fault. So we had to pay the shipbuilder for the extra time.

Mr. Leblanc (Laurier): I have a question for Mr. Henderson now. Why did he put that in, that the Department was unable to establish who was responsible for the delay.

Mr. A. M. Henderson (Auditor General of Canada): Because, Mr. Leblanc, the statement is correct. The Department was not able to establish the delay, and they confirmed it to my offices. I have here a letter written by one of the senior officers in Mr. Hunter's Department to my man in charge, so stating. He wrote this as a part of our inquiry as to what possibility there might be for recovery of some of these items from the suppliers. In other words, we often always try to see whether it is possible to gain some redress from the suppliers. And we were engaged in asking a number of questions in that regard.

The question that was involved here, on this particular point, we asked to what extent was it attempted to recover all or a portion of the cost attributable to the late delivery of these government-supplied materials from the component manufacturers. And the reply we received, dated November 28, 1967, from the officer responsible was: "I believe", he said, "that an explanation was provided in this respect some time ago together with copies of related correspondence. However, briefly, the information we obtained from the various branches handling the procurement of government-supplied materials which were late indicated that it had not been found possible, for one reason or another, to assess the suppliers concerned."

• 1050

Mr. Cullen: That is not the same thing, with respect, sir.

Mr. Henderson: Why do you say that, Mr. Cullen?

Mr. Cullen: In essence, you were asking if there was any method of redress, and the answer you got was no. I understand there were priorities given to material supplied by the United States. They gave priority to Viet Nam deliveries, and because they gave this priority there would be no legal redress against them. We interpret the letter differently. You have read the whole letter, and I have only heard it once. But it seems to me you were asking if there was any method of redress, and if they had looked into it.

Mr. Henderson: It is in connection with that that we ask these questions, and then we wrap up our final comment that you have here and submit it to the Department for verification as to its correctness. And, as Mr. Hunter has said, it was agreed that it was not possible to establish who was responsible for the delay, and that is the reason for the statement.

Mr. Hunter: Sir, I said it may not have been possible, because we certainly have this information now.

Mr. Leblanc (Laurier): How long did it take between the time that that matter was sent to the Department for examination and the time that you actually discovered the responsibilities? How come you could not discover the responsibilities before, and then clear it up so that it would not be in the Auditor General's report.

Mr. Henderson: Mr. Hunter would have to answer that question. It might have been subsequent information, but that was the information that was put into my files.

Mr. Leblanc (Laurier): Did you just find the arguments now because you are in front of the Committee, or what?

Mr. Hunter: The information I have from my Director of Shipbuilding, who was very close to this at the time, was that we had this information. We have had it for some time. We did not just discover it. Is that right, Mr. Wallace?

Mr. R. D. Wallace (Associate Director, Shipbuilding Branch, Department of Defence Production): Mr. Chairman, I think the point that was made, or the question that was asked, is whether we were able to hold the contractors responsible, and the answer is no. The question I do not believe was asked in such a way that we answered that we could not or we did not know who was responsible.

The Chairman: I think the question here is why...

Mr. Leblanc (Laurier): It is a bit confusing.

The Chairman: Yes, but this statement in the Auditor General's report, which was furnished to the Department of Defence Production for correction, at that time the Department of Defence Production should have said: "This is not a true statement that you are going to put in there, and we would like it withdrawn or remedied." I think Mr. Hunter said that it slipped their notice; they let it go.

Mr. Wallace: Mr. Chairman, I wonder if I may add to that?

The Chairman: Surely.

Mr. Wallace: I believe our reply to the Auditor General stated that the reference to the Department's inability to establish responsibilities for delays mentioned in the sixth paragraph is not entirely supported by the facts. In most instances the suppliers were able to show that delays were beyond their control, having resulted from the Viet Nam situation, and thus fell into the category of excusable delays under the terms of their contract.

The Chairman: Now having heard that, why would you not say to the Auditor General's Department that this sentence should be left out of the report?

Mr. Leblanc (Laurier): They said it, but differently? That is why they sent you a letter, but they do not say it the way they just pointed out.

Mr. Henderson: May I ask the date of the letter that Mr. Wallace refers to?

• 1055

Mr. Wallace: Mr. Chairman, I am referring to the Department's reply.

Mr. Henderson: What date would that have been sent to me?

Mr. Wallace: There is no date on this. I have no date. It would be subsequent, after we met with your officials; subsequent or immediately after you provided us with your draft of the report.

The Chairman: Is that a memo or a letter that you are reading from?

Mr. Henderson: Usually the Deputy Minister or one of his officers replies. We keep these replies in writing in our files, and I cannot locate that here.

Mr. Lefebvre: Is that a letter you are referring to, sir.

Mr. Hunter: Sir, these are notes on the Auditor General's comments that we make, and as far as I know are given to the Auditor General. What he finally says in his comments, we have no control over.

Mr. Lefebvre: Is there a record here that this was sent to the Auditor General? This is what we are getting at?

Mr. Hunter: It is not covered.

Mr. Henderson: We do not have the record because my assistant director in charge of the work said that the reference to Viet Nam was a new one to him.

The Chairman: And there is no date on that?

Mr. Lefebvre: There is certainly a lack of communications here to the Auditor General's office before his report is published.

Mr. Leblanc (Laurier): There is a lack of dates, too, because they sent a memo without dating it, in reply to a piece of paper very important to them, because they refused there. They reply, and we do not know even how the reply went, and the Auditor General says that he does not have that in his file. So how do we stand now?

Mr. Hunter: It is my understanding, Mr. Chairman, that there were two meetings held with the Auditor General's representative, at which time there is a lot of verbal discussion and perhaps many of these things are not put on paper at the time. As far as I know, we have always given our final comments to the Auditor General, but certainly there were two meetings discussing all of these items. And, as I say, we have no control over what the Auditor General finally says, but we attempt to check matters of fact, and I am sure that that is why he gives us the advance copy of his notes.

The Chairman: Mr. Hunter, I think the Committee would like your assurance that reports of any future meetings be filed with dates and subject matter on them, and done in a little more businesslike way, maybe. This is what they are concerned about. Mr. Lefebvre?

Mr. Lefebvre: With all due respect, Mr. Hunter, this is a multi-million dollar affair, and we would think that in the normal course of your business you would be sure to have a dated memorandum sent to the Auditor General contradicting the statements that he has made. This is the opportunity that is given your department to correct any statements that he has made.

Mr. Hunter: I am not sure that we have not got it. My assistant deputy minister of finance happens to be in the hospital, and has been for about 10 days. I have the file that he left me, and unfortunately I have not been able to check these discussions with him. But I will be glad to do so.

Mr. Lefebvre: I think we should not leave this point. It is very important, not only for your Department, sir, but for all departments. If you do have such a dated memorandum with proof that it was sent to the Auditor General, I think it should be put as an appendix to today's proceedings.

Mr. Henderson: Mr. Chairman, this is the first time, as a matter of fact, that this point has ever come up in any of the many years of committee discussion that I have had. My instructions are always that the comment we have to make is sent in final text form with a letter to the department requesting confirmation that the facts are correct.

The Chairman: Who is that letter sent to, Mr. Henderson?

Mr. Henderson: It is sent by me or my director, as the case may be,...

The Chairman: To whom?

Mr. Henderson: ...to the Deputy Minister or the president of the Crown company, or whoever the senior officer may be, and that the reply come in writing and be pinned as part of our working papers. However, our relations with the Department—and this is particularly true of Mr. Armstrong's and Mr. Hunter's Department—have always been of the highest order, and it is not inconceivable that there would have been discussions and talks between them. That is the thing I am seeking to avoid, and because it takes so long for these questions to be discussed in committee it is essential that the working papers contain the kind of document that you and Mr. Long are asking for, and which I would like to have. I do not feel that the blame should be directed to Mr. Hunter. I would be quite prepared to take part of it if it is found that in this instance no exchange came back. I think if you would permit us to discuss this together—I did not realize Mr. Keefe was ill—it would be easier. The fact of the matter is that it was

not possible to establish which of these suppliers could be held responsible, and as it formed part of the description in this note it should have been caught under the procedure I have outlined.

The Chairman: Mr. Hunter has agreed...

Mr. Lefebvre: This is where we are left today, though, that Mr. Hunter denies there has been notification given.

The Chairman: You have asked that he supply that at the next meeting, Mr. Lefebvre, and if possible Mr. Hunter will do so.

Gentlemen, it is now 11 o'clock. We will adjourn at this point to meet again on Tuesday morning in room 112N at the same time. We will begin on the same subject and if we finish it we will then, while the witness is with us, go into other matters relating to the Department of National Defence.

HOUSE OF COMMONS

First Session—Twenty-eighth Parliament

1968-69

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: Mr. A. D. HALES

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 15

TUESDAY, FEBRUARY 11, 1969

Public Accounts, Volumes I, II and III (1966 and 1967)
Reports of the Auditor General to the House of Commons (1966 and 1967)

WITNESSES:

(See Minutes of Proceedings)

The Queen's Printer, Ottawa, 1969

29607—1

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. A. D. Hales

Vice-Chairman: Mr. T. Lefebvre

and Messrs.

Allmand,	Flemming,	Noble,
Boulanger,	Forget,	Noël,
Burton,	Leblanc (*Laurier*),	Rodrigue,
Cafik,	Major,	Tétrault,
Crouse,	Mazankowski,	Thomas (*Maisonneuve*),
Cullen,	[1] McCutcheon,	Winch—20.

(Quorum 11)

Edouard Thomas,
Clerk of the Committee.

Pursuant to Standing Order 65 (4) (b),

[1] Mr. McCutcheon replaced Mr. MacLean on February 6, 1969.

MINUTES OF PROCEEDINGS

TUESDAY, February 11, 1969.
(17)

The Standing Committee on Public Accounts met this day at 9.39 a.m., the Chairman, Mr. A. D. Hales, presiding.

Members present: Messrs. Allmand, Burton, Cafik, Crouse, Cullen, Hales, Lefebvre, Major, Mazankowski, McCutcheon, Noble, Noël, Rodrigue, Thomas (*Maisonneuve*), Winch (15).

Witnesses: Mr. A. M. Henderson, Auditor General of Canada; Mr. E. B. Armstrong, Deputy Minister, Department of National Defence; Mr. G. W. Hunter, Deputy Minister, Department of Defence Production.

The Deputy Minister of Defence Production provided details as to the department's reply to the observations made by the Auditor General prior to publication in the latter's report.

The Committee questioned the witnesses on the refit of the *HMCS Bonaventure* in particular (a) the 7.5% fee for material—negotiated cost plus; (b) drawing office labour; (c) fire guards.

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

Edouard Thomas,
Clerk of the Committee.

29607—1½

EVIDENCE

(Recorded by Electronic Apparatus)

Tuesday, February 11, 1969

• 0938

The Chairman: Gentlemen, we are in new surroundings this morning. We are travelling in high places and with good company, having the painting of the Fathers of Confederation in the background, so we will have to keep our meeting on a very high plane this morning.

At our last meeting Mr. Lefebvre had asked the Deputy Minister of Defence Production if he could provide information concerning communications—or lack of communications—between his department and the Auditor General's department. Is that right, Mr. Lefebvre?

Mr. Lefebvre: Yes.

The Chairman: Perhaps, Mr. Hunter, you would like to follow that up before we proceed.

Mr. G. W. Hunter (Deputy Minister, Department of Defence Production): Thank you, Mr. Chairman. I have looked through the records of the discussions that our people held with the Auditor General's representatives, and the two written records that I have are ones which I think I mentioned the other day. The first one is a background paper that Mr. R. M. Keith, our Assistant Deputy Minister, Finance, had apparently used in his discussion. The second is a communication dated November 28, 1967, from Mr. Wallace, who was then Chief, No. 1 Division of the Shipbuilding Branch, to Mr. A. G. Cross, the representative of the Auditor General who was conducting the audit of our department. I think Mr. Henderson has already read the paragraph, but I might read it again. The question was to what extent did we attempt to recover all or a portion of the cost attributable to late delivery of GSM from the component manufacturers. This is the answer which is contained in this letter:

> I believe an explanation was provided to Mr. Maheux in this respect some time ago together with copies of related correspondence. However, briefly, the information we obtained from the various branches handling the procurement of GSM which were late, indicated it had not been found possible for one reason or another to assess the suppliers concerned.

I think possibly a difficulty—of course, this is my opinion—was in the interpretation of the word "assess". We certainly intended it to mean to make a charge against. I think I explained the reason for that. It was the fact that in most instances the suppliers were able to show that the delays were beyond their control, having resulted from the Viet Nam situation, and thus fell into the category of excusable delays under the terms of their contract.

The Chairman: Mr. Lefebvre, do you have any questions regarding this matter?

Mr. Lefebvre: The main purpose of my questioning was to find out if there were communications between the Auditor General and the Department.

The Chairman: Mention was made at the last meeting of a communication without any date on it. Mr. Hunter, is that still a fact?

Mr. Hunter: These were general notes in Mr. Keith's file which supported each of the comments. I could not say for sure that he said those words. I only know that he was aware of them because they had been reported by the various branches to which these comments related to Mr. Keith who gathers the information when the Auditor General submits us his orginal draft comments.

Mr. Cullen: On page 55 of the Auditor General's Report there is a sentence which reads:

> That Department has been unable to establish who was responsible for the delay.

I got the impression from the tone of the correspondence in the Auditor General's files that he was really asking whether it would be possible, because of the delay, to recoup from the suppliers and that the answer went back that there was no opportunity to recover because there was a bona fide reason for the

delay—priority as a result of the Viet Nam war. I understand these were called excusable delays.

It says that the Department has been unable to establish who was responsible? Was the Department ever asked to establish who was responsible for the delay? It seems to me that they established not only who was responsible but also that they were not able to recoup, notwithstanding the delay.

Mr. Hunter: That is right, Mr. Chairman. It was established that the prime contractors were responsible—because of the priority that the Viet Nam orders in the United States had over our orders. I understand this was written into the government procurement regulations of the United States government and our legal people told us that we would have no recourse against the suppliers in the States because they were protected by this clause.

The Chairman: Mr. Henderson, does this satisfy your Department?

Mr. A. M. Henderson (Auditor General of Canada): Mr. Chairman, as Mr. Cullen mentioned, I think there is perhaps a certain amount of misunderstanding over the application of this sentence. Since the last meeting I have looked into the circumstances and checked the facts of this and I can only say to you that the memorandum or document which was read to the Committee by Mr. Wallace of the Department of Defence Production at the last meeting was never seen by me or any of my officers. In fact it was the first intimation we had of its existence.

• 0945

As Mr. Hunter said, it was not only undated but was apparently an internal advice within the Department. I understand that Mr. Hunter and his associates believed that their Assistant Deputy Minister, Mr. Keith, who unfortunately is not with us today, had this note before him when he met with my officers to discuss the text of my audit notes at the time they were submitted to the Department in November or December 1967.

My officers responsible for this phase of our audit cannot recall Mr. Keith or any other DDP official bringing the contents of this note to our attention at that time or subsequently. That includes reference to the word "Viet Nam". I understand that the DDP officials believed the contents were so communicated but, as I say, after questioning my officers I personally am satisfied they were not. I say this to you with complete confidence because it takes only the slightest hint of an inaccuracy of fact in statements like this in any of my Report comments to cause us to alter, rephrase or to omit the reference. I would assure the members that had we been told who was responsible for the delay in this connection we would have told the House right there in paragraph 101. If the Department contends that the statement was inaccurate, then I can only ask why has not the Deputy Minister advised me before today, February 1969—because this Report was tabled in February 1968.

The Deputy Minister of National Defence, who is with us today, always sends me personally the texts of his Department's official comments or replies to every one of the draft paragraphs about his Department going into my Report. The same practice is followed by many other agency heads. This is very helpful to both of us in our search for the true facts.

I can only conclude, Mr. Chairman, by saying that this experience underlines the importance of written confirmation as to the correctness of the facts being obtained in every single case so far as insertions in my Report are concerned, and I outlined the reasons for this at, I think, the last Committee meeting.

The Chairman: For the sake of those who may be new on the Committee this morning, Mr. Henderson stated the other day that all the departments are advised and given a copy of what is going to appear in the Auditor General's Report, and if any department feels this advice is incorrect, unjust or not true to their way of thinking they then have an opportunity to correct it. This is the discussion that we are on at this moment—and it is a very important one.

Mr. Cullen: Following that up, it would then seem that, again, it is a breakdown in communications. I got the impression that the Department was in fact able to establish who was responsible for the delay.

Mr. Henderson, you indicated earlier that you submitted this Report. Did you receive a written reply to the Report? Did you say, "This is our report; do you have any comments?"

Mr. Henderson: No, I explained to the Committee, at the last meeting or the last meeting but one that in this case we do not have that on file. In that respect my procedure was not functioning as I would have

wished. Naturally in the day to day work, particularly where our relations are as good as they have always been with these two departments, we have not perhaps been as precise as we should have been, but it indicates the desirability of being so.

Mr. Cullen: Mr. Henderson, is this report submitted once and then you wait for a reply, or do you follow it up and say "Your Department has not replied to our Report and unless we have a reply it will be submitted in the form sent to you."

Mr. Henderson: Yes, Mr. Cullen, my officers do follow up, or if we are pressed for time, as we are currently right now, we are forced to say "We hope we can hear by next Thursday, or else"—because the printer is waiting and you are waiting.

Mr. Cullen: But in effect you are saying that this was the report submitted and you had no reply.

Mr. Henderson: Yes, my officers cleared it back as OK.

Mr. Lefebvre: I do not want to belabour this point but, if I remember correctly, it was you, Mr. Henderson, who stated last week that there was probably a little bit of error committed on both sides—your Department and the Defence Department—by not replying, or not checking up as to why a reply had not been given in writing. Is that correct?

• 0950

Mr. Henderson: I think there was fault on both sides.

Mr. Lefebvre: Would you say that this is something extraordinary, that it has happened frequently or very seldom?

Mr. Henderson: I think it is the first time that I can recall in many years that this point has ever been raised, Mr. Chairman—unless you or any members can recollect. I do not think this has ever been called into account before.

Mr. Lefebvre: I guess it would be safe to say then that this was an extraordinary happening and that there are much better communications usually between your office and the departments than there were in this particular case.

Mr. Henderson: We enjoy very happy communications. Mr. Lefebvre, let me say we do everything we can to keep them that way because it would be practically impossible for us to carry out our work if we did not have a proper environment. I think you can appreciate that.

Mr. Lefebvre: Thank you.

Mr. Henderson: I think Mr. Hunter would share that view.

The Chairman: Gentlemen, we will go on to other questions concerning the refit of the *Bonaventure*. Mr. Crouse, do you have a question?

Mr. Crouse: Mr. Chairman, I have a series of questions related to the Auditor General's Report, page 55 of which deals with the basis of payment. My questions deal with the time and material costs, and if I may, I would like to ask, with regard to purchase orders issued by the Department of Defence Production direct to the suppliers and paid for directly by the Treasury, whether the refitting yard received the 7.5 per cent fee on these items.

The Chairman: Mr. Hunter?

Mr. Hunter: These items, Mr. Crouse, are those covered by Paragraph 7 which refers to the hourly rate, the drawing office labour and material negotiated.

Mr. Crouse: I am referring, Mr. Chairman, to page 55 where it states:

> Basis of Payment
> (b) Additional Work:
> (i) Direct (Shipyard Labour) $3.95 per hour
> (ii) Drawing Office Labour $5.40 per hour
> (iii) Material—negotiated costs plus 7.5% fee

Did the refitting yard receive the 7.5 per cent fee on the items that were issued by the Department of Defence Production direct to the supplier and paid for directly by the Treasury?

Mr. Hunter: I am informed that they did not, sir, but I would like to speak to Mr. Glassford. The 7.5 per cent goes to the shipyard for material that they themselves purchased. This represents the additional work carried out by the yard.

Mr. Crouse: My second question then, Mr. Chairman, is what about the items for which the Department called tenders, picked the supplier from the lowest bidder and had the shipyard issue the purchase order? These

orders would be a direct charge to the contracted total. Did the refitting yard receive the 7.5 per cent fee on these items?

Mr. Hunter: Mr. Chairman, I am informed that the additional fee would be only on the additional work whether it was GSM or purchased by the yard, but not on the firm price portion where we had told them that we would be supplying certain GSM material. This part that you are speaking of, Mr. Crouse, is the additional work over and above the original price bid in the twelve-month period that was estimated for it to be carried out.

• 0955

Mr. Crouse: Mr. Chairman, on items supplied from shipyard stock, at what prices were they charged, the inventory price or the invoice price? What price did the yard use prior to the addition of this 7.5 per cent?

Mr. Hunter: Did you mean on the additional work, sir, or on...

Mr. Crouse: On all supplies from naval stores. At what prices were they charged—the inventory price or the invoice price? What price did the yards use prior to the addition of the 7.5 per cent fee?

The Chairman: Mr. Crouse, you want to know at what price the supplies that came from the Government Naval Stores were charged out.

Mr. Crouse: No, Mr. Chairman; on items supplied from shipyard stock.

The Chairman: Which belonged to the Department of National Defence.

Mr. Crouse: Yes. At what price were they charged—inventory or invoice price?

Mr. E. B. Armstrong (Deputy Minister, Department of National Defence): I am not sure that I am the right one to answer. As far as I am aware, the items that I spoke of as being issued out of ships stores did not enter into the contractual arrangements. On the contractual side you have the government-supplied material which was ordered and paid for by the government and supplied to the contractor. There are also naval stores which I referred to in earlier testimony which were issued out of naval stores depots for maintenance purposes on the ship during the refit, but they did not enter into this contract as such.

Mr. Crouse: Mr. Chairman, could we turn to page 56 which deals with the direct labour charges? The first rate brought into the information supplied to us by the Auditor General was set at $3.95 per hour. My interpretation is that this was either skilled or unskilled labour. Taking the Dominion Bureau of Statistics figure for the period 1966-67 in question, they report the average hourly rate of pay in Quebec shipyards as $2.63 per hour. Now, allowing 10 per cent for Workmen's Compensation, Canada Pension Plan, Unemployment Insurance charges and so on, it would seem to me that they were permitted a 30 per cent clear mark-up on direct labour.

When you take the last rate allowed of $5.10 per hour, you find they have—less 10 per cent mentioned—been permitted an 88 per cent clear mark-up on direct labour. Before agreeing to this figure was the company asked to provide figures showing their actual percentage of overhead costs? It appears to me that this contract was carrying practically the whole yard overhead for the final months of the refit. Could either of the witnesses comment on this aspect of the contract?

Mr. Hunter: Yes, sir. The company was asked for as much information as our people felt was required. We are dealing continuously with this and most other of the large yards. We just asked them for the current information. We were well aware of how their overhead was calculated and in our opinion this rate of $5.10 was a fair rate having regard to the labour plus the known overhead of the yard, and we had received whatever information we needed to be satisfied that this rate was fair.

Mr. Crouse: How do you justify this wage level in view of the stated DBS figure for that period in Quebec yards which is listed at $2.63 per hour?

Mr. Hunter: Mr. Chairman, I do not have the breakdown here but I was informed that the labour rates were well known to our people and that the overhead was considered reasonable for this shipyard because, as I say, we had been dealing with them regularly.

Mr. Crouse: Are you still of this opinion in view of the facts I have laid before this Committee this morning, that the DBS rate was $2.63 while you permitted $5.10 per hour? Was this for both skilled and unskilled labour?

• 1000

Mr. Hunter: The hourly rate, Mr. Crouse, is shown here as $2.67 for labour; there is a 5 per cent for premium time of 20 cents; the overhead is shown at 70 per cent—$1.87—giving a total of $4.74; profit at 7.5 per cent, making $5.10, thanks to Mr. Henderson who has the figures here.

Mr. Winch: Did you say the overhead was calculated at 70 per cent?

Mr. Hunter: Seventy per cent.

Mr. Winch: It sounds extraordinary to me.

Mr. Crouse: Mr. Chairman, my next question deals with the rate for drafting personnel...

The Chairman: Before you leave the point of the hourly rate, are there any other questions about it? It is very important. Mr. Cafik and then Mr. Allmand.

Mr. Winch: Could we possibly have a reason why your Department would pass a 70 per cent overhead charge on the normal basic rate which the workman receives?

Mr. Hunter: So far as I am aware, 70 per cent is not an unduly high overhead rate in the shipbuilding business.

Mr. Winch: On the wage alone?

Mr. Hunter: It is figured on direct labour, yes.

Mr. Cafik: Mr. Chairman, along this line of questioning in respect of the hourly rate, the point that just amazes me and which I cannot really understand at all is that this original contract was awarded in the spring of 1966 and the work began in April of 1966. According to the information I have gleaned from this report, the renegotiated price of $5.10 an hour was established in August, 1966—that means a period of four months after the original one was established.

The original rate—and I presume I am correct from this information—was established at $3.95 an hour including overhead. Now, the Department accepted a contract with those prices in it; it must have believed that the contractor could fulfil the contract under those terms. Four months later, suddenly we find that the contract price should be $5.10 per hour. I cannot understand how this came about in such a short space of time. Would you care to comment on that?

Mr. Hunter: The original bid, sir, was made on the basis of the known work that we described to the contractors and asked three contractors to bid. They had a large amount of additional work in their yard at that time. The other day I believe I mentioned that their employment during that total period ran around 2,400 people, of which an average of only 500 worked on this particular job. Therefore, they had 1,900 other people to whom direct labour was being paid over which to spread their overhead and they were able to bid on this job, knowing they had this additional work, much lower than would be their normal overhead rate.

I think I mentioned the other day, too, that the other two bidders bid $5.00 and $5.05 respectively as their overhead rates which were competitive with the $3.95. Therefore, they had not been in such a fortunate position during this period that the Company could foresee to do this work. The additional overhead work, I am told, was for the later period which would be after the time that they had bid this firm price job.

Mr. Cafik: All right. Was it understood, stated or written in the contract in any way that in the event more man hours were required for the refit than indicated in the contract, the price would be substantially higher than the price indicated in the present contract?

Mr. Hunter: Yes, sir. In a Statement of Work it read:

> (c) (The contractor) will be required to undertake work arisings and defects resulting from the requirement of this contract for inspection and examination of ship and components.

and these are the words that follow it:

> However, it is understood that such extra work will be the subject of separate negotiation and consequent contractual adjustment.

• 1005

We made it very clear that if the period were extended or the work substantially extended beyond the estimated additional hours which we, at our best guess had set, it would be subject to separate negotiation. This was one of the terms of the contract.

Mr. Cafik: I would like to know the facts surrounding the insertion of that in the contract. Did the Department put it in because you felt you might get a better price if there

were more work to be done later on, or did the contractors put in in order to protect themselves, knowing that their price would have to be higher later on? On the other hand, is this just a standard insertion and one should not read anything into it?

Mr. Hunter: I think this is standard, sir. In cases where we are looking for competitive shipbuilding prices. If we ask a shipbuilder to give us a firm price, this is a protection for him that this will not run on past a period where he knows what other work he has to share the overhead. It is probably for the protection of both. We get a better price if we put this in because most jobs are finished within the time and as a result we get a better price and, as you mentioned, we got an overhead rate of $3.95.

Now, had the job been finished, we would have felt that we had got a very good price by putting this in and allowing him to be limited to the number and period of extra hours that he had to put in. It was unfortunate, as we have all seen, that it ran over but I would say that 9 out of 10 cases are completed within the period. Therefore, I would say that the Crown probably benefits in the long run.

Mr. Winch: May I ask a supplementary on this phase? This is most intriguing. Could I ask Mr. Hunter whether it is a customary policy of the Department of Defence Production that when they receive a bid, which is set out here at $3.95 an hour because there is work in the same shipyard outside the government contract, if the same shipbuilding firm has no outside work the federal government assumes the entire overhead because they have no outside work?

Mr. Hunter: Sir, this is not the entire overhead. This, we feel, is a pretty average overhead because, as I mentioned, even in the original bids from the other two yards, they had bid $5.00 and $5.05.

Mr. Winch: I am sorry, I am discussing not what the other bids were but what was the basis of a contract which you let. From what you have said, and I think this is what Mr. Cafik is after, there was a change from $3.95 to $5.10 in four months, and because they did not have continuing outside work the overhead for the entire shipyard was carried by the government contract, or approximately so.

Mr. Hunter: The $3.95 was, no doubt, a very fortuitous rate as far as we were concerned, and it was based on the other work that the contractor knew he had in the yard; he knew that 1,900 additional employees were being paid and that would absorb a very great part of the overhead for the period that he foresaw it would take to do our firm price bid, but it is assumed that after that period his work did fall off because our people were sent down and negotiated a rate for further work with him based on what we felt to be reasonable.

Mr. Winch: Why should the Government of Canada pay for that?

Mr. Hunter: We are only paying a reasonable rate because $5.10 is not considered unreasonable; it seems to be very close to the average of the other two yards that bid against this yard in the first place. As I say, the $3.95 may put one off a little because it was an exceptionally low rate based on a very full yard employment. I think it is the fullest that I can recall this yard's being for some years; certainly bigger than it is now.

The Chairman: I guess, Mr. Hunter, it was a situation where you were in a tough spot. The ship had been opened up and you could not pull the ship out and take it to some other yard even if you did feel they were charging you too much.

Mr. Hunter: That is so, sir, but our people did not feel that this rate was excessive because we sat down and negotiated with them. These are people that we deal with every day; we have people in the Department of National Defence on our teams who know the yards just about as well as they do, and we certainly do not feel that the rate we settled on for the extra work was exorbitant.

• 1010

The Chairman: Are you finished, Mr. Cafik?

Mr. Cafik: No, I want to pursue that. I can understand the argument put forward and I do not question the validity of it. It sounds very good, but as you have done a great deal of business over the years with this shipyard, would you have any facts at your disposal to indicate what the hourly rate was prior to this for other jobs when perhaps that shipyard was not so busy?

Mr. Hunter: I am sure we have it in our records, Mr. Cafik. I have not got it here but I am sure we could get it for you.

Mr. Cafik: I think that would be of great interest. It would also be of interest to find out just why, in the space of a three-month or four-month period, all of a sudden this shipyard went from the absolute maximum capacity of being busy and where their overhead could be shared on a large number of jobs and consequently be low, and three months later when it appears their volume of over-all business has been cut rather drastically.

The Chairman: Mr. Cafik, you want to know the prevailing rates for jobs other than government jobs they did under the same circumstances.

Mr. Cafik: At that time.

The Chairman: Yes, at that time.

Mr. Hunter: Sir, I am not sure we would have all those detailed rates, but we would have a very good idea of the work in the yards and what was being charged to our overhead because our government auditors continuously do the audit of work where cost is a factor.

The Chairman: Right.

Mr. Hunter: I will get the best information I can for work prior to...

The Chairman: Mr. Allmand, and then we will come back to Mr. Crouse.

Mr. Allmand: Mr. Chairman, I did not have a question, I had a point of order. During his questioning Mr. Crouse remarked that he has put certain DBS figures on the record and he intimated that these DBS figures showed some kind of inconsistency with wage rates that were paid at the shipyard for the *Bonaventure*.

This is the point I want to make, Mr. Chairman. I do not think that Mr. Crouse put any figures on the record. He is not a witness. We cannot cross-examine the figures that he has put forward. If there is a point to be made, if there is some truth to be brought out by having these DBS figures put on the record, then we should bring witnesses who are competent to put those DBS figures on the record and they will be subject to cross-examination. I want to make it clear that there are no DBS figures on the record. We are presently discussing certain specific wage rates. Let us discuss them and not distort the facts.

The Chairman: Mr. Allmand, I will make a ruling on this point of order. This Committee will accept DBS figures at any time.

Mr. Allmand: From DBS?

The Chairman: From DBS, or quoted from DBS statistics. This Committee will accept those figures.

Mr. Allmand: Are you saying, Mr. Chairman, that you will receive them from people who are not experts in presenting DBS figures and who are not witnesses?

The Chairman: Yes, surely; we will accept them if they are from DBS statistics or books and the member of the Committee wishes to use them.

Mr. Allmand: I just received...

Mr. Crouse: Mr. Chairman, on a point of order. This morning I quoted the figure of $2.63 per hour. I believe that figure was endorsed to the point of $2.64. I think I was one cent out. Is that not correct, Mr. Hunter?

Mr. Hunter: $2.67.

Mr. Crouse: $2.67. Thank you, Mr. Hunter. I said $2.63 and I am sorry, Mr. Allmand, if I misinformed the Committee. It should have been $2.67 per hour instead of $2.63. However, I submit that this is the type of nit picking that we cannot have in the Committee, Mr. Chairman.

Mr. Allmand: I think we have had too much of it already.

Mr. Crouse: If it continues the committee cannot function properly.

Mr. Allmand: I agree with that.

The Chairman: Order, gentlemen. I have said that we will accept figures published by DBS from any member of the Committee.

Mr. Lefebvre: A supplementary, Mr. Chairman. Would this figure of $2.67 be an average in shipyards for all of Canada, or what?

Mr. Allmand: That is why...

The Chairman: No. I think Mr. Crouse stated in the Province of Quebec.

Mr. Lefebvre: This does not include overhead. This is wages paid to the shipyard workers. Is that right?

• 1015

Mr. Winch: Mr. Chairman, it does not include the 70 per cent.

The Chairman: No.

Mr. Allmand: That is why, Mr. Chairman, when figures like this are given—and they are usually averages—it is important to cross-examine the people who prepared those figures. Otherwise you get a false impression.

The Chairman: Mr. Allmand, Mr. Hunter had an opportunity to dispute those figures if he thought they were not correct and he did not do so.

Mr. Allmand: He is not an expert on DBS figures either.

The Chairman: I do not know if there are too many experts in this group...

Mr. Major: What is the average overhead for the same period?

The Chairman: Mr. Major, did you have a supplementary question?

Mr. Major: Yes.

The Chairman: We will take your supplementary now.

Mr. Major: What would the average overhead be for that same period of time?

The Chairman: Could we have the question again, Mr. Major?

Mr. Major: We have here an average figure of $2.67 for wages paid directly to the workers. What would the amount of overhead be during the same period of time?

The Chairman: Mr. Hunter has those figures.

Mr. Hunter: Sir, this would not be an average overhead rate, but the rate for the Davie yard for that period happened to be 70 per cent.

Mr. Lefebvre: Seventy per cent. Does anybody know if there is an average in DBS?

Mr. Winch: I would doubt it.

Mr. Lefebvre: The witness also said that 70 per cent, as far as he knows from his years and years of experience in this field, is a very good figure.

Mr. Winch: Let us find out about that. I was in the construction industry for years and we never got any 70 per cent overhead on our...

Mr. Lefebvre: Pardon me, Mr. Winch. I am asking a question of the witness, not of another member of the Committee.

The Chairman: Mr. Hunter.

Mr. Hunter: Sir, I am told that between 70 and 90 per cent is an average overhead rate in the shipyards. I might mention that it is much higher in other industries.

Mr. Lefebvre: That is fine.

The Chairman: All right.

Mr. Cafik: Mr. Chairman.

The Chairman: Mr. Major had a supplementary, Mr. Cafik.

Mr. Cafik: I had a supplementary on the matter of this point of order. I do not know...

The Chairman: I think we have cleared up the point of order. Mr. Major, your supplementary.

Mr. Major: Mr. Chairman, the department asked for a bid and received a bid of $3.95 at a time when the going rate seems to have been much higher. They accepted this bid at that price. Three months later the yard asked for an increase. If the going rate is on the basis of $5, would it not be a bit odd if the yard were to submit a price of $3.95? Would the Department not expect an increase at the time the bid was submitted?

The Chairman: I think Mr. Hunter partially answered that question. Perhaps you would give a brief answer, Mr. Hunter.

Mr. Hunter: Sir, when we call for competitive bids it is not unusual for a contractor—who for one reason or another might like to have his yard full—to bid even lower than the going rate in the area or in his yard, because in this way he keeps his employment as full as possible and he keeps his overhead down on all of his work, and the fact that he bids $3.95 is really his own business. We are well aware that at the same time other yards were bidding $5, $5.05 and, as his rate came out later, $5.10.

Mr. Major: I agree with what you say, Mr. Hunter. This is somewhat normal in this type of business. However, if I were letting out a contract I would ask myself certain questions. I suspect these people bid $3.95 just to get the

job, and they were expecting to increase their rate eventually.

Mr. Hunter: Sir, their guess as to the amount of work might have been a little better than ours. I would not say that it was not. This rate that they negotiated with us for the additional work was negotiated with our people...

Mr. Major: If I may. .

The Chairman: Mr. Major.

Mr. Major: This is only a period of a few months. The work could not have been started at the time.

Mr. Hunter: I am advised that the 200,000 additional hours were spent at the old rate and before the new rate became effective.

• 1020

Mr. Major: In this period of a few months between the time the bid was made and the time they asked for an increase.

Mr. Hunter: Sir, this rate would certainly be negotiated ahead of time because they would not have reached the point of the additional work by this time, but they did complete all of the hours for the original work they did.

Mr. Major: They completed this 200,000 hours in what period of time, Mr. Hunter?

An hon. Member: That is a lot of man-hours in a short period.

Mr. Hunter: I am told, sir, that this work took about eight months, and that the new rate did not become effective until the work covered by the fixed-price contract plus 200,000 a additional hours of labour and 10,000 hours of drawing-office work. Then it was a period of eight months before the new rate of $5.10 became effective.

Mr. Major: Then you agreed to a change in rate before the work was finished, or the yard asked for an increase before the work was finished.

Mr. Hunter: This would be the commencement of the negotiations for additional work beyond the 200,000 hours of work arising had been completed so that they would know where they were going and they could do their future planning too, because it was probably obvious to both of us at that time that there would be additional work, and it had to be negotiated. In fact there was this clause which said they had the right to renegotiate.

Mr. Major: Was the 200,000 hours paid on the basis of $3.95?

Mr. Hunter: That is right, sir.

Mr. Major: Then the excess was paid on the basis of $5.40.

Mr. Hunter: Of $5.10, sir.

The Chairman: Mr. Major, I think you are on a pretty good point there. May I just add one little bit to your questioning? On page 56 of the Auditor General's Report in the last sentence of the second paragraph—and Mr. Hunter might want to elaborate on it—it reads:

> ... the Department of Defence Production did not request full financial information at the time these increases were being negotiated.

Now, this is just following in with what you are asking about the eight months later. Maybe Mr. Hunter would like to elaborate on that sentence.

Mr. Major: Mr. Chairman, If I may go on further to your point?

The Chairman: Yes.

Mr. Major: I have not had a chance to study it very much, but on the surface it might appear that the excess work over and above the bid price was an open-end affair; it was apparently a cost-plus arrangement. Did the Department know exactly where it was going from the time the original amount was spent?

Mr. Hunter: Sir, as far as we were concerned, as I mentioned, we have people who are continuously reviewing costs of this and other jobs in this yard, and while we perhaps did not ask for every last bit of financial information, it was only because we had considerable information of a current nature, and we really only had to request additional information, possibly about what labour increases they would have, or what up-coming union negotiations there might be. It was only to get the additional financial information that we would need to negotiate a fair rate.

Mr. Major: By the way, Mr. Chairman, which yard is involved there? I was not here when the name was given.

The Chairman: Davie Shipbuilding Ltd., in Lauzon, Quebec. Lauzon and Lévis is the same place, right?

An hon. Member: Yes, or just next door.

The Chairman: Mr. Henderson, why would you put in your Report the statement that the Department of Defence Production did not request full information? I think the Committee should have an explanation there.

• 1025

Mr. Henderson: It is my understanding, Mr. Chairman, that the Department did not request full financial information from this shipbuilding yard at the time these increases were being negotiated, because, as I state here in my Report, it is apparently contrary to their policy where the main contract is awarded following competitive tender. I think that has been the policy, as I understand it, of the Department. Consequently, in the course of our audit they were unable to provide us with information from the shipbuilders' accounts to demonstrate that the cost increases justified the increase in the overhead component in the labour charges, and in addition, the $2,828 per diem direct charge for overhead.

In my view, whenever it becomes necessary to renegotiate labour charge-out rates involving substantial cost increases claimed by shipyards in this manner, these rates should be subjected to cost audit. Furthermore, I think that the entire contract here should have been subject to cost audit to determine that the profit margin, included in the renegotiated charge-out rates, is not in excess of that included in the original charge-out rate or the fixed-price portion of the contract.

As Mr. Hunter has said, his representatives—I do not think auditors, but some of his officials who, after all, are very well versed in this type of work—did, in fact, go down to the yard and inquire into the basis and obtained information which, as he has said, satisfied him.

Mr. Winch: But it did not satisfy you.

Mr. Henderson: I would have been happier had we had a standard cost audit report from the government auditors who look into this sort of thing.

Mr. Winch: But when you did this you did not find any cost audit report made to the Department of Defence Production on these increases.

Mr. Henderson: No, sir.

The Chairman: After Mr. Major I have Mr. Crouse and then Mr. Cafik.

Mr. Major: Mr. Henderson, in this type of thing would the normal procedure not be that when you are asking a bid for a certain job, especially this type of specialized job, you accept a bid that seems to be quite below the normal current prices. I would suspect the Department knows from experience that there are always extras involved in this type of work. Would it not be normal to ask the yard to submit a fixed price on the extras?

The Chairman: Mr. Hunter?

Mr. Hunter: This is what we did, sir. We estimated the work arising, or additional unforeseen work, at 210,000 hours. As it turned out, and as was explained last week, the additional work turned out to be 624,000 hours, I think. But for a number of reasons that Mr. Armstrong had mentioned, there were certain jobs that he felt could be controlled and possibly not done at this refit, but done later. But as it turned out with the work that had to be done, it did not make sense not to do this additional work. Therefore, the basis on which we estimated 200,000 additional hours was really changed by the fact that we decided, or were perhaps forced into doing, more work than the 200,000 hours of additional work would provide for.

I might say, this is a changeover from what it was some years ago. We used to start off a job without doing any estimate of this additional work in hours, in any number of hours, but we would fix a rate just for additional work.

It was found that to get a competitive bid we would have to get together with the Department of National Defence and estimate between us what would likely be the number of additional hours required and then get the contractor to give us a firm bid, to tell us how much he would charge for those hours. In this way we were able to get firm bids, whereas we could not really get firm bids before, because there was always a firm bid for what you were talking about, but any unlimited amount of additional hours.

• 1030

The Chairman: Could we leave this point now? I do not want to misinterpret any discussions here, but it would appear that the

price of $3.95 to $5.10 per hour was paid without a full cost audit, as mentioned by the Auditor General, but it was arrived at by discussions or negotiations by the Department of Defence Production.

Mr. Hunter: The $3.95, Mr. Chairman, was the rate included in the firm price bid which we did not make any attempt to work out with them. Do you not mean the $5.10?

The Chairman: The $5.10, yes. The price of $5.10 was established.

Mr. Hunter: It was established on the knowledge that our people had of the yards and...

The Chairman: Discussions and negotiation.

Mr. Hunter: Right. It was negotiated...

The Chairman: But not without a full cost audit.

Mr. Hunter: There was no cost audit because it was a negotiated rate.

The Chairman: That is what I said: without a full cost audit.

Mr. Hunter: There is not a cost audit on a negotiated price. That in effect becomes a firm price for the work...

The Chairman: The Auditor General tells us that he would be happier if such were done in any Department where such prices are arrived at.

Mr. Henderson: Mr. Chairman, if I might just correct this, in fairness to Mr. Hunter, the cost audit is something that would take place after the event: have a look at it. Mr. Hunter, as the purchaser, must have the freedom of negotiation. My statement in the report says that the Department of Defence Production did not request full financial information at the time these increases were being negotiated. That is because we, ourselves, were unable to find this and, as he has explained, it was a negotiation around the table. My point is that after the job is done and the format concluded, a provision should be made in the contract for a cost auditor to go in and report to the management as to the out turn of the figures. You cannot very well audit it before he does his negotiation. Do I make my point clear?

The Chairman: Yes, you do. Now, Mr. Major and then on to the next question.

Mr. Major: I would suspect in this type of job, Mr. Hunter, that the work to be done is highly specialized and highly technical. Could this explain the high overhead costs? This question was brought up, and we do not know what type of equipment went in, but I would suspect from the electronic equipment that was installed that it is extremely expensive and must be installed by highly technically qualified people?

Mr. Hunter: That is quite true, sir; these are skilled people.

Mr. Major: And they command high salaries. Is this brought out?

Mr. Henderson: Yes and also, of course, Mr. Chairman, they had the ship opened up right there and consequently they were not in the best of positions to take it some place else.

Mr. Hunter: If I might make one observation, we have the right of discretionary audit in any contract, firm price or otherwise negotiated, that we let. If we had a feeling that this rate was too high, we have that right at any time actually, under our Act, to have a look, have an audit and recover from the contractor anything we consider to be in addition to a reasonable cost plus a reasonable profit.

The Chairman: The same as you are doing with the compressors now?

Mr. Hunter: The same one.

The Chairman: The next is Mr. Crouse.

Mr. Crouse: Mr. Chairman, back to my original question on the basis of payment. Again, I would like to quote some DBS figures, subject to correction by our witness. The rate for drafting as listed on page 55, the Drafting Office personnel, in my view is very much out of line at $5.40 per hour. The Dominion Bureau of Statistics Reports for this period show, for a 39.1 hour week, salaried employees in Quebec yards as being in the nature of $126.92 or approximately $3.25 per hour, which means approximately a 66 per cent markup for this yard. I believe the drafting personnel who would be used in this respect would be mostly tracers, taking off sections of original drawings. Generally speaking, tracers are not paid this high a salary. Could the witness tell us if this pay covered tracers or expert draftsmen? Why was the amount allowed at $5.40 per hour, which

is so much higher than the Dominion Bureau of Statistics figure?

Mr. Hunter: Sir, I have not got the breakdown of the $5.40. Mr. Henderson has been able to help me up to here, but I can certainly get that information. It was my understanding and my experience that seeing any drafting hours are usually slightly in excess of the normal direct shipyard labour hours, this may mean that the mix of tracers and expert draftsmen brings about a slightly higher level.

You are looking at the bids of the three companies which bid on this. They bid, as you recall, for just straight additional hours and drafting hours. The rates used by the three yards, incidentally, were, for Davie Shipbuilding, the successful tenders, for firm charge-out rate of drafting hours, $5.40; for the second lowest tender; $6.45 per hour; for the third lowest tender $7.50 per hour.

Mr. Crouse: Then, Mr. Chairman, according to the witness, he believes that this was a mixture of tracers and expert draftsmen combined to bring about this estimated hourly rate.

Mr. Hunter: That is my appreciation of why it comes out at $5.40, but I would think, from looking at the other yards, that maybe their mixture would have a higher relative number of more expert people.

Mr. Crouse: Thank you, Mr. Chairman. My next question deals with the statement on page 56. In my opinion the permitted amount of $2,828 per calendar day allowed for providing fire guards and utilities is astounding and beyond my understanding. If, for example, the yard had 20 men on each ship for that purpose, and this would be 12 men too many, the cost at $3.95 per hour would be, at 480 hours per day, a total of $1,896. What this seems to indicate is that the Department of National Defence and the Department of Defence Production took the easy way out on this refit and gave the contractor an open end contract in his favour. After all, how could he lose $932 per day for lights? My question is, why did not the Department of National Defence put service personnel on board this ship for fire patrol, men who are already on the payroll of the taxpayer?

The Chairman: Do you mean some of the ship's crew?

Mr. Crouse: Mr. Chairman, we are told that the Canadian taxpayers pay $2,828 per calendar day for services supplied to the ship subsequent to the present ship delivery date of 27 April, 1967, these services to including fire guards and utilities. Mr. Chairman, the utilities would certainly be required to be supplied by the yard but there is no reason under God's high heaven, that I can see, why the contractor should be required to supply fire guards when we have enlisted men, some of whom were already on the ship...

Mr. Winch: There were 120.

Mr. Crouse: There were 120. Thank you, Mr. Winch. There were 120 on the ship and others who were certainly available to be placed on board that ship to do this type of duty, men who are already on the payroll of the Canadian taxpayers and who could have carried out fire duty, in my opinion, without the people of Canada having to pay this exorbitant charge. Why was this not done?

• 1040

Mr. Hunter: Sir, it is my understanding that this was the contractor's responsibility. This would be fire protection for 24 hours a day, for one thing. We have a breakdown of the figures here and my comment on this is that these charges were reviewed by our people with the contractor and considered, after an assessment, to have been a fair statement of the cost involved. There were fire guards which cost, actually, $1,469 of the $2,828.

Mr. Crouse: Mr. Chairman, you will appreciate I was only using an example. I was guessing when I said there must have been at least 20 on board. Would the witness tell us exactly how many fire guards were hired?

• 1042

Mr. Hunter: I will have to get the complete breakdown of the number of ships and the number of people on each ship. I do not actually have it all.

Mr. Crouse: Mr. Chairman, that information can be supplied but my major question has not been answered. It is simply, why were not service personnel engaged or placed on this particular duty, an action which would have saved a large amount of money for the Canadian taxpayers? Why was this not done?

Mr. Armstrong: I do not know whether I can answer that entirely. My understanding

of the situation is that the contractor is responsible in this field in particular because his people are familiar with his own firefighting systems, and so on, in the yard. I believe on board ship among the 120 people that I mentioned, certain of those people would have some guard duties but in a shipyard of this kind, as I understand it, it is necessary to have contractor people who are familiar with the firefighting systems in the particular yard for this purpose.

The Chairman: Mr. Allmand, did you have a supplementary?

Mr. Allmand: Yes. Do you know whether the fire guards are full-time employees at the shipyard and whether it is usual for the shipyard to provide fire guards for most ship overhauls of this nature, or do they just hire them when a particular ship does not have fire guards of its own?

Mr. Hunter: These are hourly-rated people who would do the fire protection on any ship that was their responsibility.

Mr. Winch: Then why was it not included in the overhead?

Mr. Cullen: According to Mr. Henderson's report, Mr. Chairman, it was included in the overhead. It says that yards customarily charged these costs directly to contracts.

• 1045

Mr. Hunter: I discussed this with our people who negotiated the contract, sir, and they tell me that is the practice of all shipyards to direct charge as many costs as they possibly can. Certain yards may, as the Auditor General says, include it in overhead, but it is normal practice for the shipyards that we deal with to direct charge as many items as they possibly can relate to a job.

Mr. Winch: Over and above the contract price?

Mr. Hunter: No, sir.

Mr. Cafik: I have a supplementary, Mr. Chairman. On that point, if it is the normal practice of that particular yard to make this charge over and above the usual charges that have been outlined, why did they not make a daily charge from the beginning of the contract?

Mr. Hunter: We assume they did, sir. It would be included in the firm price they gave us for the known work that we described for the period that we agreed it would take them to do it.

Mr. Winch: Then it was included in the overhead, on that basis, of the original contract.

Mr. Hunter: On the firm price part of the work plus the agreed additional hours.

Mr. Cafik: I would like to pursue this a little further for a moment. On the renegotiated price, the overheads were included, of course, in that $5.10 figure.

Mr. Hunter: Right.

Mr. Cafik: There is a question I would like answered which I cannot read in Auditor General's report. Following April 27, 1967 when this daily charge began, was that yard still performing services on that ship at the $5.10 figure. In other words, had they finished their work and, in effect, this charge was a storage charge?

The Chairman: What you are getting at, Mr. Cafik, I think is if the charge for fire guards and utilities was included in the $3.95 as overhead, why was it not included in the $5.10 as overhead?

Mr. Cafik: Well, as a matter of fact, the justification for the $5.10 was that the overhead could not have been spread around so far, so I think it is quite evident that it was included in the $5.10. Now the next question that is meaningful, I think, is whether the work that they were performing for the $5.10 had been completed by April 27. If it had been completed, then there may be some justification for this charge on a daily basis. If not, then it looks as if they are getting overhead from two different sides.

The Chairman: Is there any explanation there, Mr. Hunter?

Mr. Hunter: The $5.10 does not include these direct daily charges. As I mentioned, it is the practice of this yard and a number of other shipyards to charge all the direct charges they can to a ship where they know the exact number of hours that would go to a large job like this. Therefore, the $5.10 did not include this daily rate for these special direct charges.

Mr. Allmand: What about the $3.95 sir? It did include them?

Mr. Hunter: We would not know whether it included them, sir. That was a firm price

based on a competitive bid and, as I mentioned, there was a lot of work in the yard at this time—2,400 people working—and presumably they were able to include that in their firm price bid to us. It would not be in the $3.95 but it would be somewhere else in the $4,914,000 plus the $856,000 for unknown work, with a total bid of approximately $5.7 million. It was in there, but it was not in the $3.95 cut.

The Chairman: But there was fire protection and utilities going on over the whole yard, so it must have been in the $3.95 price.

Mr. Hunter: It would not be in the $3.95, sir; it would be in the other figure that they based their bid to us of $4,914,000 for known work, plus $856,000 for unknown work.

The Chairman: Mr. Crouse, you started this questioning so perhaps we should come back to you.

Mr. Crouse: I am not entirely satisfied, Mr. Chairman, with the reply I received concerning the fire guards. Obviously this work could have been carried out by service personnel. The statement that they would not be familiar with the firefighting equipment in the yard does not impress me, because certainly they could have been shown where the various fire hydrants and hoses are located, and in my view this Committee could go on record as suggesting that future refits of this type should be carried out with fire guards supplied by service personnel. We have well-trained firefighters in the services and I am personally not satisfied with the reply we received on this particular matter.

• 1050

The Chairman: Just before we leave the $3.95 and $5.10...

Mr. Allmand: I have a question on that.

The Chairman: Particularly on that area?

Mr. Allmand: Yes.

The Chairman: Mr. Allmand?

Mr. Allmand: It says that the firm price of $2,828 was per calendar day for services supplied and that these services included fire guards and utilities. Per calendar day would mean for weekends and holidays too, when work might not be going on on the ship. Is that not correct? And would not the hourly rate of $5.10 and $3.95 just apply to work on refits whereas the fire guard work would go on every calendar day whether there was work going on or not? Could this be an explanation of why the fire guards and utilities would go on a per calendar day basis as distinct from the hourly rate?

Mr. Hunter: Sir, I am advised that the additions that make up the $2,828 per day are services that must go on 24 hours a day, 7 days a week.

Mr. Cafik: On this same subject, it is standard practice when you get a fixed price for a refit or whatever it might be involving a ship that you also earmark a certain length of time —in other words it is going to be in the yard for three months, five months, or whatever it might be—and do you write into the contract, if that be the case, that if the ship is going to be there longer than the period originally estimated there will be a daily charge for its storage and for the servicing that would be required following that date?

Mr. Hunter: I do not believe it is stated in terms just as precise as that, sir. The time is estimated pretty well by the contractor himself. He looks at the number of additional hours that we have put in the contract for other work, and it I think it is pretty well known, in respect of various ships, just about how many people you can put on such a ship. I believe there is a limitation. You cannot put a thousand people on any ship at once. Jobs have to be done consecutively. Between the contractor and ourselves we can work out pretty well what the time should be. So that once those hours have been exhausted we are in a position to negotiate if there is any further time required. I am told that in this case it was pretty well agreed that this job would not take more than a 12 month period.

Mr. Cafik: On a further supplementary, how did you arrive at the date of April 27, 1967 from whence to begin these charges? What is so significant about that date?

Mr. Hunter: That was the contract delivery date, sir.

Mr. Cafik: That was the original fixed price contract delivery date?

Mr. Hunter: Yes. It was the original fixed price, including the 200,000 hours of additional work.

Mr. Cafik: The 200,000 hours that is priced out at $5.10?

Mr. Hunter: No, at $3.95, sir.

Mr. Cafik: All right. That leaves me a little bit bewildered because I presume that the work being done at the $5.10 rate was started and that that work was being charged to the government at $5.10 prior to April 27, 1967.

Mr. Hunter: This is possible, sir, yes.

Mr. Cafik: The Auditor General seems to want to make a comment.

Mr. Henderson: No.

Mr. Cafik: No?

Mr. Henderson: I am told that was not actually so. Is that right?

• 1055

Mr. Cafik: Well, what then is the case, sir?

Mr. Henderson: It is just a rough estimate. I understand that that is all that is involved. Is that not right, Mr. Hunter?

Mr. Cafik: I wonder if you understand the question. The question is this: when did the extra work that was not under fixed price in the original contract commence—at what date? Did we close off the fixed price and move on to the renegotiated price? That is the real question.

Mr. Henderson: We are giving our information to Mr. Hunter and he will give it to you.

Mr. Lefebvre: While we are waiting for these figures, may I ask what happens to the normal crew of a ship like the *Bonaventure* when it is in dry dock for a year's time or whatever it was. Is the crew sent on annual leave, are they transferred to other ships, are they given other duties? I am sure that these men are not just sitting around the dock waiting for this ship to be refitted. Therefore, if they were put on prior duty and had to take their annual leave after the ship was refitted, then we would not have gained a dog-gone cent.

Mr. Winch: They always have 120 on board.

Mr. Lefebvre: Would you mind if I get the answer from the witness, please?

If there are 120 left on ship, what are their duties there, and where are the rest of the 1,000?

Mr. Armstrong: The normal crew of the ship, as I think I mentioned, when it is fully complemented in operation is approximately 1,200. It might be a little less than that from time to time. These ships normally work on a cycle, where the crew is assigned to the ship for a period of time—normally 20 months—and during that period it is broken down into phases: when the ship is in operation, when the ship is in normal refit and so on. When the ship is in refit the crew that is not required on board normally go to training courses and other aspects of the work. Some of them would take their normal leave during this period and so on.

Mr. Lefebvre: What would the 120 be doing?

Mr. Armstrong: Well 120, as I explained, are on board primarily in this case to maintain the ship—that is maintain all the various parts of the ship that are not at any given moment involved in the refit during the period of the refit. They also assist the technical officers who are involved in supervising in the course of the refit. The rest of the people are assigned other essential tasks in their naval work, and the majority of them would be on various training courses during this period.

The Chairman: And following Mr. Lefebvre's question, how many senior officers were kept around during this time I am referring to admirals, captains or what have you?

Mr. Armstrong: I can assure you that there would not be any admirals. There are approximately 25 officers involved. The most senior officer is a captain.

The Chairman: And how many captains would there be?

Mr. Armstrong: One.

The Chairman: And 25 senior officers.

Mr. Armstrong: No, 25 officers, the most senior one being a captain.

The Chairman: At this point we will adjourn. Our next meeting will be at 9:30 a.m. on Thursday in Room 308 of the West Block.

Meeting adjourned.

HOUSE OF COMMONS

First Session—Twenty-eighth Parliament

1968-69

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: Mr. A. D. HALES

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 16

THURSDAY, FEBRUARY 13, 1969

Public Accounts, Volumes I, II and III (1966 and 1967)
Reports of the Auditor General to the House of Commons (1966 and 1967)

WITNESSES:

(*See Minutes of Proceedings*)

THE QUEEN'S PRINTER, OTTAWA, 1969

29768—1

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. A. D. Hales

Vice-Chairman: Mr. T. Lefebvre

and Messrs.

Allmand,	Flemming,	Noble,
Boulanger,	Forget,	Noël,
Burton,	Leblanc (*Laurier*),	Rodrigue,
Cafik,	Major,	Tétrault,
Crouse,	Mazankowski,	Thomas (*Maisonneuve*),
Cullen,	McCutcheon,	Winch—20.

(Quorum 11)

Edouard Thomas,
Clerk of the Committee.

MINUTES OF PROCEEDINGS

THURSDAY, February 13, 1969.
(18)

The Standing Committee on Public Accounts met this day at 9:38 a.m., The Chairman, Mr. A. D. Hales, presiding.

Members present: Messrs. Burton, Cafik, Crouse, Cullen, Hales, Leblanc (*Laurier*), Lefebvre, Rodrigue, Thomas (*Maisonneuve*), Winch, Mazankowski, McCutcheon (12).

Witnesses: Mr. A. M. Henderson, Auditor General of Canada; Mr. E. B. Armstrong, Deputy Minister, Department of National Defence; and Mr. G. W. Hunter, Deputy Minister, Department of Defence Production.

The Committee questioned the witnesses on the refit of the HMCS *Bonaventure* in particular (a) labour costs; (b) overall estimates.

After further questioning it was moved by Mr. Winch and

Agreed:—(a) That a subcommittee be appointed to make a personal examination of Department of National Defence documents, work papers and submissions relative to all work and refit of the HMCS *Bonaventure,* including all estimates of the $14,000,000 original figure, the second of $12,000,000 and the final $8,000,000 as presented to the Treasury Board and the House of Commons.

(b) That the special subcommittee be composed of members of the Subcommittee on Agenda and Procedure.

The Chairman informed the Committee that following questioning on the refit of the HMCS *Bonaventure* they would continue with Paragraphs 94, 97, 98, 99, 103, 105, 106, 109 and 113 of the Auditor General's Report 1967.

It was agreed:—That Mr. McCutcheon replace Mr. Crouse on the Subcommittee studying Governor General's Warrants.

At 11:00 a.m. The Committee adjourned to the call of the Chair.

J. H. Bennett,
Acting Clerk of the Committee.

29768—1½

EVIDENCE

(Recorded by Electronic Apparatus)

Thursday, February 13, 1969

• 0938

The Chairman: Gentlemen, according to our provisions it is permissible for us to start. When we finished the last meeting I think Mr. Lefebvre asked Mr. Armstrong of the Department of National Defence how many men were working on the *Bonaventure* and you were told there were 120 men and that there were 25 senior officers, one of which was a captain. That was the point at which we adjourned. Do you wish to continue your questioning there, Mr. Lefebvre?

Mr. Lefebvre: My reason for that question, Mr. Chairman, was to get on the record the question but by Mr. Crouse the other day. It seemed as though we had the men capable of doing fire-fighting on the ship and that the Canadian taxpayer was paying twice for the same job. We have since found out, I believe—and I would like Mr. Armstrong to elaborate on this—that the shipyard looks after fire-fighting. They have men who are equipped and know the equipment. This is not something new for this particular refit, but something that is known and has been going on for years. I just wanted to know what the 120 men were doing.

Unless Mr. Armstrong has further elaborations, I understand they are there to help out in the event of technical difficulties and more or less to act as guides to those who are doing the repairs, to see that the repairs that are being paid for are done according to the Defence Department's wishes. Is that correct, sir?

• 0940

Mr. Armstrong (Deputy Minister of National Defence): Yes; with the one addition I mentioned. They are there to maintain the equipment on the ship that is not specifically involved in the refit. I do not think you mentioned that; they are there for the reasons you said and, additionally, for this purpose. Also there is one other factor that I mentioned earlier, that in a major conversion and refit of this kind the Navy finds it desirable to have a nucleus of the crew aboard during the refit so that they will have a basis for taking the ship over when it is re-manned to the full degree.

Mr. Lefebvre: If they follow the refit along they are better able to inform the rest of the crew of just what new equipment has been installed and what repairs have been undertaken.

Mr. Armstrong: That is right.

Mr. Winch: Mr. Chairman, I have a supplementary question.

The Chairman: Yes, and then Mr. McCutcheon.

Mr. Winch: My supplementary is whether the responsibility of the 120 men on board did not include fire protection on board ship, as they know the ship?

Mr. Armstrong: It does not include the kind of fire protection that we were speaking of at the last meeting which was covered in the element of the $2,800 that we spoke of—if you recall there were fire pickets—accounting, as I recall, for approximately half of that sum. These are a responsibility of the shipbuilder; this is not a Naval responsibility.

I might add, which I do not think I mentioned at the last meeting, that the shipbuilder does have a responsibility in terms of fire risks in respect of the ship when it is in his yard and, of course, he does have insurance to cover this. There would be complications, certainly, if the Department assumed the responsibility for this kind of fire protection. I think it is fairly clear that in the event of fire, if we were using our own Naval fire-fighters, certainly there would be an area of possible dispute with respect to responsibility. It is the standard practice for these to be provided by the shipbuilder, and for some of the reasons I am giving you concerning insurance, I think this makes good sense.

Mr. Winch: In the event of a fire, then, is the shipbuilding firm responsible for the damages?

Mr. Armstrong: In this particular case, as you will recall this was a fixed price contract and the builder was responsible under the contract, as I understand it, for insurance.

The Chairman: Mr. McCutcheon?

Mr. McCutcheon: Mr. Winch has asked one of the questions that I had in mind. Now, would the 120 people who were there have been more or less on duty over a 24-hour period?

Mr. Armstrong: There would be people on board ship over a 24-hour period. Obviously there would be more people on board during the periods of the day when the work is being done, but there are people on board ship for 24 hours a day.

Mr. McCutcheon: Would they be living aboard ship as usual, or would these people be billeted out? If so, where?

Mr. Armstrong: In this particular case, they could not live on board because the accommodation was not available during the refit, so they were boarded out. I cannot tell you specifically where, but perhaps I can get the information for you.

• 0945

The Chairman: The question is: where were these men billeted while the ship was being refitted? Do you have any other questions, Mr. McCutcheon?

Mr. McCutcheon: The obvious one would be, at what expense?

Mr. Armstrong: And at what expense, you would like to know?

Mr. McCutcheon: Yes.

Mr. Armstrong: Well, I can get these figures for you.

Mr. McCutcheon: Thank you.

The Chairman: Will we have these today?

Mr. Armstrong: I will have to bring them next week.

The Chairman: Are there any other questions? Another question from Mr. Winch, and then Mr. Cafik.

Mr. Winch: There are two questions, Mr. Chairman, I would like to ask.

Mr. Cullen: Excuse me, Mr. Winch. Will we be going back to the men?

The Chairman: Yes, we will go back to that, Mr. Cullen, when Mr. Armstrong gives us the answer as to where the men were billeted and what it cost to billet them, and so forth. We will come back to that. Mr. Cafik, your question was not along that line, was it?

Mr. Cafik: No, actually Mr. Chairman it is a point of order.

The Chairman: All right, we will take it now.

Mr. Cafik: At the conclusion of the last meeting I had a question on the floor and we had gone on with other supplementaries and other questions waiting for answers to come. I do not know if the Department have the answers to the questions I raised at that time.

Mr. Armstrong: We have, sir.

Mr. Cafik: Yes, all right.

The Chairman: Mr. Winch.

Mr. Winch: Could I direct my first question to Mr. Henderson? In the last sentence of paragraph 101 on page 56, you state:

> These figures do not include the cost of materials supplied from stores, certain charges for freight, express, cartage, customs duty and sales tax, and costs of labour provided by departmental service or civilian staff together with appropriate charges for overhead.

The evidence that was given to us by Mr. Armstrong the other day was to the effect that the cost of materials supplied from stores for the *Bonaventure* was not at an inventory price, but their actual cost. Could I ask whether the Auditor General made any check on that phase?

Mr. A. M. Henderson (Auditor General of Canada): No, I am informed we did not make any check of that, Mr. Winch.

The Chairman: Mr. Armstrong.

Mr. Armstrong: There may have been a misunderstanding, Mr. Winch. I am not sure what you mean by inventory price and actual cost. I said these materials were supplied out of our stores and the cost at which they are carried for these purposes would be what you might call an inventory cost, but it is the invoiced price of the stores to the depot. Am I making myself clear? I was not sure what you meant.

Mr. Winch: At our last meeting the matter was raised of inventory or cost. I think it was at our second meeting that I asked the question. You said that it was carried at your cost when your purchased, and my question to Mr. Henderson was as to whether any audit had been made on this phase.

Mr. Henderson: I am informed, Mr. Winch, that there was a calculation made by the Department after this notice appeared in my report, and the calculation would have been made at what the stores would in fact have cost them. They do not carry these in inventory, as I understand it, costed, so that you simply transfer the figure out and charge it to the ship. But they do know where they purchased them and what the replacement cost is. A calcultion is made and that is the basis of the figure I think Mr. Armstrong gave you. Am I not right?

Mr. Armstrong: That is exactly right. What Mr. Henderson is saying is that in the normal issue of stores for a depot they will not be costed, but you can cost them. You can go back and determine the price at which the stores were delivered to the depot. That is what happened, and that is how we arrived at what I think Mr. Henderson mentioned, possibly $1 million.

• 0950

Mr. Henderson: I think you mentioned the million dollars.

Mr. Armstrong: I said it was $950,000.

The Chairman: Mr. Winch.

Mr. Winch: We only have to deal with your original cost, not storage, handling, shipping and so forth?

Mr. Armstrong: That is right. This would not include a storage charge.

Mr. Winch: Nor handling?

Mr. Armstrong: No.

Mr. Winch: Just your actual cost when you purchased the goods.

Mr. Armstrong: We would not ask a handling charge to this.

Mr. Winch: My second question is to Mr. Armstrong. I would like to ask whether or not any progress is being made on the question I asked, I believe it was a week ago, on a study of the working papers on all the original estimates of costing from the working papers, and whether or not the original estimates of the cost of the refit included what had to be done from the information you told us, once the *Bonaventure* was opened up.

Can I ask whether that progress is under way, and when we can expect a report?

Mr. Armstrong: As I recollect it, Mr. Winch, I think you indicated that you had understood there was an original estimate of $14 million, then $12 million.

Mr. Winch: You admitted the $12 million and you did not have any information on the $14 million.

Mr. Armstrong: You asked me if I would determine what had been deleted from the $12 million estimate to arrive at the $8 million estimate.

Mr. Winch: And if there was a $14 million estimate.

Mr. Armstrong: That is right. I have had our officers go into this subject, and I think perhaps I did say that I understood there was a $12 million estimate. After going into this, I have not been able to confirm that. The situation is essentially the following, and it may give rise to this apparent confusion over what the original estimates were.

In mid-1964 there was a set of estimates prepared, and these at this time were not in detail. There was a range of costs for the extended refit and modernization which would depend, at that time, on what the final decisions were in respect of the conversion. They were said at that time to run between $5 million and $8 million, but in the estimate the estimators also calculated, starting from 1964 through to 1973, the costs that might be incurred in respect to the ship for overhauls and refits throughout that period, in addition to this major modernization and refit.

When those were added in, that is running from 1964 to 1973, a maximum figure of $14 million came out, and depending on what range you took of the five-eighth, a figure of $11 million to $12 million.

There never was a detailed estimate that added up to that figure.

Mr. Winch: How did you get the estimate then?

Mr. Armstrong: The final...

Mr. Winch: The $14 million, how did you get that estimate.

Mr. Armstrong: I just explained it. Is it not clear?

Mr. Winch: Without detail or understanding, they just put in $14 million?

Mr. Armstrong: As I explained to you, this was mid-1964, and I am attempting to explain to you where these possible figures arose that we are speaking of.

Mr. Winch: And I am trying to understand.

• 0955

Mr. Armstrong: And I am attempting to be very clear. In 1964 these were, as I say, preliminary estimates, and they were not supported in detail. The $12 million to $14 million figures did not refer to what we are talking about. They were included in it, in a range of $5 million to $8 million for the major refit at this period, expected at that time in 1966.

There were, at that time, and in the subsequent planning, discussions as to what the modernization program should be, and there were considerations discussed at the time as to whether the ship in the modernization program should be equipped to take fighter-bomber aircraft. You remember at one time it had the *Banshee* on it, and there was some discussion that maybe this ship should be converted to carry the A4E. This would have involved quite a significant change in the deck arrangement. That was never done. As a matter of policy it was decided not do to that. There were discussions, and that accounts for the range of costs which were associated with the modernization program.

The actual refit part of the program, as you know from the figures we have given you, was estimated originally at roughly $4 million of the $8 million. And this is the part of the program where the large increase in cost took place. This was not due to any deletions from the original program estimates. The actual details of this part of the work are contained in seven large volumes, quite thick when you put the seven together. But there is not a succession of deletions, and I am endeavouring to explain that to you. That is the area where the large increase in cost took place, in the refit portion.

The Chairman: Mr. Winch.

Mr. Winch: Mr. Chairman, because we do not have the authority to do it now, I would like to state that at the appropriate time I will move for the appointment of a special subcommittee of this Committee to make a personal examination of the working papers and the original costing of the refit of the *Bonaventure*.

The Chairman: You are not doing that at the moment?

Mr. Winch: I cannot because we have not got the authority.

Mr. Cullen: A supplementary. You have indicated that this $14 million, which was almost like a top-of-the-head type of estimate...

Mr. Armstrong: And remember it covered a period of time, from 1964 to 1973.

Mr. Cullen: I am going in essence in reverse ratio to Mr. Winch, and Mr. Winch has been suggesting that there might have been a $14 million estimate and things were deleted from that in order to arrive at the $8 million. But I am wondering, going the other way, having arrived at the estimate of $8 million, then additional work was done to the extent of $4 million or $5 million. I think what Mr. Winch, with respect, was trying to get at is that in your $14 million, were some of the things included in that $14 million that you actually did on this particular contract? I am thinking specifically of the painting which was more than a million dollars.

Mr. Armstrong: As I explained to you, of the $14 million...

The Chairman: Mr. Armstrong, be as brief as you can. I know it is a difficult subject, but be as brief as you can.

Mr. Armstrong: The element in that for this major refit and conversion, the thing we are talking about, was the figure that rose from $5 million to $8 million. This was a general estimate at that time, and aside from the modernization work which one could do a little more specifically, it was really calculated on the basis of how long the ship would be in the yard. According to the figures that were being used at the time, if it were an eight-month job it would probably cost $5 million. A 12-month job was thought of in terms of perhaps $7 million. And if it were an 18-month job, which in fact it turned out to be, it would be $10 million. The naval people—the operating side of the navy—were really concerned, in doing the kind of work that needed to be done, with how long they could reasonably take the ship out of service

during the refit and naturally they would, as you would understand, want to have this for the shortest period of time that they could. However, they finally decided that a 12-month period would be a satisfactory one, and one they could agree to. The whole calculation was really centred around getting this work done in 12 months, and doing the amount of work that could be done in 12 months, and the figure comes up at $8 million.

• 1000

The Chairman: Mr. Armstrong, just a minute. Mr. Cullen asked a question, and I do not think he is getting the answer. The question was, when the estimate of $8 million was made did you not know or feel that these other items that were eventually put into it would be part of the final job? Was that your question, Mr. Cullen?

Mr. Armstrong: If you want a specific answer, I have to answer no. If you want it briefly with no further explanation, the answer is no.

The Chairman: Mr. Cullen, you ask further to that if you wish.

Mr. Cullen: I am trying to determine this estimate of $14 million. I think you said during the 1964 to 1973 period, including overhauls and refits, you are talking about a $14 million figure, which included the $5 million to $8 million figure. My point is that in this $9 million to the $6 million figure, let us say, over and above the $8 million, there must have been some things included in that. I am thinking specifically of painting. In the overhaul and refit you are talking about $14 million. Subsequently, you spent almost $14 million. In your original $14 million, was that major paint job of over $1 million included as part of that $14 million off the top of the head estimate?

Mr. Armstrong: I cannot answer it specifically. Obviously, there would be painting in those figures, but, as I said, these were general figures. For example, if this would help to explain it, a figure of $1.5 million was shown for 1969 under the heading Biennial Docking and Refit, which would include some painting, as any biennial docking and refit does, but I cannot identify it specifically, and it was not identified in those estimates.

Mr. Cullen: Then, if I might, I have just one more supplementary.

The Chairman: Yes, Mr. Cullen. I just want to make sure you have the answer to that question. In the $14 million estimate could we, in looking through that, put our finger on an item showing painting for $1 million-odd dollars? Could we find it?

Mr. Armstrong: You cannot, no, sir.

The Chairman: We cannot find it in there. All right.

Mr. Cullen: Mr. Armstrong, could we put our finger on other things such as furniture, tiling, boiler room, $56,000. Would that kind of thing also have been considered in this $14 million 1969-1973 overhaul and refit?

Mr. Armstrong: I do not think I have made it that the estimate I was talking about was an estimate in mid-1964, and a generalized estimate at that time. The extended refit and modernization portion of it, which as I said at that time was $5 million to $8 million in that estimate, was eventually converted into detail. As I say, on the refit portion there are seven volumes of detail. This was eventually converted to detail and that is where the estimate of the roughly $4 million for that portion of the work came from. If you want to look at that detail, it is available. As I say, there are seven volumes of it. However, I am advising you that you will not be able to find items deleted adding up to the $4 million extra cost. That is not so; they were not deleted. If you want to look at them, then that is up to you.

• 1005

The Chairman: That estimate, we could say, was not in detail.

Mr. Armstrong: Which estimate?

The Chairman: The $14 million.

Mr. Armstrong: No, that is what I have been saying all along.

Mr. Winch: How about the $12 million, was that in detail?

Mr. Armstrong: The $12 million was not in detail. I explained the $12 million to $14 million and they are not in detail.

The Chairman: Mr. Armstrong, can you explain to the Committee how you arrive at these figures of $12 million or $14 million if you do not have these kind of details in them. Is it guesswork or what?

Mr. Armstrong: I suppose it is the kind of guesswork that informed people are supposed to be able to make. As I say, they said—and this is not all that bad—if the ship refit and modernization takes 18 months, it will cost $10 million; if it takes 12 months, they said it would cost around $7 million. Actually the final estimate was $8 million in that case. That part of the work that did, in fact, take 18 months turned out to be $12.350 million. It was a couple of million dollars more but remember, they were making these judgments in 1964, at 1964 prices. So I do not think they were so far out in terms of judgment.

Mr. Winch: Could I ask a supplementary?

The Chairman: Are you finished, Mr. Cullen? I think, Mr. Winch, your suggestion—but go ahead with your question first.

Mr. Winch: I think all members understand that I could not move the motion which I intimated because we have to have a quorum and our decision is that we can meet but cannot make decisions without a quorum.

Could I ask Mr. Armstrong on this matter of the $14 million, the $12 million and the final $8 million, was it Admiral Welland who received these estimates and finally made a submission of $8 million?

Mr. Armstrong: On the 1964 part of it, at that time I am not sure who was handling it. I suppose Admiral Welland was the man at headquarters who would be concerned at the final time. If I remember rightly, he is retired now.

Mr. Winch: Was he the man who would proceed and bring in the final figure?

Mr. Armstrong: Let us keep this clear. There is no individual who deleted $4 million worth of items. I have told you that the list of items on the refit portion, which in fact turned out to be almost double because of the additions, did not have deletions of $4 million. This is what I am saying. If you do not believe me, I cannot do much about it; but that is a fact.

Mr. Winch: I am very sorry, but all I am trying to get clear is, how can Mr. Armstrong say there were no deletions when the original general estimate was $14 million and the asking vote was $8 million, and it has ended up by costing around $13 million? Do you understand? I am just trying to get that clear. If there were no deletions, how could you get that?

Mr. Armstrong: How many times do I need to say that in the $14 million that we spoke of, the portion of the job we are talking about was estimated at that time at from $5 million to $8 million. What else can I say?

The Chairman: Mr. Winch, do you want to make that motion now?

Mr. Winch: Yes, but we do not have a quorum.

The Chairman: Yes, we have a quorum.

Mr. Winch: Yes, I would like to move, if I can get a seconder.

An hon. Member: You do not need a seconder.

Mr. Winch: I move that this Committee appoint a subcommittee to make a personal investigation of the seven volumes which contain the original and all estimation of the $14 million, the $12 million and the final $8 million.

The Chairman: Mr. Winch does not need a seconder for that. Gentlemen, any discussion on the recommendation? What about the members of this small committee?

• 1010

Mr. Winch: If it was carried in principle, sir, I thought that would be decided; or you, sir, as Chairman might do so. I think it is of the utmost importance; otherwise I would not move it.

The Chairman: Does the Committee agree in principle?

Some hon. Members: Agreed.

The Chairman: As to the composition of this committee...

Mr. Winch: I would suggest three, sir, or perhaps five.

Mr. Lefebvre: Could we leave it up to the steering committee, Mr. Chairman, that the members of the steering committee be members of this committee or be replaced by the same representation?

The Chairman: Perhaps there would be agreement that the steering committee be the subcommittee.

Mr. Lefebvre: Or be replaced by the same representation.

Mr. Winch: Except, sir, for a specialized study, it seemed to me a little bit large. However, I am in the hands of the Chairman.

The Chairman: All right.

Mr. Cullen: The steering committee has five members, I believe?

The Chairman: Five.

Mr. Winch: I am sorry; that would be fine.

The Chairman: It is agreed that the steering committee be the committee that will delve into this study.

Mr. Crouse, you had a question.

Mr. Crouse: Yes, Mr. Chairman. I would like to ask the witness where were the time and material recorders of the Treasury Board construction section when this job was carried out? Were they in Ottawa or were they in Lauzon?

Mr. Armstrong: I do not follow that question. I am not aware that the Treasury Board has any time and material recorders.

The Chairman: Repeat the question, Mr. Crouse.

Mr. Crouse: I wondered if the Treasury Board had time and material recorders in their construction section, and, if so, were they in Ottawa during a refit of this size, or where they in Lauzon, Quebec?

Mr. Armstrong: The answer is no. I will check it, but I not aware of any time and material recorders in the construction section of the Treasury Board.

Mr. Crouse: My next question, Mr. Chairman, would be...

The Chairman: Mr. Hunter might have an explanation there. I think what Mr. Crouse was getting at is, was there somebody on the job...

Mr. Crouse: To check the hours charged to the job.

The Chairman: Just so we can be clear on this. Was there somebody on the job like a Clerk of Works: is this what you mean? Was somebody checking time and material and seeing that the job was being done the way it should be done and that were we getting what we were paying for?

Mr. Crouse: That is right.

The Chairman: Mr. Hunter, I think that is your department.

Mr. G. W. Hunter (Deputy Minister of Defence Production): Mr. Chairman, in the case of a firm price contract of this nature, there would be no time and material recorded because the prices were predetermined first by the bid on the main part of the work, and second, by negotiation between our people and the shipbuilder. There was no element of checking hours. It was a negotiated firm price. The hours were really his problem. We happen to know them because of the general overseeing of the job that we normally do, but we do not know, and we do not check the hours down to the last hour.

Mr. Crouse: Mr. Chairman, in view of the Auditor General's statement on page 56, and in view of the fact that the estimate covered only 200,000 hours, are we, as a Committee, to be led to believe that the Department of Defence Production placed no one on the job checking the number of hours leading up to 200,000? It is the amount of hours over 210,-000, and to October, 1967 the increase in cost was over $500,000. Do you mean to tell us, sir, that there was no one checking the hours charged to the job during the term of firm contract; is this correct?

The Chairman: Mr. Hunter?

Mr. Hunter: Mr. Chairman, these hours were all negotiated in advance with the contractor and people who were well qualified to know...

Mr. Crouse: Mr. Chairman, I am not quarrelling with that statement. What I am asking is, how did the government or the Department of Defence Production know when the 210,000 hours were put in on this particular job? If you had no one checking the yard to see the number of men who were on the job daily, how did you know when the 210,000 hours period had been reached?

• 1015

Mr. Hunter: Sir, the first part of the contract was a firm price contract for $4,900,000-odd. The second portion was for 210,000 hours, as it turned out, to be applied on work arising not covered by the original main contract. So that, on the 200,000 hours that we speak of, the first time any work arose which was a job that could be defined, our people sat down with the contractor and negotiation we would agree that that first job over and

above the firm price contract would take, let us say, 100 hours. We would negotiate the material and that would become a part of the firm price contract. If he did it in less hours than we had negotiated, or more, it did not matter because we had negotiated that job and made it part of the firm price contract.

Some 1,500 of those negotiations arose after the original $4,900,000 firm price contract, and each one was negotiated in advance and the hours agreed between the contractor and our people.

Mr. Crouse: Mr. Chairman, we have been told that the Saint John yard was originally higher in price than the Davie Lauzon yard on their firm bid, but it is my understanding that the ship was sent to Lauzon not because of the price quoted on firm bids but because it was the opinion of Defence officials that the refit could be done quicker in Lauzon. Is this correct?

Mr. Hunter: It was because the total of the firm price bid plus the estimated additional hours was the lowest price, Mr. Crouse.

Mr. Crouse: In view of the events and the increase in cost due to the delays in Lauzon it would now appear that the Saint John bid would have been the lowest firm bid. Is this a correct deduction?

Mr. Hunter: No, it is not, sir. It would be very close. We actually calculated it out, and it would come very close, but the Davie bid would have been lower, I am told.

Mr. Crouse: I am in a good maritime fog over some of the replies that we are receiving here this morning. There had been no check made on the hours up to the 210,000; this has now been established, so there is no way of knowing exactly if there were 210,000 hours put in, and now we are informed that the Saint John bid could have been quite close, at $8,572,000, to the Lauzon bid, yet the figures given to this Committee show that the overall cost is closer to $13 million. I would like to ask the witness just what is the advantage of asking for firm bids in view of the, not estimates, gentlemen, but guesstimates that you have been using up to this point and on this particular refit? What is the purpose of firm bids?

The Chairman: Are you directing this to Mr. Hunter?

Mr. Crouse: Mr. Hunter or Mr. Armstrong, whoever could answer this question.

Mr. Hunter: The purpose of a firm bid is to get competition which we did get between three yards, and, if a contractor takes a firm bid, the assumption is that he will do his absolute best to do it within the bid and make a reasonable profit. When you get three yards bidding against each other, I am sure you would appreciate that it is much better than putting work out at, say, cost plus. Actually, until 1965, there had been a lot more cost type work, and in 1965 we did change both ship construction and as much of ship repairing and refit as possible to firm price. We have found actually, if I may just go on, that the competitive prices we get by competition, as compared to what we used to get by allocation, are substantially better in all cases.

Mr. Crouse: Mr. Chairman, the witness Mr. Hunter has used the word "profit" and I am beginning to wonder if it would not be proper for this Committee to ask the officials of this yard to come before them and just state bluntly what was their real profit on this particular job; or, failing that, that the Treasury cost section should be ordered to review the whole matter by way of an internal audit on the yard books. Is this possible?

The Chairman: I suppose it is possible, Mr. Crouse, if the Committee wished to do it. Maybe you would consider having that subcommittee look into this feature as well and then report.

Mr. Crouse: Perhaps we should not waste the time of the Committee while we are studying one recommendation made by Mr. Winch. There are so many variables in this particular refit that I am sure very few members of the Committee are satisfied with the answers that we have received.

I would like to ask one further question on all refits, Mr. Chairman, and I am speaking now from experience: there is always a lot of material ordered and it is not always utilized. It is almost impossible to guess, as we have learned from the figures quoted here, the amount of paint that is required; there is always a few gallons left over, and if it happens to be white house paint or buff, or cream, it can be utilized quite conveniently by others for painting houses and what-have-you. I would like to know how much material purchased and charged direct to the job was surplus, what was its value, and where is it now?

Mr. Hunter: Sir, when you call for competitive bids this is just the very advantage that you get. It is up to the contractor to supply the materials, to estimate how much paint he will need so he does not have any special paint left over, or, if he is short, that he will have to supply it. This is just one of the real advantages of calling for competitive prices.

• 1020

Mr. Winch: But the flight deck was not in originaly.

Mr. Crouse: Are we being led to believe that there was absolutely nothing left after a refit costing $12.5 million?

The Chairman: Mr. Crouse, if it was left it would be the property of the contractor. However, what about the supplies from the naval stores, which were government property, and were used on this refit?

Mr. Armstrong: Any supplies from naval stores of the kind I was speaking of would be issued to the ship. They remain the property of the Department of National Defence.

Mr. Crouse: Yes, Mr. Chairman, but we were told this morning that there has been no check made on the 210,000 hours in the contract so that the Canadian taxpayer is absolutely in the dark with regard to whether he got 210,000 hours on that ship. There is not one of the officials concerned who can tell us that there were actually 210,000 hours. Mr. Chairman, when we refit a ship in Nova Scotia which is owned by a fishing company—by private industry—we place a man on board, generally the captain of the fishing trawler, and it is his responsibility to check the number of men who come from the local refitting yards on board that ship. If they come from the Atlantic Bridge Co. Ltd., or the Steel & Engine Products Ltd. in Liverpool, or the Lunenburg Foundry & Engineering Ltd., to name three that are prominent in that field, the captain checks and if there are 15 men from that yard he checks their time of arrival in the morning, he periodically checks through the day to see that those 15 men are on our boat and not working on someone else's boat, he checks them off at noon, he checks them in again at one o'clock and he checks them off at five o'clock. We know exactly how many men are on that ship per day, we know how many hours they work per week and, when the refit is completed, we take the issued statement or invoice from the company and check it with the captain's figures and, if there is a disparity, this, of course, results in a bit of a discussion in the manager's office on hours charged and on rates, as to the amount that we will pay. Am I led to believe that this relatively simple procedure is not one that is followed by the Canadian government? Is this correct.

Mr. Hunter: Sir, you are speaking of a cost type contract. This was a competitive firm price contract.

Mr. Crouse: I must disagree with the witness. This may have started out as a competitive price contract but the job did not get completed for $5,768,682. It was completed at an excess of $12 million dollars.

Mr. Hunter: Sir, but each of the 1,500 additional jobs were negotiated firm price jobs. They were negotiated and added to that original bid price. We have people who are competent to sit down with a shipbuilder and negotiate a reasonable firm price. Just on the point of whether we knew the hours were spent on the ship or not, I happened to see some figures, and I am sure our people have them, but the Auditor General had figures, which he probably got from our records, showing the man-months to do a general check on the 624,000 hours that there were. This man-month check actually, I believe, came to something around 635 because this was a check of the men who were on the ship. It was not our job to keep the hour at which they started, the job they were on, or the hour at which they stopped. It was our job to negotiate the best firm price we could before started the job. If I might say, Mr. Chairman, I have answers for Mr. Cafik which I think would further explain, but Mr. Crouse had asked...

The Chairman: Just before you do that, could you inform the Committee, Mr. Hunter, how many inspectors the Department of Defence Production had on this job to supervise and see that the work was done properly and in accordance with your contract?

Mr. Armstrong: Mr. Chairman, the naval overseer of the Department of National Defence is the customer's inspections man. The total staff of the naval overseer is six officers and 11 men. Now do not misunderstand me: he is not a time and material recorder. He is an inspector in the sense of a customer being satisfied that the work that is done is done in accordance with the specifications.

• 1025

The Chairman: So it adds up to this: that the Department of Defence Production settles on the contracts, does the dealings, buys the materials and sets the rates, but does not follow through to see that they get value for their money; they turn it over to the National Defence people who follow on from there.

Mr. Hunter: That is right.

Mr. Leblanc (Laurier): Mr. Chairman, a supplementary.

The Chairman: All right, and then Mr. McCutcheon.

Mr. Leblanc (Laurier): I remember at one time the witness was mentioning that when they were looking at that ship they used to leave personnel on board during the refit so that the personnel would be aware of what type of refit was going on and would be familiar with the new type of boat that they were refitting. That was mentioned before, was it not?

Mr. Hunter: Yes.

Mr. Leblanc (Laurier): How many persons would you leave there just to become familiar with it?

Mr. Armstrong: I said the total number on board was approximately 120 during the refit.

The Chairman: Now, Mr. McCutcheon.

Mr. McCutcheon: My question is more for clarification. We have used a lot of words here which I, not being a shipbuilder, am not clear on. I would like to revert, if I might, to the 1,500 negotiations that took place. Am I correct in my assumption, to use an example with which I am familiar, that if you take a motor car into a garage you can have it repaired in two different ways: a mechanic sets down his time, and you pay for the material and so on; or these garages have what is known as a "flat rate" for a certain job, such as repairing a motor, or repairing a generator. Were these 1,500 negotiations that took place established more or less on this flat rate basis, so much for each operation that had to be done? Is this the way it was done, and not by the number of hours involved?

Mr. Hunter: Sir, it was not done on a flat rate, but you are right in saying in each of the 1,500 jobs was assessed separately. I will explain to Mr. Cafik, the two rates we used—the $3.95 rate and the $5.10. But the number of hours was negotiated, the material that would be used was negotiated, and, in the case of, say, the repair of a pump which had not been in the first firm price bid because the navy thought it was all right but, on opening it up, found that it was not, our people would figure what it would cost for that pump and how many hours it would take. Since we had a 200,000 hour arrangement at $3.95, if it took 10 hours we would take 10 hours off that 200,000 until 200,000 hours were used up. Then at that point we negotiated a further rate which I will explain.

Mr. McCutcheon: That clears up the point for me exactly.

Mr. Mazankowski: Was there any investigation made by government officials as to the accuracy of the negotiations which you carried out? While the work was being done was there any supervision or investigation being carried on as to whether or not you were, in fact, getting a fair deal?

Mr. Hunter: I guess Mr. Armstrong's people would be watching to see that the job was done properly as the customer. They would also be aware roughly of the cost of the job but that really would not be their concern at this time because we previously agreed with the contractor that he would do it, say, in 10 hours and he would do it with $100 worth of material. If he used 20 hours and $200 worth of material, that was his problem.

The Chairman: Now the answer to Mr. Cafik's question—I just forget what that was, Mr. Cafik.

Mr. Cafik: I was in the process of asking a series of questions when I happened to ask one that could not be answered at that time, and that is how we got away from the subject. If I recall correctly, I wanted to know the date that the contractors had completed their work under contract in relationship to April 27, 1967 which was the date the ship was supposed to have been completed. That was one of the leading questions.

• 1030

Mr. Hunter: The answer which I did not have the other day, I have now, Mr. Cafik, if I might just take a minute. The period of contract for the main job was from April 25, 1966 to April 27, 1967. Mr. Cafik's first question to me, if I might just mention it was,

"how was it that by September you were sitting down to negotiate a new rate when you already had a rate for $3.95 for the year?"

Mr. Cafik: That is correct.

Mr. Hunter: The answer is this: the 200,000 hours that we negotiated and assumed would be all that there would be to the additional work, by June 6, when the ship was opened up we started to use those 200,000 hours at $3.95 on some of these 1,500 jobs. By September or October it was apparent that there were so many additional jobs that the 200,000 hours would be used up. We still felt that our estimate of the year was pretty good so we sat down and said when the 200,000 hours are used up it will be approximately the end of April, 1967 but in order to negotiate at that time the continuing new jobs that were arising it was necessary that we set a rate for the period after April 27, 1967.

So we sat down: we knew roughly what work the contractor had in his yard; He knew what he had and what he might get; we arrived at the rate of $5.10. It was negotiated, let us say, from October or November, but on December 19, 1966 we used the rate of $5.10 that we agreed for the first time. This does not mean that the work started the next minute, but it was a job that was in excess of the 200,000 hours and perhaps might have started any time after that. As it happened it was assumed the first application of the $5.10 rate would be any time between December, 1966 and the completion of the job.

Your second question was, "how many hours were used at the $3.95 rate during that twelve-month period." Actually our estimating must have been pretty good because the 200,000 hour point had been reached, I think, on April 28, 1967 so that the work done from then on, some 425,000 hours, was the balance of the hours on the 1,500 jobs that we had negotiated starting as early as June, 1966.

It is possible that some of the $5.10 rate might have been used in that period of a year, but it would only be at the expense of some other work on the $3.95 rate that could not be completed because, perhaps, one job had to come before the other and so there was an equal number of hours at $3.95 after April 28, 1967 as there was before. Therefore, it is felt that the rate, because we were fortunate enough to hit it almost on the nose, was fair to both the contractor and us.

• 1035

Mr. Cafik: I want to pursue that for a moment, if I may. I am a little bit confused by the evidence that you have given.

The Chairman: Do not feel you are by yourself, Mr. Cafik.

Mr. Cafik: You have indicated that December 19, 1966 was probably the first date that the $5.10 rate was charged.

Mr. Hunter: It was the first day it was approved, sir.

Mr. Cafik: It could have taken place between then and April 27, 1967, but you are not quite sure.

Mr. Hunter: Some of the work could; we do not really know when he did it. He would have to do a number of these job consecutively because he would have to finish one job that had been contracted for before he did the next that he did not know about, or vice versa.

Mr. Cafik: Are you saying that after April 27, 1967 some of the original fixed price work had not been done and consequently you were being billed at the $3.95 rate after April 27, 1967? Is that what you said?

Mr. Hunter: There would be no billing, sir; the work would have been done, but it becomes firm at the time we renegotiated. We started off with a $4,900,000 contract and we took each of those 1,500 jobs and negotiated a firm price which, added to the original job, because firm, but the first time that we even used the $5.10 rate because we had run out of the 200,000 hours for the jobs that had arisen and we knew about—they were not necessarily completed but we had to pick up these additional jobs that Mr. Armstrong mentioned had to be done.

Mr. Cafik: I think the real significant questions is this: If you were renegotiating part of these 1,500 contracts prior to the original completion date, April 27, 1967—if you were renegotiating and negotiating these separate contracts at $5.10, what has happened to the argument put forward in favour of increasing it to $5.10, because the argument then was that because there was less work in the yard and the overhead was spread over a smaller amount of work, it had to increase to $5.10, but I got the impression that they were being paid $5.10 during the period of the contract and there was no justification for it.

Mr. Hunter: Sir, it was estimated when we set the rate of $5.10 that the maximum of extra hours that could be applied on the jobs that were known or that could arise within the 12-month period would be 200,000 hours. As it turned out, we sat down and arrived at 210,000 hours. That was the basis of negotiating a further rate because after 210,000 hours had been spent it would bring us, as it did, to April 28, 1967. There was no additional work in the yard that would absorb the overhead in that period, so we felt the rate negotiated with the contractor for that period was reasonable.

You say there was some work done at $5.10 between December 19, 1966 and April 28, 1967. This is possible, but it would delay other work that we had negotiated at $3.95 and that would have to be done after, because of the fact that this other work had to come first. Therefore, it really did not matter, as far as contracting went, whether the $3.95 work was done after, because there was an equal number of hours.

If the period had been different the story might have been different, but as it turned out our estimators were pretty good and we arrived at a fair negotiation because that was the number of hours that was spent, 210,000 hours at $3.95.

Mr. Cafik: It seems to be terribly difficult to understand how the over-all estimates can be so much in error and the estimate of the number of hours right up to the very precise date of April 28, 1967 happens to work out exactly to what you had in mind. It is terribly difficult for me to understand how you were so precise in the very area where I would expect somebody to be imprecise, and so far off in an area where I would have expected a greater degree of accuracy.

Mr. Hunter: Sir, this was borne out—and I believe the Auditor General will bear me out—by a rough man day check about how many hours went in that ship. Mr. Glassford just reminds me we do not know these hours right to the very date because once we negotiate them it is up to the contractor to do it in more or less than those hours. However, a very general check—and I think Mr. Henderson can bear me out—the 200,000 hours happened to coincide and I think it was pretty good work on the negotiators' part, but it is a fact.

• 1040

Mr. Cafik: Pursuing it now a little further, I also asked a question the other day about the difference in volume of work that this yard was doing prior to April 27 and the volume subsequent to April 27 in order to find out if there was any real justification for the change in rate because of the overhead charge. Do you have an answer to that?

Mr. Hunter: We do not have figures for the following period. I guess all I can say is that this rate was not out of line with what other yards were charging at that time. I think I mentioned the other yards had used $5.00...

Mr. Winch: May I ask a supplementary?

Mr. Cafik: No, not at the moment. If you would like to wait till I have the answer to this question I will have no objection.

Mr. Hunter: ...and $5.05 and this $5.10 rate, you will recall, was based on a 70 per cent overhead in this yeard. It might be of interest that we have checked on overheads, since we have been discussing them. The average overhead rate for the seven major yards that we deal with across Canada for the total year 1965, which is really the last year that we were doing much cost-type work, ranged from a low of 61 per cent to a high of 140 per cent, and the average for the whole year for the seven yards was 97 per cent overhead, so our figuring that this rate worked out to a 70 per cent overhead, we felt was quite good.

Mr. Cafik: I have no objection to the rate. I know something about what you have to pay people to work and what overheads are, and I have never had any objection to the 70 per cent rate. My objection is something altogether different; it is the way in which it was done. After hearing the explanations you have given, I cannot help coming to the suspicion that the original price given for this job was $3.95 and at fixed rates, and then almost instantaneously another rate altogether was renegotiated when I am sure the yard itself had no idea what its work was really going to be after April 27.

They ended up with a higher price for the job than they really had to bid to get. In other words, there were no competitive bids after the original bid. They went, perhaps, to competitive rates, but it seems rather suspicious to me. I know that if I were one of the bidders on this job I would object to it very

much, because anybody could come in on a bid of $8 million and end up with a contract for $13 million and bid rather low on the first section.

Mr. Crouse: I think this is what happened.

Mr. Cafik: I would be very happy to do that myself. I do not know whether it happened, but it leads one to believe that it might have happened.

Mr. Winch: You are just jealous.

Mr. Cafik: That could well be.

The Chairman: Are you finished, Mr. Cafik?

Mr. Cafik: No, I am not. There were some questions raised by Mr. Crouse the other day in respect at charges for work. I want to pursue just five or six questions, pretending I happen to own the navy and wanted to find out if I were getting a decent shake out of this refit. I want to ask a number of very simple questions.

Mr. Crouse had talked about the rate of direct labour. I do not think that is really a relevant question based on the Dominion Bureau of Statistics. The question I would like to ask in respect of this is, what is, or was at that time, the going rate for charge-out work on labour on shipyards?

Mr. Hunter: When you say the going rate, sir...

Mr. Cafik: The average going rate. We were talking about the average amount that a labourer in the shipyards in Quebec received according to the Dominion Bureau of Statistics —forget that. I would like to know what the average charge-out rate was for labour in shipyards in Quebec.

• 1045

Mr. Hunter: The best information we have, sir, would be the three bids that we received from the three yards; one happened to be a $3.95 rate, the second low was $5.00, the third was $5.05.

Mr. Cafik: All right. According to those bids, what was the charge-out rate for draftsmen?

Mr. Hunter: In the same relation for the $3.95 the drafting rate was $5.40, for the second bid of $5.00 the drafting rate was $6.45; for the third bidder at the normal rate of $5.05 the drafting rate was $7.50.

Mr. Cafik: Therefore, according to those two standards you were not charged excessively. I wanted to conclude that anyway.

Mr. Crouse also pursued a line of questioning that I had in mind previously about the auditing of the number of hours that were actually used on this job. You have indicated and, I think, with some justification, that that is not too relevant if there were fixed price contracts. It is only this morning that I have learned there were the 1,500 sort of fixed price contracts, making up all this extra money. I think it puts it into a different context altogether.

A question I have in mind is this: is the Department convinced, or do we know by audit or by some other routine procedure that the original job, which was estimated at roughly $800 million, was actually completed—that portion that was bid on—for that amount of money?

Mr. Hunter: There is no doubt about that, sir; those were the...

Mr. Cafik: I know they were fixed bids, but did they actually do the job? Or in your negotiations did you say, "I am sorry, you underestimated this, so we will put some of this into the fixed price business"?

Mr. Hunter: Mr. Armstrong's inspectors would look at each job that was in their original description, plus the 1500; and whatever inspection there would be they would see that it was followed out and that, in fact, worth was received for the main bid and for all of the 1500 additional negotiated firm price jobs.

Mr. Cafik: To do this was there any kind of audit, or was it done just by taking the word of the inspector? Were reports completed on each of these individual bids, including the original bid—in other words, job descriptions, and then cleared out at the end, that this job was completed and authorized for payment?

Mr. Armstrong: Each job is inspected. I am now talking about the naval overseer's job. He must certify that it is completed to his satisfaction in accordance with the specifications.

The Chairman: If I may ask one question, were any jobs refused by your inspectors, or was the company asked to do a job over again to your specifications?

Mr. Armstrong: I am told there were many instances where jobs were not completed

satisfactorily and the shipyard was asked to do them again, or fix them up. I have not got precise numbers.

Mr. Cafik: To pursue this a little further, I gather that with the 1,500 little fixed price contracts and the one major one there were 1,501 contracts let for this job. That may be an approximate figure.

Do you have a file, or records, in which the 1,501 specific contracts are all laid out, with job descriptions and some verification by the inspectors—that those jobs were completed satisfactorily prior to payment being made?

Mr. Hunter: Yes, sir.

The Chairman: The Department of National Defence would have a statement certifying...

Mr. Armstrong: Our people would certify relative to every job, in accordance with what I said earlier.

Mr. Cafik: It would be very interesting to have a look at the 1,500 and some individual contracts.

The Chairman: Mr. Cafik, you are on our subcommittee. You will have that privilege.

• 1050

Mr. Cafik: I have not quite finished.

Mr. Crouse: Mr. Chairman on this point, since Mr. Cafik has seen fit to bring my name into it...

The Chairman: Mr. Crouse, is this a supplementary?

Mr. Crouse: It is not a supplementary. It is a comment. Mr. Cafik has brought my name into the basis of his questioning and has expressed an opinion on information I placed on the record on Tuesday. At this point I think I should at least have the right to make a brief rebuttal, if I may.

Mr. Cafik: It was a comment. I did not intend it to be disparaging.

Mr. Crouse: Mr. Cafik, my purpose in placing on the record the DBS figures relative to the charge-out rate paid in Quebec shipyards being at $2.67 per hour was to indicate, as far as I could determine from DBS, the amounts that shipyards paid in relation to the amount which was tendered for the job which, according to the Auditor General's report, shows up at $3.95 per hour.

The witness has stated that this was the lowest figure tendered. We are not quarrelling with that. My purpose in putting the DBS figures on the record was to give the Committee and the public a chance to assess the amount that the workman received, which obviously was $2.67, as against the amount that was charged by the yard, which started out at $3.95 and later on rose to $5.10, although presumably the workman was still receiving $2.67 per hour.

My reasoning was exactly the same when I placed on the record the DBS figures relative to the amount received by the draftsmen. Similarly, in my view, the draftsmen overpaid, because according to DBS they received an average of $3.25 per hour while the charge-out rate under the contract, according to the Auditor General's report, was $5.40.

I think that, in fairness, I should state my reason since you have mentioned...

The Chairman: Mr. Crouse, you said $5.40; you meant $5.10, I think.

Mr. Crouse: On drawing office labour, Mr. Chairman.

The Chairman: Oh, yes; on drawing.

Mr. Crouse: The DBS figures show approximately $3.25 per hour during that period, which gives a mark-up to the yard of something like 66 per cent.

The Chairman: Mr. Cafik, would you...

Mr. Cafik: If you will permit another question or two I will be finished.

The Chairman: All right; but we must finish here in a minute. I will take your question, and then it will be Mr. Winch.

Mr. Cafik: I am sorry if you thought I had said anything that I should not have in respect to it, but I do think that the significant thing is what can you buy the job for on an hourly rate and not what you pay the individual employee, because that has a tendency to indicate, in the minds of those who are not familiar with business, that somebody is making an excessive profit. But obviously there are overheads and many other factors involved, as I am sure you would admit.

My last line of questioning relates to this per diem rate of $2,828 per day. It has been pursued before, but I have always had the

impression that it was approached as though the main reason for this charge was the fire-fighting protection and supervision of the ship. I am inclined to think that that is not really the basic reason for the charge.

Perhaps my question is a little hypothetical, and you may not be able to answer it, but suppose you wanted just to store the *Bonaventure* in a dry dock for a year or for six months. What would be the per diem rate for tying up a dry dock of that size?

The Chairman: It is hypothetical all right.

Mr. Cafik: But I think it is quite practical, because obvously it is sitting in a dry dock and the dry dock has to be worth something.

Mr. Winch: Not if they are not doing any work on it.

Mr. Cafik: I beg your pardon?

Mr. Winch: Not if they are not doing any work on it. It would be a crazy navy to have that type of policy.

Mr. Cafik: To store a ship of that size for six months in a dry dock what would be the storage charge per day?

The Chairman: You would tie it up at a wharf. Perhaps Mr. Hunter . . .

Mr. Cafik: I do not suppose it was in a condition to be lying at a wharf.

Mr. Hunter: I have been told by the naval representative that if a boat is tied up and requires all the things that it required while we had it tied up, including heat, light, power, subsidiary power and fire protection, around $3,000 per day is in the area of what the price would be.

• 1055

Mr. Cafik: What I was trying to do was to isolate it so that I would have some idea of what the actual facility was worth. Light, heat, power, fire fighting and so on, I do not consider to be very significant items, but they may be.

The Chairman: All right; have you finished?

Mr. Cafik: I would like an answer to that.

The Chairman: He said approximately $3,000 per day.

Mr. Cafik: That is all-inclusive; I want to find out what the figure would be for just the storage facility—if they have any approximate idea.

Mr. Winch: We would blast the navy if they followed that kind of policy.

Mr. Hunter: I am sorry, I do not have any figures for the answer to your question. We have a breakdown of the $2,828 per day that we paid.

Mr. Cafik: Could you put that on the record, please?

Mr. Hunter: Yes, we can.

The Chairman: Have you that in your records, Mr. Hunter?

Mr. Hunter: Yes, I have. Rental of three generators, $125; diesel oil, $49; oil filters, et cetera $3; three operators, 24 hours, at $5.10, $122; fire guards, $1,469; water supply (domestic), $54; fire and flood, $111; steam supply $249; lighting (temporary), $192; electricians—(maintenance), $122; rental of fire pumps, $60; telephone $2; intercom system, $12; linesmen, 20 hours per day at $5.10, $102; mobile crane rental, $156; total $2,828.

Mr. Cafik: Fire fighting is the most significant factor.

The Chairman: I hate to break off here, gentlemen, but you have some interesting figures to work on for the next meeting.

Is it the wish of the Committee that we have another meeting on this subject?

We can start the next meeting on the *Bonaventure* with the hope that perhaps we can finish with it within the first half hour. The subcommittee is going to follow on from there.

Mr. Armstrong and Mr. Hunter will be with us and there are paragraphs in the Auditor General's 1967 report with which both these witnesses are concerned. When we have finished with the *Bonaventure* we will deal with these, and they are paragraphs 94, 97, 98, 99, 103, 105, 106, 109, and 113.

Before we adjourn could I have the agreement of the committee to the replacing of Mr. Crouse on the subcommittee re Governor General Special Warrants?

As you recall, we set up a small committee to handle this and Mr. Crouse has to be replaced. He is committed to other commit-

tees. Have you any suggestions on who should replace Mr. Crouse on this subcommittee?

An hon. Member: Have they ever met?

The Chairman: Yes, they have had one meeting, and they are going to continue.

Mr. McCutcheon, would you replace Mr. Crouse?

Mr. McCutcheon: I would rather not.

Mr. Cafik: Can Mr. Crouse not find his own replacement from his own party?

The Chairman: That is fine, if the Committee is agreed.

All right, gentlemen, the meeting is adjourned.

HOUSE OF COMMONS

First Session—Twenty-eighth Parliament

1968-69

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: Mr. A. D. HALES

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 17

TUESDAY, FEBRUARY 18, 1969

Public Accounts, Volumes I, II and III (1966 and 1967)

Reports of the Auditor General to the House of Commons (1966 and 1967)

WITNESSES:

(*See Minutes of Proceedings*)

THE QUEEN'S PRINTER, OTTAWA, 1969

29770—1

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. A. D. Hales

Vice-Chairman: Mr. T. Lefebvre

and Messrs.

Allmand,	Flemming,	Noble,
Boulanger,	Forget,	Noël,
Burton,	Leblanc (*Laurier*),	Rodrigue,
Cafik,	Major,	Tétrault,
Crouse,	Mazankowski,	Thomas (*Maisonneuve*),
Cullen,	McCutcheon,	Winch—20.

(Quorum 11)

Edouard Thomas,
Clerk of the Committee.

MINUTES OF PROCEEDINGS

Tuesday, February 18, 1969.
(19)

The Standing Committee on Public Accounts met this day at 9.38 a.m., the Chairman, Mr. A. D. Hales, presiding.

Members present: Messrs. Burton, Cafik, Crouse, Cullen, Hales, Leblanc (*Laurier*), Lefebvre, McCutcheon, Noble, Noël, Thomas (*Maisonneuve*), Winch–(12).

Witnesses: Mr. A. M. Henderson, Auditor General of Canada; Mr. E. B. Armstrong, Deputy Minister, Department of National Defence; Mr. G. W. Hunter, Deputy Minister, Department of Defence Production.

The Committee questioned the witnesses on the refit of the *HMCS Bonaventure.*

At 11:00 a.m. the Committee adjourned to the call of the Chair.

Edouard Thomas,
Clerk of the Committee.

EVIDENCE

(Recorded by Electrotronic Apparatus)

Tuesday, 18 February 1969.

• 0938

The Chairman: Before we proceed with the questioning of the witnesses on the refit of the *Bonaventure,* the committee members will recall that at the last meeting someone, I believe it was Mr. McCutcheon asked the witnesses for details as to the number of RCN personnel attached to the ship while it was in the shipyard and what allowances were paid to them. Perhaps you could answer that question first, and if there are others we will proceed from there.

Mr. E. B. Armstrong: Mr. Chairman, I can only answer approximately at the moment. We have asked the chief treasury officer in Halifax, where the records are kept, to prepare this information. Between the time of the last meeting and this one he has not been able to give it to us in detail.

The crew lived in private accommodation during the refit and they were paid an allowance of from $5 to $7 a day, depending on rank.

The total estimated expenditure for these living allowances is approximately $500,000, but, as I say, I cannot confirm the exact figure until I have the information from the chief treasury officer.

The Chairman: Mr. Winch, do you have a question on this same subject of living accommodation?

Mr. Winch: No.

The Chairman: Mr. McCutcheon, we are hearing the answer to your question about the living amounts and the staff, and so on. Mr. Armstrong has just said that they lived in private accommodation and were paid from $5 to $7 a day living allowance, at a total estimate of approximately $500,000. Would you like to follow on from there?

• 0940

Mr. McCutcheon: Is this the normal practice? It is understandable, of course, that they could not stay on board ship while all the work was going on, but it seems to me that other duties might have been found for those people.

Mr. Armstrong: Mr. Chairman, I am not too sure that I get the point of the question. This was not the whole crew of the ship, as I think I have explained. This was for those members of the crew who had a job to do while the refit was going on. As I indicated, although they varied in number the average, for the most part, was about 125 people.

Mr. McCutcheon: Is this $500,000 included in the over-all refit job, or is this one of the extras.

Mr. Armstrong: This would be an extra. It is not part of the $12,350,000 that we said was the cost of the refit.

Mr. McCutcheon: Therefore, we have another $500,000 to add; is that right?

Mr. Armstrong: Yes, sir.

Mr. McCutcheon: Where were the senior officers billeted, Mr. Armstrong?

Mr. Armstrong: They were billeted in private accommodation.

Mr. McCutcheon: What do you mean by "private accommodation".

Mr. Armstrong: I mean accomodation not owned by the Department of National Defence.

Mr. McCutcheon: Would it be in a hotel?

Mr. Armstrong: It could be in a hotel, or it could be a boarding house. This would be up to them. We paid them a living allowance.

Mr. McCutcheon: I think the Committee wants a definite answer on this. Were these people billeted in a hotel or a private home, and where were the senior officers billeted?

Mr. Armstrong: I do not have that answer. We paid a living allowance. We did not look after their accommodation. They looked after if for themselves.

Mr. Crouse: Did anyone stay aboard the ship day and night during the refit?

Mr. Armstrong: Living on board?

Mr. Crouse: Yes, living on board.

Mr. Armstrong: The duty watch only.

Mr. Crouse: The duty watch only; and this was because the ship was opened up and at times there was no water supply and no heat, and so on. Is this the reason? Were the accommodations being refurnished and repainted?

Mr. Armstrong: Yes, they were. It is because during the refit it was not possible to provide for feeding and living accommodation on board.

Mr. Crouse: What was the *per diem* allowance for the officers?

Mr. Armstrong: It was $5 to $7, depending on rank. It was $7 for an officer.

Mr. Crouse: And $5 for an enlisted man; is that it?

Mr. Armstrong: For the ratings.

Mr. Crouse: Do you have record of where these men stayed during this period?

Mr. Armstrong: I do not think we will have a record of that at all. I will get you the precise record of what was paid. We might be able to find, by searching through the record of where their cheques went, and so on, where they are living, but this was not really part of our problem. We did not find the accommodation for them.

Mr. Cullen: You were giving them an allowance and it was up to them to decide where they would stay? If they wanted to supplement their income by another $20 a day that was a matter for themselves.

Mr. Armstrong: That is right, sir.

Mr. Cullen: Mr. Armstrong, I think you said there was one captain.

Mr. Armstrong: The naval overseer is a captain, yes.

Mr. Cullen: Would there be more than one captain?

Mr. Armstrong: There was only one captain.

Mr. Cullen: And what other senior ranks?

Mr. Armstrong: Just a moment; the captain of the ship is a captain, and the naval overseer is a captain. I am sorry; there were two captains.

Mr. McCutcheon: Mr. Armstrong, how many days did that involve.

Mr. Armstrong: The refit extended over a period of 14 months.

Mr. McCutcheon: You say that the accommodation paid for was on the basis of $7 and $5.

• 0945

Mr. Armstrong: That is right.

Mr. McCutcheon: That would be roughly an average of $6 for 125 personnel that comes to $750 a day, and on a half a million basis, if my division is right, that is 666 days, or almost two years. Would that be right?

Mr. Armstrong: As I said, we are getting precise information on this. I gave you some estimates. You will have the details when the treasury officer gives us the information. I think these questions could be better answered then.

Mr. Crouse: Mr. Chairman, relative to that point, you have just established that the refit cost another half a million more than we were aware of at our last sitting.

On page 56 we are told by the Auditor General that

> Department of National Defence accounts do not provide an overall record of the costs of the refit.

and then he goes on

> However, costs compiled from departmental files and memoranda accounts indicate that to November 1967 expenditures total $11,492,000 with a further $1,137,000 expected. These figures do not include . . .

and I repeat "do not include"

> . . . the cost of materials supplied from stores, certain charges for freight, express, cartage, customs duty and sales tax, and costs of labour provided by departmental service or civilian staff together with appropriate charges for overhead.

In the light of the statement given by the witness this morning and of the interest in this refit, could the witness now tell us if the above costs which have been outlined by the Auditor General have now been compiled, so that they can be added to the rough figure of $12,350,000 we already have, and so that we will know the total cost of this refit. We still have not got that figure.

Mr. Armstrong: I think we have gone over this to some degree, and I have given you the figures for naval

stores supplied to the ship. I have indicated to you that the accounting for certain sales tax and freight charges is such that it cannot be allocated specifically. I have given you an approximation, what we believe would be the amount involved on an estimated basis.

We are getting you the precise figure on the living allowances. We do not have any system and have no plans for endeavouring to allocate departmental overhead to individual contracts. So I could not give you a figure on that. Nor do we have any arrangements projected in our accounting system that would enable me to do this.

Mr. Crouse: Mr. Chairman, could I ask the witness, was there no record kept of the total cost of material supplied from naval stores to this refit? I know you gave us some figures, but what is the total? Do you not have the total?

Mr. Armstrong: $950,000. I think I told you this.

Mr. Crouse: In that figure, might I ask why the boiler uptakes, which we have been told cost $241,000, were not included in the original estimates.

Mr. Armstrong: The boiler uptakes?

Mr. Crouse: Yes.

Mr. Armstrong: The boiler uptakes arose in the course of the refit. When the uptakes were examined it was determined that they had to be replaced. And this was one of the additions that caused the price of the refit to increase.

Mr. Crouse: Mr. Chairman, I would like to address a question to the Auditor General, and ask him in view of the new figures which have been added to the cost of this refit, was there any internal audit carried out by his department or the treasury cost section on this particular contract?

• 0950

Mr. A. M. Henderson (Auditor General): I am informed that it would only have been a review of the files and of the reports. In Ottawa, Mr. Crouse, the Department of National Defence has its own internal audit section, and they would have undoubtedly done some work on this. At the same time we would have examined the files of the Department. We did not carry out any actual audit of these items other than those which were the direct charges that I gave you. As I said at the beginning, it has not been the practice of the Department to keep its total cost together in this manner.

Mr. Crouse: Mr. Chairman, it is unfortunate that the departments represented here today have failed, and I emphasize the word "failed", to prepare an adequate and a detailed requirements list on this refit. And I find it difficult to believe that they are vested with the power to let contracts on what appears to be an open-end basis, contracts whose costs are obviously beyond the capacity of either Department to control. My question is, have we learned anything from this exercise? Are the two Departments represented here still issuing this type of open-ended contract for ship refits?

The Chairman: Mr. Armstrong, maybe Mr. Hunter would like to say something on this. The question is, will this type of thing happen again?

Mr. Crouse: Mr. Chairman, if this Committee is to provide any worthwhile function, operating on behalf of the taxpayer as a watchdog, it is obvious that we cannot undo what has been done. But certainly out of our deliberations and discussions and our searching inquiry into the manner in which this refit has been carried out, we should be able to determine if this practice of open-ended contracts, contracts beyond the control of either the Department of National Defence or the Department of Defence Production, we should be able to learn whether this practice will continue or if there has been some tightening up on these open-ended loose practices. These estimates are guesstimates, which leave the Ministers in charge of the Departments hanging on the ropes because, as I am certain, they cannot estimate the requirements of the Departments. It is obvious that something must be done to tighten up procedures. That is the basis of my question.

The Chairman: Mr. Crouse, I am going to ask Mr. Henderson to make an observation here. I recall our Committee made recommendations in previous reports somewhat along these lines. But just to refresh our memories and to bring the new members of the Committee up to date, I think Mr. Henderson could enlarge on this point.

Mr. Henderson: Gentlemen, I would invite you to look at page 243 of my 1967 report, Item 39, Repairs and Alterations to Canadian Coast Guard Ships. This is an observation here made by this Committee. On page 243 of the 1967 report, at the top of the page, you will see an observation there from this Committee's Eighth Report, 1966-67, after it had received testimony from officials of the Department of Transport on what was in effect an identical problem, the opening up of ships and the estimating of the costs, and the bidding for the tenders.

Here you will see that in the first paragraph we are referring to a case I brought to your attention in 1964, where a ship repairer commenced operations under a contract involving a consideration of $43,000, but the work performed under the contract came to $130,000 before the ship was returned to service. I pointed out,

and the Committee shared my view, that a shipyard could deliberately bid low for the repairs specified in order to get the ship into its yard, and then recoup any loss sustained by including excessive profits in charges for the carrying out of the additional work that is found to be required after the ship has been opened up. You took the view that everything possible should be done to assure the taxpayer that the tender system in the case of the ship repairs is working to ensure that costs of these repairs are not excessive.

You discussed with the departmental officers various ways in which this continuing problem could be overcome. You recommended that, in addition to all other methods which the department might be able to employ in controlling the cost of extras, ship repair contracts be drawn up to provide that when extras are involved they shall be undertaken on a cost-plus or a modified cost-plus basis, the profit to be limited to the percentage of profit realized on the original contract price, with a proviso that no loss be suffered on the extras, and what is most important that the entire contract be subject to cost audit by government auditors.

● 0955

That is where that matter was left and you are wrestling, I suggest, with the same problem this morning on a perhaps slightly different basis. Actually, just to complete what I am saying, the Deputy Minister of Transport did respond on this point by a letter to your Chairman in January, 1967, in which he said, and this is in the Follow-Up Report I gave you last October:

> The system of handling extra costs within the Shipbuilding Branch, i.e. to establish, each year, charge-out rates which include fixed overhead and 10 per cent profit in individual repair establishments, appears to the Department to provide the degree of financial control the Committee has in mind. This control is administered by field supervisors who negotiate the number of man hours and cost of material to be used in each extra work order.
>
> The system now in use is being developed by representatives of the Department who have had experience with cost plus, target price and firm price contracts, and they are of the opinion that although there are inherent difficulties in contracting the ship repairs, this method is the best of the various types of contract arrangement available for this specialized kind of work. We believe that the great problem with ship repair, and one for which no solution has been found, is its unpredictability and the form of the contract can contribute only partly to minimizing repair costs.

I suggest here that that is not a particularly satisfactory reply as far as the problem before this Committee is concerned, but it might be useful to invite Mr. Hunter to comment on this in light of this previous reference, Mr. Chairman.

The Chairman: Mr. Hunter.

Mr. G. W. Hunter (Deputy Minister, Department of Defence Production): If I might comment first on whether this is an open-end contract or not, I would say that it definitely is not an open-end contract. As I mentioned in previous meetings, we contracted at a firm price for the then-known work. We made our best estimate for the work that might arise and got a firm hourly rate, an arrangement to cost materials on a firm-price basis, and a profit of 7-1/2 per cent on it. So that the 1,501 additions or amendments to the original contract, as we mentioned in the last session, were all firm-priced and added to the original firm price we had. From what Mr. Henderson has said, I think our feeling in the Department of Defence Production is very similar to the feeling of the Department of Transport, that the method we used is better than having a cost-plus, which in our view is an open-end type of contract, because with a cost-plus the job can take as long as is required by the efficiency of the workers doing it, whereas if we negotiate a firm price with the contractor before he starts, we feel that we are in a better position to control that job.

It might be said that we cannot control how many jobs will arise out of an original contract as big as this one. I think I mentioned this was the first time that we had ever done a major refit on a ship the size of the *Bonaventure*. I think this had a lot to do, as Mr. Armstrong explained, with the work that arose that they knew had to be done sometime. As it happened it had to be done on this major refit, although they hoped that it might have been done on a later refit. So I think our comment is that we agree with the Department of Transport that cost-plus is really not the best method of handling extras.

● 1000

Mr. Crouse: Mr. Chairman, might I comment on the reply which we have just heard from the witness. He stated that this is the best system, in that firm contracts were called, if I heard him correctly, and yet the original contract called for a charge-out rate of $3.95 an hour for a total of 210,000 hours. We were told earlier in our discussions at other meetings that the Department placed no one in the yard to determine whether we received 175,000 hours or 200,000 hours. We had to accept the yard's word that 210,000 hours were placed on this particular ship. There was absolutely no check made upon this very important point. And yet following the termination of that contract, which was a firm contract, another contract, in fact 1,500 contracts, were negotiated. And my understanding is that they were all negotiated with this particular yard.

There obviously was no opportunity for other yards to bid on those 1,500 contracts, or is this not correct? Did you ask for competitive bids for other yards on those 1,500 contracts? Because if you did not, then how can you tell us that this is the best system of operating? Everything is firm bids, but when you are asking for contracts from one yard only, on what yardstick or basis do you determine if you have a good price?

Mr. Hunter: Sir, we have been dealing with this particular shipyard since perhaps 1940. We have people in our department and records of dealing with them which I feel make us as competent as they are to negotiate the number of hours that any one job will take. They got their first contract by competition, but each successive contract of those 1,501 were negotiated with people who had the full facts of operation in this yard and I think we are as equally competent as the yard—or would have been with any other yard.

Mr. Crouse: But the 1,500 contracts were not negotiated competitively; is this correct?

Mr. Hunter: They were not negotiated competitively. They were negotiated with the shipyard, sir, that is true, but we feel that the price was reasonable in all cases.

The Chairman: Mr. Winch.

Mr. Winch: Mr. Chairman, in view of the discussion I believe that my original question can now be brought in as a supplementary, and it has to do with the increased cost on the negotiated basis. At our last meeting there was a most important question put by Mr. Cafik to Mr. Hunter. The question was: Did your department know the amount of work which the Davie shipyard had outside of the *Bonaventure* in April of 1967. Mr. Hunter conferred, as he is doing now with his colleagues, and his answer at the last meeting in reply to Mr. Cafik was that he did not know of the additional work of the Davie shipyard in April of 1967. I am certain, sir, that I am giving a correct report of the question and answer.

So in view of the question by Mr. Cafik and the answer of Mr. Hunter that in April, 1967 they did not know the amount of other work the Davie shipyard had, could I ask, therefore, on what basis do you justify an increase of from $3.95 to $5.10 on which our information is basically that it was because of the absorption of overhead because there was not work. I am asking this in view of your statement at the last meeting when you told us that you did not know how you justified the increase of the overhead.

Mr. Hunter: Sir, I do not recall saying that we did not know the amount of work they had. I am told by my officers that in negotiating that rate we looked over their budget for the coming year, which would be the year commencing at the end of the 12 month period, and that we had as much information as they had, since they showed us their budget.

Mr. Winch: But without knowing how much work they would have in April of 1967?

Mr. Hunter: Sir, they would know what they had on hand that carried over the year end. They would know what jobs they had coming up which they had bid on and were the low tenderer. They could not say, and neither could we, how much other work might arise in emergency repairs, but we could still guess at that, I would say, if we looked at their budget for the year because it would have all the known firm work and it would have an estimate, based on 20 years experience, of repairs that arise just because they happen to be in the area, forced repairs and generally any other work that they would get.

• 1005

Mr. Winch: I am sorry but my point is not getting across. You went by the shipyard's budget on their anticipation and you arrived at $5.10.

Mr. Hunter: Right.

Mr. Winch: You also told us last meeting that as of April you actually did not know what other work they had. In other words, you accepted the shipyard's presentation of its budget, but you actually did not make a study or find out what work they had. It strikes me as being a peculiar system.

Mr. Hunter: Sir, our people are dealing with the shipyards all the time. They would look at the budget with them. I think we mentioned the other day that if at the end of the year we had felt they had grossly underestimated the work that was going to arise, we had the right to renegotiate their contract.

Mr. Winch: Sir, you told us that as of April 1967 you did not know what their work was, and when Mr. Cafik asked this question at our last meeting, after conferring with your colleagues you told this Committee that at that time you did not know and do not now know what was the amount of other work in that shipyard.

Mr. Hunter: Sir, Mr. Glassford has just reminded me I made that statement, that we did not know exactly in November, when we had to negotiate that $5.10 rate, what their work would be. We had to take their best estimate of any known work that would carry over and our best estimate of whether their budget for the rest of the work was reasonable.

Mr. Winch: I am sorry, but Mr. Cafik's question was not as of November when you were negotiating.

You will correct me, sir, if I am wrong but Mr. Cafik's question was: Did you know what they had in April of 1967, and your answer was "no".

Mr. Hunter: I do not recall it being "no", sir. It could perhaps be that we did not know exactly; neither did the yard know what work they were going to be doing that whole year. We had the best estimates of the yard, plus the intelligence of our own people who have been dealing with this yard for some 20 years.

The Chairman: Gentlemen, I think we are going back over work that we have covered and work our Committee is going to go into. I know there are some more questions, but just before we go on to the next question, Mr. Hunter, you were talking about a cost-plus operation. We recommended in our 1966 Report on these reopen jobs on ships that the unknown part should be done—and I think you neglected to bring this in—on a cost-plus basis limited to the percentage of profit realized on the original contract price. That is the most important part: cost-plus limited to the percentage of profit realized on the original contract price, and that it be subject to government audit. I think, if you had followed this cost-plus with them, things would have been better. Did you follow this same percentage profit as you did on a firm contract price?

Mr. Hunter: Sir, this being a firm price contract, the contractor himself would not know what his profit was until he finished the job, nor would we. So these were negotiations that had to be carried on while the main contract was being—

The Chairman: No, but you knew what the contractor's profit would be on the firm bid price, or the first part. There would be an established profit? You do not know that?

Mr. Hunter: Sir, when he makes a firm price bid he does not tell us what his profit is.

The Chairman: If you had known that, and you gave him a cost-plus basis for the 1,501 odd contracts and applied the same percentage profit on that, we would have been protected.

Mr. Hunter: Sir, on negotiating the extra work, the profit we used was 7-1/2 per cent. When a contractor takes a firm price I would think he would put in a profit higher than 7-1/2 per cent since he had given us a firm price to cover contingencies. So we felt the 7-1/2 per cent that we used in each of the 1,501 contracts was certainly reasonable.

The Chairman: And you used this figure of 7-1/2 per cent on all the 1,500 contracts?

Mr. Hunter: Right.

The Chairman: Where did things get out of line?

• 1010

Mr. McCutcheon: May I ask a supplementary? It is on what you just quoted on this profit limit and the percentage of profits realized. I take it from both Mr. Hunter, Mr. Hamilton and from the correspondence that Mr. Henderson got that the departments do not take kindly to this recommendation. They feel that it is impracticable, probably, and does not work. Is that a fair assessment of the department attitude?

Mr. Hunter: This recommendation was made in connection with coastguard ships in the first place. They do differ in many respects, I believe, from naval vessels. Our people feel that the method we use really was the most practicable in this case and in the cases of refits that we have had.

Mr. McCutcheon: In other words, what you are saying is that the recommendations of this Committee and of the Auditor General really do not mean anything.

Mr. Hunter: I would not say that at all, sir.

Mr. McCutcheon: What other conclusion can we come to?

Mr. Hunter: I have not studied this too carefully, sir, but this recommends using the profit rate that was used in the original contract. The contractor might tell us, when we come to negotiate extras, that he was making 20 per cent, because we have no way of knowing what real profit rate he put in the original firm price bids. I do not think Mr. Henderson intended this to be a follow-on to a firm price bid. I think Mr. Henderson is talking about the type of contracting done by DOT, where it is a modified cost type contract, I believe.

The Chairman: Then, Mr. Henderson, can you offer this Committee any suggestions as to how this sort of thing can be curtailed and controlled in the future?

Mr. Henderson: Mr. Chairman, the recommendation that I referred to here, which this Committee made in this Department of Transport case in 1966-67, and to which Mr. McCutcheon has referred, is, to me, the only practical way of going about this. Never have I heard yet from the Department of Transport or from the witnesses today any good reason why it is not at least worth a trial. You say here it will be undertaken on a cost-plus or a modified cost-plus, the profit to be limited to the percentage of profit realized on the original contract price. Let us stop right there. I think that the Committee would be first to agree, and so would I, that we would leave it to the department to negotiate there; if they could get a better deal for the

government, they would. If this particular Davie contract was limited to 7-1/2 per cent, as Mr. Hunter says, and he was in such close contact with the shipyard that he knew a great deal about their profit margins and so on, then it seems to me it should not have been too difficult in a case like this to have held them down to 7-1/2 per cent here—maybe done a better deal at 5 per cent or maybe paid 10 per cent, I do not know—with the proviso that no loss be suffered on the extras. That is a precaution, I think, for the people who are going to have to put the stuff into the ship. Then the whole business is subject to cost audit by government auditors. I do not know what more protection you could expect. I think that this Committee is entitled to a more reasoned explanation than the one contained in this letter which, in effect, states "We do not want to change an old practice". There is an inbuilt resistance to change here.

Let me point out another thing: when I tell you that the total costs of these jobs are not taken into account, this is something that I have advised the House for a great many years, that the total cost of jobs should be taken into account, because a government cost is an altogether different animal from a business cost. In fact, business laughs at that. When the Glassco Commission report came out in 1962-63 it pointed this out and I had hoped that by this time there might have been something done toward developing a total cost picture in cases like this. That is all I have to say on this.

The Chairman: Mr. Crouse.

Mr. Crouse: Mr. Chairman, could I ask the witness if there is a log book of operations kept on board government ships; that is, a log book showing the number of running hours on the engine, the time of the last painting and scraping of the bottom, the date of the purchase of the batteries, for example. Is this type of log book kept on each government ship?

• 1015

Mr. Armstrong: Yes, sir, there is a record kept of this. I am speaking for National Defence ships. I could not speak for others.

Mr. Crouse: This is kept?

Mr. Armstrong: Yes, sir.

Mr. Crouse: Are these log books checked by your estimators when they go on board the ship to determine the work that is required on this ship? Do they serve as a guide for them?

Mr. Armstrong: The original repair list, I am told, is made up by the ship's company itself and by reference, of course, to the log books and any other factors that should be taken into account.

Mr. Crouse: Despite this method we are still way out in our estimates, almost half, in the hidden costs on this refit. We learned of the half million dollars additional expense this morning and I dare say that if we total all the costs, the original estimate of $8 million could easily escalate to something like $16 million. This would perhaps be closer to the costs if we added up all these variables.

Mr. Armstrong: If I may say so, this is not perhaps a completely accurate way of stating it. The ship . . .

Mr. Crouse: Well now, Mr. Chairman, since you cannot give us the figures, my guess is as good as yours.

Mr. Armstrong: I have given you the figures.

Mr. Crouse: You have not, sir.

Mr. Armstrong: I am giving them to you.

Mr. Crouse: I am sorry. You have not given us a complete compilation. I asked you a question this morning that you did not answer.

Mr. Armstrong: May I answer your question, sir. We must have in our budget money to provide for the salaries of the crew and for any living allowances that are paid to them. This is an element in our budget. The refit itself, that is, the contract part of that, is a separate item and is charged to our ship repairs. I had the impression you were suggesting that we do not have a provision for these things. We do have.

Mr. Crouse: My impression, Mr. Chairman, is that we are being whitewashed completely on this particular refit. I asked if we had learned anything from the exercise. Are the departments represented here still issuing this type of contract to shipyards? I am still waiting for a reply. I do not think we have heard anything from either of the witnesses. Are you still following the type of procedure which you followed when ordering the refit of the *Bonaventure*?

The Chairman: Mr. Crouse, may we direct that question to Mr. Hunter and ask him this: if *"Bonaventure-II"* were put into drydock for refit, on what basis would you handle the refit? What changes . . . ?

Mr. Winch: Mr. Chairman, let me put it in a different way. On the destroyer conversions which are now going on, are you following a principle similar to that which you did on the *Bonaventure*?

Mr. Armstrong: In so far as destroyer conversion is concerned, we did do the first conversion, the *Terra Nova*, in the dockyard, and this was done to enable us to get a full appreciation of what would be involved in

such a conversion. Mr. Hunter's department will contract the remainder of the conversions. Perhaps he could carry it on from here.

The Chairman: Mr. Hunter.

Mr. Hunter: On the conversions we plan to call competitive firm prices for those jobs.

The Chairman: Will you be able to get a firm price on these all right? And if not, how will you handle it?

Mr. Hunter: I am quite sure we will, sir. We will be in a rather better position this time. As Mr. Armstrong has mentioned, one prototype has been done. We will certainly have a better idea of the scope of the work. This is not any mid-life refit in this sense. It is a major conversion and the Department of National Defence will be in a better position to tell us what they want done in describing the work. In fact, I would hope that they could describe it almost to the last job to be done so that nothing can arise. If we had had four *Bonaventures* I guess we could have done a much better job on the last three.

The Chairman: I guess you hope you do not have any more, though. Mr. Cafik and then Mr. Noble.

• 1020

Mr. Cafik: Mr. Hunter, you mentioned that you have been doing business with this particular yard since 1940. That, I think, is probably the most frightening statement I have heard so far. I wonder if, in all that long history of business with these people there had been other precedents set where you had fixed price contracts and then you moved from that into a new negotiated price which was negotiated upwards. Is there a pattern or a history of this kind of thing, or is this the only time that such a situation has happened this way?

The Chairman: Mr. Hunter.

Mr. Hunter: Sir, to my knowledge, this is the only one that has given rise to so much additional work, certainly on a percentage basis. It is known that in every ship you open up there will be additional work arising, and that is the reason that when we call for competitive prices we make our best estimate with National Defence as to what the additional work will be.

As for having done business with them for 20 years, I think we have certainly learned a lot from experience with them but this, as I mentioned in the very first meeting, happens to have been a job beyond anything we had ever attempted in Canada.

Mr. Cafik: This is my specific question: to your knowledge, have you had fixed prices? I know that the value of each individual job in the past has been less than the *Bonaventure's*; this was a much bigger job. But in the past when you have had a fixed price and you have gone past the originally estimated time for the ship to be in the drydock or for the amount of hours that were involved, have you sat down at that time and exercised that clause in the contract which says that you renegotiate and renegotiate it upwards? That is what I would like to know.

Mr. Hunter: I will check with my officials here.

Sir, in 1965 the Department instituted competitive firm price bidding on new construction and on major refits. Up to that time we had been using a form of cost-plus work so that I can really only speak of the type of contracts that we are discussing now from 1965 on. This actually happens to have been one of the first and certainly the largest. There have been no other contracts of a similar nature, to my knowledge, on refit work.

Mr. Cafik: Now getting back to my original question, which was brought up again by Mr. Winch today on the number of hours and the overhead rate and its being spread over the *Bonaventure* and other contracts in the yard, I think that that is of fairly significant concern, and since originally raising the question an idea has come into my mind that I would like your view upon. First of all, in your renegotiation and raising the price upward from $3.95 to $5.10, the justification put forward, of course, is the overhead not being able to be spread across other jobs that are non-government, as it were. It would seem to me an intelligent thing to do, if that is a justification, to have left the price at $3.95 and to have written in an escalator clause, perhaps, saying that if the volume of work in that particular yard in a given month fell below a certain level, then it would be increased to a certain point. Do you understand what I mean? So that then we would know that as the volume of business went up and down in that yard on a monthly basis, the contract price per hour would go up and down accordingly—if that is a justifiable position that you have taken.

The Chairman: It is a justifiable question directed to Mr. Hunter.

Mr. Hunter: Yes, sir, I think that is a very good idea. It seems to me as though it might have a lot more accounting and follow-up work to it. The fact is that when we negotiate a rate with the contractor, he is taking a gamble the same as we are because if he has no work we are going to say to him that he will be getting certain other work arising from emergency repairs so that he really takes a gamble with us. We think that if we can negotiate a rate that gives him as much incentive to do his best, to work his hardest, we really get a better end result. If we were not able to do

that, I would say that your suggestion is a very good one; if we were not satisfied that the rate we got had too much gamble in it for us and not enough for him, I would follow your idea. I think it is a good one.

• 1025

Mr. Cafik: Pursuing this line of questioning a little further, what volume of business would this shipyard do in a year? Have you any idea? Would they do $50 million volume in a year or $10 million or $20 million? It seems to me that if they consider a contract such as the *Bonaventure* a modest amount of business, they must be a terribly busy yard.

Mr. Hunter: Sir, my officials will be looking up the work. The contract estimated for 12 months was $5.7 million. It used about an average of 500 men in that yard. They averaged, I think, 2,400 men, so that their volume for that year might have been between four and five times $5.7 million; therefore it might have been $22 million to $26 million per year. This is assuming that all their work was placed on the same basis, but it would be of that order.

Mr. Cafik: You are right. I would certainly like to know the volume, sir, in the last couple of years and in the couple of years prior to this contract where we could really sit down and find out what the justification was in terms of overhead to that increased price. I think that is a very significant area to pursue.

Mr. Hunter: Sir, this actually is confidential information because it is private to the yard. Mind you, we could get it and I believe we have it.

M. Cafik: Well, with your long-standing relations with them, I am sure they would be very co-operative.

The Chairman: Mr. Winch, on a supplementary.

Mr. Winch: I do not have this clear yet. Mr. Hunter, can you explain to me and to this Committee why it is that on a government contract you should eventually be paying the entire overhead because of the failure of private enterprise to get other business? Why should the government pay that complete overhead? You cannot possibly require the same overhead for only one ship in as you do when you have an additional–let us say $16 million worth? I just cannot figure it out.

Mr. Cafik: I would hate to have to have a rowboat fixed when they do not have any other business around. It would cost $50 million to get it painted.

Mr. Hunter: Sir, the volume of work goes up and down and varies considerably in yards but we were not by any means paying all of their overhead because the $5.10 rate which we finally negotiated for the additional 16 weeks was within 5 cents or 10 cents of the bids that the other two yards that had bid originally were going to charge us for the whole job.

Mr. Winch: Maybe they did not want to accept the profit.

Mr. Hunter: I do not believe so, sir. We have the breakdown of this figure of $5 to $5.10.

Mr. Winch: Why did the Davie shipyard give you a price of $3.95?

Mr. Hunter: Because they had considerable additional work in their yard and because they probably wanted to keep their yard at that level.

Mr. Winch: It sounds like too many chiefs and not enough Indians in the Davie shipyard.

Mr. Cafik: In the recommendation made by the Auditor General here about a cost-plus basis, and related to the way you have actually done the contract, I do not think, frankly, on the surface of things that the Auditor General has recommended a better system than you are using at present. Had we used the cost-plus premise in doing this refit we would be having just as much trouble in this Committee and everybody would have said we were nuts to have done it, that cost-plus is not the way to go about it. Then we come forward with a recommendation that we ought to have fixed-price contracts, which is what you have done. I am not trying to justify the departments in this comment, but I think there are areas of weakness here and I think one of them is the problem of this extra time used in the refit. I have made one recommendation and I would suggest another now. When we go for a contract we want a fixed price for the known work. That is fine and I think it is the perfectly acceptable way to do it. The second thing is that there is obviously going to be work required that people are not aware of until the opening up of the ship. It is in that area that we have the problem and I suggest that we get a fixed price on an hourly rate at the time the original contract is bid from all competitors who are bidding on it. In other words, if it had been in the case of the *Bonaventure*, they would have bid $8 million to do the job, the extra work at $3.95 an hour or $5.00 an hour, or $6.00, or whatever the figure was. And then we audit it to make sure that the thing is correct. In that way, all those who bid on the contract are bidding in a way such that the government itself can view the thing realistically and know the implications of the fixed-price portion and of the non-fixed-price portion.

• 1030

The Chairman: Mr. Hunter, is there any reason why that would not work?

Mr. Hunter: I think, sir, that we would probably never have got the $3.95 rate if we had said that all work arising out of this job will be done at whatever rate you care to quote. They were prepared to quote for a 12-months period, and they did. But I think that perhaps we would lose in the long run if we said that whatever arises, whatever we decide–there are changes that are up to the Department of National Defence–go ahead and do the additional work. If we had a rate of $3.95 negotiated, the Department of National Defence might be tempted to conclude that this is such a fine rate that we will get many other things done that might have been done in the next 10 years. And this would be at the $3.95 rate. So the contractor will never give you a rate for more than a period of 12 months, and more than a certain number of hours that seems reasonable for work arising.

Mr. Cafik: Well, surely it is terribly important to the Department and to the Canadian people, in any expenditures of public funds, that the public feel that everything is done in a nice, clean, open way which everyone can understand. I think that is an important principle. And I think that here in this particular contract, there is a tendency for people to think that maybe there is something wrong or that perhaps there is a wasting of public funds, and that is very, very bad.

I think that anything that would tend to create that kind of confusion and questioning in people's minds is a bad thing. Therefore, I think you are better to ask for a straight fixed price for all sides of the contract regardless of any other implications. I do not think we, as a Committee, could complain about it; I certainly would not.

The Chairman: Mr. Hunter, could you assure the Committee that you have enough shipyards quoting on government business to know that it is really competitive and that there is no collusion?

Mr. Hunter: Sir, I am absolutely sure of that. There are probably more yards than there is reasonable work from certainly any government source. It is very competitive everywhere.

The Chairman: Mr. Cafik, do you have another question?

Mr. Cafik: I have one other question. It is a very simple one. On page 56 there is reference to all these extra prices that are added for duty, cartage, express, and freights. This morning we were discussing the cost of billeting the staff. It cost half a million dollars. The figures are rather large.

There is an item entitled "civilian staff" I am interested in how many civilian staff were on the job and what their expenses were. Not their salaries, because they are part of the departmental cost anyway. But surely their expense accounts, and so on, on the job must have been fairly significant. I wonder what their per diem rate was in the various categories.

Mr. Armstrong: There are three or four civilians on the overseer's staff. These people are located in Quebec, so they would not have an allowance. That constitutes the civilian staff.

Mr. Cafik: All right, I am satisfied. Thank you.

The Chairman: Mr. Noble.

Mr. Noble: Mr. Chairman, to justify his method of negotiations with the shipyards, Mr. Hunter states that his officers had access to the shipyard books and their budget. With this knowledge, could he assure the Committee that contracts or extras for private enterprise were negotiated on the same basis as that for the *Bonaventure*, or were they handled otherwise?

• 1035

Mr. Hunter: I am told by my officials that as far as we are aware they follow the same principles. We do not know whether their negotiations are exactly the same as ours; we have reason to believe that they would not be much different.

Mr. Noble: Do you feel that government contracts are not handled more liberally than private enterprise?

Mr. Hunter: I do not believe so, sir. I think the results of our going to competitive firm price, both for new construction and refits, has come up with really substantial savings. In fact, we have records indicating that we save up to 10 per cent. Prices are better generally than they were under our former method. And we believe, as far as my officials know, that we use the same general methods as commercial ship operators dealing with shipyards.

Mr. Noble: Thank you.

Mr. Lefebvre: Let us go back to the question of shipyards. Could you tell us, Mr. Hunter or Mr. Armstrong, how many shipyards in Canada could handle ships of this size?

Mr. Hunter: I am told there are three, and possibly four, sir.

Mr. Lefebvre: Are they all on the East Coast, in Quebec or Nova Scotia?

Mr. Hunter: One is on the West Coast. Is is Yarrows Ltd. The three that bid on this were Davie Shipbuilding Ltd.; Saint John Drydock Co. Ltd.; and Canadian Vickers Ltd., Montreal.

Mr. Lefebvre: Was the bidding limited to those on the East Coast, or was it also open to the yards on the West Coast?

Mr. Hunter: Only to those on the East Coast, sir, the three yards that I mentioned.

Mr. Lefebvre: Why was that?

Mr. Hunter: I am told that the *Bonaventure* cannot go through the Panama Canal.

An hon. Member: It could go around the Horn.

Mr. Hunter: The cost of going around would have been out of proportion, we thought.

Mr. Lefebvre: This is a 20,000-ton vessel, I understand?

Mr. Hunter: Yes.

Mr. Lefebvre: How many ships does the Department of National Defence own in that particular range? Is that the only one?

Mr. Armstrong: We have one supply ship which is 25,000 tons, and there are two being constructed. We have only one in commission now.

Mr. Lefebvre: Could you give me an idea what percentage of work undertaken in these three shipyards is dependent on contracts from the Canadian government?

Mr. Hunter: I believe we have some figures here. I believe the total government proportion—Department of National Defence, Department of Transport, Department of Fisheries, and all government departments—is approximately 35 per cent. This may be a little off, but this is the best estimate we can give.

Mr. Lefebvre: I believe you stated a few minutes ago that there was no possibility, due to the fact that only three yards are equipped for this type of work, that there could be any collusion or an attempt to capture government business?

Mr. Hunter: I said that, yes.

Mr. Lefebvre: How do you come to this conclusion?

Mr. Hunter: I guess really from the knowledge of the operators of the yards themselves. They are really fiercely competitive. We get to know them over the years and we know that they really would not be getting together in collusion or whatever you are suggesting.

• 1040

Mr. Lefebvre: I think you have stated, and I think it is in the Auditor General's report, that this is probably the most outstanding refit ever undertaken in Canada. Does this mean that there are no private lines like Canadian Pacific who have ships of this size that have wer been taken into these yards for repairs? In other words, is this the biggest ship that has ever been repaired in Canada?

Mr. Hunter: It is the largest ship of this complexity, sir, by far. It is loaded with various types of equipment necessary to the ship. There are other pleasure-type ships which would not have half the degree of complexity.

Mr. Lefebvre: You mean extra equipment that a cruiser would not have?

Mr. Hunter: That is what I mean.

Mr. Lefebvre: From your knowledge, how big are the ships that private lines have refitted in Canada?

Mr. Hunter: There are very large lakers sir, of which the tonnage would be twice as much, 40,000 tons. But they are really just large barges, you might say.

Mr. Lefebvre: They do not come anywhere near this ship in equipment or anything like that?

Mr. Hunter: Nothing like that.

Mr. Lefebvre: The knowledge in Canada, of both your Department and the shipyards, would not be very great to undertake repairs of this nature. Would this be correct?

Mr. Hunter: I would not say the knowledge, sir, but perhaps the experience. This is the first, as I said of its kind and size that has been done. But I think the knowledge of the work that was to be done is equally good in our two departments.

Mr. Lefebvre: There is a difference here between experience and knowledge. You pick up knowledge by experience, and you did not have the experience. This is what I am getting at. I mean, it is apparent that we have picked up much knowledge from the experience of refitting the Bonaventure, if I can put it that way.

You say there are two ships under contruction now that will be larger than the *Bonaventure*.

Mr. Armstrong: They are larger in tonnage. They are 25,000 tons. Of course, they are an entirely different kind of ship. They are supply ships. As you know, we have one called the *Provider* now, and the other two, I think will be delivered this year.

Mr. Lefebvre: Did you consider having talks with the United States navy or with other countries that have ships of this size and bigger to try and get experience on what would expect on this type of refit? . .

Mr. Armstrong: This is a British ship, as you know.

Mr. Lefebvre: Or with the British navy?

Mr. Armstrong: I am told that our officers do discuss with them more or less continuously the problems of similar ships. I did mention at one of the earlier meetings the American experience with one of their carriers. It was, I think, somewhat paralled to this one in terms of the original estimate and the final cost, except that it was very much larger.

Mr. Lefebvre: From the points brought up by Mr. Cafik, I think it was the only protection the taxpayer can have in the future is that we make more firm prices and underline certain items in future contracts, because we could run into exactly the same thing on these two new ships that you have been talking about.

Mr. Armstrong: I think where we have a number of one type of ship, as in the destroyer group, because of the wider and continuous experience it is possible to estimate more accurately than was done in this particular case. This is, as you know, the only carrier we have and this was the first time it had been subjected to a major refit and modernization program. I would think it is inevitable in this type of work that there will be arisings that are not predicted, not estimated in the original firm bid, and therefore there has to be a contractual arrangement that will take care of that type of work.

• 1045

Mr. Winch: The unknowns cost you over 100 per cent.

Mr. Armstrong: The unknowns in this case were about equal to the original work, yes.

The Chairman: A supplementary, Mr. Crouse?

Mr. Crouse: Mr. Hunter stated in his answer to the last question that only three yards on the East Coast could handle this ship. Is it not possible for the Halifax shipyards to accommodate a ship of this size?

Mr. Hunter: I am told, sir, that in Halifax it would be necessary to remove part of the superstructure to get it in the docks.

Mr. Crouse: And this was not necessary in the other three yards.

Mr. Hunter: No, sir.

Mr. Crouse: One question to the Auditor General, Mr. Chairman. In his view would it be advisable, in view of what we have learned this morning, to have two inspectors on each government ship when it goes under refit? Heaven forbid that I should suggest an increase in the establishment, but I am thinking of two inspectors in these terms: one who answers to the Auditor General's department and one who answers to the Treasury Board, whose duties it would be to report the number of men on the job, a daily check on the time cards of the ship, a daily report on the materials removed and its disposition, and the equipment added to the ship—all this, even though firm contracts have been negotiated, because this would give the taxpayer a complete picture of what was happening and, I submit, may well eliminate estimates getting so far out of control as we have learned they have on this particular refit. Would this be a desirable way to proceed?

Mr. Henderson: Mr. Crouse, I see the point that you are making. I would like to counter, if I may, with a suggestion in a rather different direction, Normally that I do not understand why the department should feel so timid requesting full financial information just because the main contract has been awarded by competitive tender. This is public money and if we are going to establish the credibility that Mr. Cafik was referring to it seems to me that the Crown should say that notwithstanding that they would like a proviso in the contract that auditors, and in this case their own internal auditors—they have a large staff of internal auditors—the cost auditors from Treasury would go in and give the thing a complete going over and make a report, which we as the external auditors would always call in every case. I would be satisfied if something like that were done. As you see here, they not only did not request full financial information at the time the increases were being negotiated but they did not feel they had any right to send their auditors in afterwards. I have full confidence myself, my officers do and I think you do, in the competence of the department to follow up on matters like this providing they will make the necessary arrangements. They have some very skilled people, whether it is inspecting the technical side or looking at the cost figures. Perhaps we could have a comment from Mr. Hunter or Mr. Armstrong on that. I would find it completely satisfactory if they would do something like that. What would you say to that, sir?

The Chairman: Would you care to comment, Mr. Hunter?

Mr. Hunter: Yes, I would. In the first place, I do not believe that we feel timid at all about going to contractors and asking for information. I think I mentioned that we got full information in the negotiation of the rate for the follow-on work after the $3.95.

• 1050

The statement was made that we did not request full financial information. We requested what information we needed to complement that information which we already had. I told my officers, after we got what information we wanted from them, that we had full financial information. As far as the right to go in and look at the contracts after they are completed is concerned, I think I mentioned that under the Defence Production Act every defence contract is subject to our looking at the price afterwards to determine whether it is fair and reasonable and we feel it is not fair and reasonable to audit it and to demand repayment of any profit that we considered in excess of a reasonable profit. We did not do that in this case because our people had enough knowledge of what had happened in the contract that we did not feel that an excess profit had been made. The Defence Production Act gives us that authority now, the sections of our Act that are being carried into the bill tabled yesterday leave us with that right and we can call in the audit service division to do an audit on any contract we wish.

The Chairman: Mr. Winch.

Mr. Winch: Perhaps I could ask a supplementary on that. In view of your statement that because of the information you received from your officials there was no need to go in, on what basis then did you go in and find out what you did in respect of the matter which is now before the court?

Mr. Hunter: This was not with Davie. This was in government furnished equipment which was in the records of our own department sir. The examination that was made was made of our records. We buy this as government furnished equipment and the examination made was in our own records.

The Chairman: All right. That is as far as we can go in that area, Mr. Winch.

Mr. Winch: Yes, I know. I was very careful in the way I put it. Now on the basis that that discovery was made, on examination of your own records, did you not think that then perhaps you should go into the records of Davie Shipbuilding Ltd. to see whether something of a similar nature had occurred there?

Mr. Hunter: This was a most unusual case and, without discussing the detail of it, we did look at all purchases from the company in question. Well, we were asked to look at them and I take it we were satisfied that we did look at all those purchases.

We had no reason to suspect that any of the purchases made by Davie Shipbuilding were of a similar nature. After all, they had given us a firm price. If they felt that there was any reason to examine their records I would think they should be the ones who would do it.

Mr. Winch: Perhaps there is always a tendency to gyp the government.

Mr. Hunter: I would not say that.

The Chairman: All right, Mr. Cafik, and then we will wind this up.

Mr. Cafik: I wonder if the department could find out if, when the price changed over to $5.10 from $3.95, private industry which had been getting ships repaired during that period of time were charged out at the same $5.10 rate, or were they at a lower rate? I would like to know if we subsidized the overhead for private industry in this particular case?

Mr. Hunter: This could be done, sir. This is confidential information of the shipyard. Mind you, we could get it but I do not believe we would be at liberty to make it public.

Mr. Cafik: I gather that the Defence Production Act allows you the right—you have just explained this—to get this type of information.

Mr. Hunter: Yes, sir.

Mr. Cafik: If you feel that it would have to be given to us in camera I suppose we could receive it that way.

Mr. Hunter: Yes, sir.

Mr. Cafik: All right. I would like to know.

The Chairman: Just before we adjourn, and we will have to soon because another committee is coming in here, I want to get back to this billeting, Mr. Armstrong, in the amount of $500,000. The senior officer was a captain. What other senior officers were there, what were their ranks, where did they stay, and what was the per diem rate allowed to the senior officers? Have you that information?

• 1055

Mr. Armstrong: I will bring that with the other information.

The Chairman: All right. Would the Committee members that are going to further their study on the *Bonaventure*—Lefebvre, Cafik, Rodrigue, Winch, and myself—meet in the hall for a minute until we decide when we will commence the future study. I would ask the officials to be ready on Thursday for paragraph 94, then we will go on to paragraph 97, which is hydrofoil development.

Mr. Lefebvre: How about paragraph 95?

The Chairman: We were going to do the ones that concerned both Mr. Armstrong's and Mr. Hunter's departments and I do not think that one concerns both these gentlemen. We will come back to that, Mr. Lefebvre.

The hydrofoil development program is a big program. I hope you do all your homework on that one and be ready to ask lots of questions on that $50 million program.

Mr. Winch: Mr. Chairman, we have the questions, can we get the answers?

The Chairman: We will get the answers.

The meeting is adjourned.

HOUSE OF COMMONS

First Session—Twenty-eighth Parliament
1968

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: Mr. A. D. HALES

MINUTES OF PROCEEDINGS AND EVIDENCE
No. 18

THURSDAY, FEBRUARY 20, 1969

Public Accounts, Volumes I, II and III (1966 and 1967)
Reports of the Auditor General to the House of Commons (1966 and 1967)

WITNESSES:
(See Minutes of Proceedings)

THE QUEEN'S PRINTER, OTTAWA, 1969

HOUSE OF COMMONS

First Session—Twenty-eighth Parliament

1968-69

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: Mr. A. D. HALES

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 18

THURSDAY, FEBRUARY 20, 1969

Public Accounts, Volumes I, II and III (1966 and 1967)
Reports of the Auditor General to the House of Commons (1966 and 1967)

WITNESSES:

(*See Minutes of Proceedings*)

THE QUEEN'S PRINTER, OTTAWA, 1969

29772—1

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. A. D. Hales

Vice-Chairman: Mr. T. Lefebvre

and Messrs.

Allmand,	[2] Duquet,	Noble,
Burton,	Flemming,	Noël,
Cafik,	Forget,	Rodrigue,
[1] Crossman,	Leblanc (*Laurier*),	Tétrault,
Crouse,	Mazankowski,	Thomas (*Maisonneuve*),
Cullen,	McCutcheon,	Winch—20.

(Quorum 11)

Edouard Thomas,
Clerk of the Committee.

Pursuant to Standing Order 65(4)(*b*),

[1] Mr. Crossman replaced Mr. Boulanger on February 20, 1969.

[2] Mr. Duquet replaced Mr. Major on February 20, 1969.

(*Text*)

MINUTES OF PROCEEDINGS

THURSDAY, February 20, 1969.
(20)

The Standing Committee on Public Accounts met this day at 9.39 a.m., the Chairman, Mr. A. D. Hales, presiding.

Members present: Messrs. Cafik, Crossman, Crouse, Cullen, Duquet, Flemming, Forget, Hales, Leblanc (*Laurier*), McCutcheon, Noble, Rodrigue, Thomas (*Maisonneuve*), Winch (14).

Also present: Mr. Roy (*Timmins*).

Witnesses: Mr. A. M. Henderson, Auditor General of Canada; Mr. E. B. Armstrong, Deputy Minister, Department of National Defence; Mr. G. W. Hunter, Deputy Minister, Department of Defence Production.

Working papers concerning the refit of the *HMCS Bonaventure* were distributed to the members of the Sub-Committee appointed to study this matter in greater detail.

The Committee concluded the questioning of the witnesses on the refit of the *HMCS Bonaventure* and proceeded to examine other paragraphs of the 1967 Auditor General's Report, in particular (a) paragraph 94—Excessive advance payments under contracts; (b) paragraph 97—Hydrofoil development program.

At 11:00 a.m. the Committee adjourned to the call of the Chair.

Edouard Thomas,
Clerk of the Committee.

29772—1½

(Text)

EVIDENCE

(Recorded by Electronic Apparatus)

Thursday, February 20, 1969.

• 0940

The Chairman: Gentlemen, your subcommittee which was appointed to study further the refit of the *Bonaventure* met after the last meeting with the witnesses and by a co-operative effort the witnesses have provided some working papers, exhibits and so on, for the subcommittee to use on their study. I will ask Mr. Thomas, our Clerk, to deliver this material to the subcommittee in the hope that they will read it over the weekend.

The subcommittee will meet Monday after *Orders of the Day* and journey to the Department of National Defence on Elgin Street where we will start our work as a subcommittee at approximately 3.30 Monday afternoon.

We hope to finish the study on the *Bonaventure,* as far as the Committee is concerned, this morning. There are one or two questions that Mr. Armstrong agreed to get the answers to, and I think perhaps Mr. Hunter has one. If any members of the Committee have questions that have not been answered, we also will accept those.

Mr. E. B. Armstrong (Deputy Minister, Department of National Defence): Mr. Chairman, I am sorry but I have not yet received the complete details. If it is satisfactory, I am certain I will have them by the next meeting. This was on the question of allowances.

The Chairman: Yes, that was on the question of allowances, billeting of the staff and so on.

Mr. Armstrong: That is right.

The Chairman: Mr. Hunter, were there any questions that you had to answer?

Mr. G. W. Hunter (Deputy Minister, Department of Defence Production): I do not think there were, sir.

The Chairman: Mr. Cullen and then Mr. Cafik.

Mr. Cullen: Mr. Chairman, many items have been checked out, questioned and that sort of thing, but the one thing that concerns me is the situation as far as the general public is concerned. It is so easy to print in the press that a contract cost $8 million and that the end result is going to be something like $14 million or $15 million. But part of that $14 million or $15 million was not even contemplated in the estimate.

In presenting this kind of an estimate of the amount of work that would be involved, could there not be in addition to the contract with the Davie firm some kind of a report to Treasury Board that in addition to this the Department of National Defence will supply this and that, that it is expected to transport such and such piece of material from Vancouver to the East Coast and so on, so that we would have in essence an over-all picture. The job was underestimated and more things had to be done as a result of this ship being opened up. What concerns me is that we also have been suggesting in here that there are additional costs that were never contemplated not only in the original estimate but in the supplementary estimate. There seem to be things that we are lumping into the pile and I think the general public gets the impression that much of this contract seems to be out more than it actually should be. Is there not some way, some practice that could be followed that when refitting a ship we would have the estimated contract cost which would not include many things that the Department of National Defence would supply on its own? As I understand it, this is not provided in the $8 million estimate. Am I making myself clear on that?

Mr. Armstrong: That is right, it is not provided in the $8 million estimate. We could give you a list of all these. I think they have all been given in evidence—most of them at any rate. Perhaps the area that you are discussing gives rise to a certain amount of confusion because in doing a project of this kind normally have a program sheet which out-

lines the program. I think this has been introduced really since the *Bonaventure* was initially started. It shows the capital cost involved, it shows the changes in operating cost and predicts this over a period of five or six years. So that these costs are assembled people know what they are but they are not shown as part of this—with the exception that we do not attempt to allocate departmental overhead to individual contracts because I think this would be an almost impossible task for us. But, for example, in terms of living allowances, we specifically provide for that as part of our budget, as an estimate.

• 0945

In a refit of this kind there are at the same time certain offsets. It costs a certain amount of money to run the *Bonaventure* when it is running; when it is out of service during refit you save part of that money but there are certain other costs that you incur. All of these things have to be taken into account in our budgeting and they are taken into account.

Mr. Cullen: This is exactly the point I am trying to make. I am thinking of this situation: Davie has a contract for $8 million to do the job. Let us assume that the job they bid on was completed in 210,000 hours and the ship was back when it was supposed to be back, but in addition to that contract there are many things that are supplied by the Department of National Defence.

Now, as we go into our questions here, it seems as though the job was estimated at $8 million and in point of fact it cost, let us say, $9 million or $10 million or $11 million, arising out of these things. It was known at the time that this cost factor would be there. The picture, I think, is bad enough but I do not think it is as bad as it seems to have been painted in many areas. We say well, we have not even included the over-all cost of materials supplied from stores, certain charges for freight, and it makes it sound as though all that was supposed to have been included in the $8 million. I think the picture is bad enough but I do not think it is as grim as we seem to be painting it at this meeting by our questions.

The Chairman: I think the subcommittee will bring this point to the fore, Mr. Cullen.

Mr. Cafik, did you want to ask a question?

Mr. Cafik: Yes, just as a matter of information. At the last meeting I pursued some questions along the line of the volume of work going through the shipyards either on an annual or monthly basis. Have you found any information about that or are you trying to find any? I am not too sure how that was left.

Mr. Hunter: I was not sure whether my estimate of $20 million to $25 million was satisfactory the other day, sir, but...

Mr. Cafik: I did not feel it was at the time.

Mr. Hunter: I could get more accurate figures for you.

Mr. Cafik: Yes; we could look at that in the subcommittee when we get to that stage.

Mr. Hunter: All right.

The Chairman: We will now go to paragraph 94 on page 48 and I will ask Mr. Henderson to introduce this chapter. It concerns excessive advance payments under contracts. Mr. Henderson?

• 0950

Mr. A. M. Henderson (Auditor General of Canada): Mr. Chairman, I assume the members have had a chance to read the subject matter of paragraph 94: "Excessive advance payments under contracts". In order to attempt just to put it into focus for you, let me remind you that the Financial Administration Act provides, under Section 35, that the balance of an appropriation granted by Parliament for a fiscal year which remains unexpended at the end of that fiscal year must lapse, except that during the 30 days immediately following the end of the year—that is to say, in the month of April—payment may be made under the appropriation if it is to discharge a debt payable for work performed, goods received or services rendered before the end of the fiscal year—that is to say, before March 31.

In the first case given here you will note that it was in March, 1966 that the Treasury Board first authorized the re-engining program for the *Cosmopolitan* aircraft at an estimated cost of $6.7 million. The *Cosmopolitan* aircraft is the subject of a further note coming along, No. 99 in this report. In the same month that the contract was authorized, March 1966, the Department of Defence Production with, I understand, Treasury Board approval, deposited the total estimated cost of the contract—$6.7 million—with the United

States Treasury with instructions to purchase 90-day United States treasury notes on behalf of Canada. I believe this prepayment was to bear interest but I do not have the figures with me as to how much was earned. As is necessary for me to do in all such cases, I have to draw these instances to the attention of the House in my report.

In the second case given, namely having to do with the procurement of the *Oberon* class submarines from the United Kingdom, you will note that a year later—March 31, 1967—advances against this procurement had totalled $31.7 million while actually expenditures recorded in the cost statements to the same date had amounted to only $26.9 million, leaving a net advance of $4.8 million outstanding.

The point made here is that included in this net advance was a payment of $1.5 million which was made in April, 1967 from the 1966-67 fiscal year funds. Because of the provision of section 32(b) of the Financial Administration Act, in view of the amount of the advance outstanding at the end of the year and in the absence of any statement from the United Kingdom of the estimated expenditures yet to come—that is to say, I think up to March 31, 1968, the end of the next financial year—this shows that the payment was excessive.

I believe this payment of $1.5 million was made in this way because the statement was expected from the United Kingdom, but when the statement was received in July, 1957 it did not substantiate the need for the $1.5 million prepayment.

These cases serve to illustrate to you how Parliamentary control of public funds can be circumvented if, instead of being allowed to lapse as the law provides, the funds are advanced to suppliers in amounts that cannot be justified by cumulative costs, goods received or services rendered.

In the case of the latter payment, the funds in question should not have lapsed at all. They could have been used to liquidate some of the unpaid accounts chargeable to the Department of National Defence, Vote 15, which at the end of that year were in excess of $7 million.

The rest, I think, speaks for itself, Mr. Chairman.

The Chairman: Mr. Hunter, perhaps you would like to inform the Committee why you found it necessary to make these advance payments.

Mr. Winch: At the same time, Mr. Chairman, could Mr. Hunter explain how he could do it in view of the law under the Financial Administration Act?

• 0955

Mr. Hunter: This would be done by agreement between us and the Department of National Defence. We would put it up to Treasury Board and, in fact, we obtained Treasury Board approval to do it. I might say the practice has been discontinued, but at that time we received approval to do it.

The Chairman: Mr. Cafik?

Mr. Cafik: Mr. Hunter, what would be the motive for wanting to do it?

Mr. Armstrong: I think perhaps that is a question I should answer. I guess in both of these cases the Department of National Defence assessed their capital accounts and estimates for the year in question—the coming year—and at the time it appeared that these payments could be financed out of the capital vote that we had. In the case of the *Cosmopolitan* this was submitted to the Treasury Board clearly explaining that from the point of view of National Defence financing it would be satisfactory and useful to us to pay the $6 million odd on the *Cosmopolitan* in that fiscal year.

Under the procedures for contracting in this type of contract through the United States, this is an agreed and acceptable procedure. Although one is not obligated to do it, it is necessary to provide an obligation to keep the United States Air Force in such funds that they are able to pay the bills as they occur. In this case, of course, as you note, there was interest paid on the advance payment and that really is the size of it. The Treasury Board agreed to do this.

In the case of the *Oberon* submarine the arrangements with the United Kingdom ministry in effect require us to keep them in funds and when the contract is made they provide us with what they call "estimated spread of costs" which is an indication or their estimate of what will be necessary to accomplish that objective. Consequently you are paying periodically under this arrange-

ment before you are actually billed; this is an advance of the detailed billing. The billing then comes in quarterly and is balanced off against the advance you have made.

The Department in this case did go to the United Kingdom ministry and ask them whether the spread which had been laid out earlier was, in fact, adequate to meet the problem of keeping them in funds and as a result of that they did suggest in fact asked us to pay the additional half-million pounds. I would agree with the Auditor General that in the subsequent billing this was not a necessary payment and, in fact, really advanced that money about two months in advance of when it would have been necessary really to meet the objective of keeping the United Kingdom in funds.

Mr. Crouse: Mr. Chairman, may I ask just a one-shot supplementary based on the reply given by Mr. Armstrong? Are we to understand that the engines were purchased from the United States government and not from the aircraft manufacturer?

• 1000

Mr. Armstrong: The contract was made through the United States Air Force; with the United States government, if you like, through the United States Air Force.

Mr. Crouse: But the payments, who . . .

Mr. Armstrong: The payments are made by the United States. We pay the United States and they pay the contractor.

Mr. Crouse: Thank you.

Mr. Winch: Am I correct, Mr. Armstrong, in assuming that the recommendation to the Treasury Board for this to be done in both cases was on the recommendation of the Department of National Defence and, if that is correct, was it done with the knowledge of your Department that the request was contrary to the financial Administration Act?

Mr. Armstrong: There was no recommendation to the Treasury Board in respect of the *Oberon* submarine. There was a recommendation to the Treasury Board in respect of the *Cosmopolitan* aircraft. The actual recommendation, I think, went from the Department of Defence Production but we had advised, in making the contract demand, that we would like them to make it in this way. I think I have a copy of what was said at the time.

> In order to facilitate Department of National Defence funding, it is proposed to deposit an amount of $6,700,000 available from 1965/66 program funding, with the United States Government Treasury by way of advance payment, which amount will bear interest at current rates until required to meet disbursements under the contract.

That is what the Department of Defence Production said in going to the Treasury Board.

Mr. Winch: Was that done with the knowledge or the understanding that it was, or was not, in conformity with the regulations of the financial administration?

Mr. Armstrong: It is in conformity with the Financial Administration Act. We paid in accordance with the contract.

The Chairman: Mr. Winch, I do not think that question has been answered quite correctly. The question was who made the request—the Department of Defence Production or National. . .

Mr. Armstrong: The Department of Defence Production made the submission to the Treasury Board.

The Chairman: All right. Then the question is: Did the Department of Defence Production make this request knowing that the Financial Administration Act, Section 35, does not permit this to be done?

Mr. Hunter?

Mr. Hunter: There are times when you may have in a contract terms of payment that conflict with the terms of the Financial Administration Act. We pay in accordance with the terms of the contract, but the Financial Administration Act might have a different interpretation. In such cases we put to the Treasury Board that we have certain terms in our contract and if they agree then they give us approval to pay it.

Mr. Winch: Mr. Chairman, that is the crux of my question. Is this Committee to understand that, in your view, the terms of a contract supersede the law of Canada?

Mr. Hunter: No, sir.

The Chairman: I gather you have a question, Mr. Cafik? If it is not relative to this subject we will finish with this and then go on to yours.

Mr. Cafik: I do not want to interrupt the proceedings or to be anything but pleasant and friendly with everyone...

The Chairman: That is understood, Mr. Cafik.

Mr. Cafik: ...but I think, in all fairness—and I do not raise this in relationship to myself—that when a series of questions is being asked by a member of this Committee, it would only be fair to have supplementaries after that particular person has finished his line of questioning.

Mr. Winch: Except that I asked your permission and you agreed.

Mr. Cafik: Yes, I know that I agreed, and I agreed with Mr. Crouse, too; but I think it has a tendency to make the original line of questioning a little disjointed. I suggest that this might be noted in the future.

The Chairman: I will insist that they get the permission of the member who started the questioning.

Mr. Cafik: They did have permission, Mr. Chairman.

Mr. Winch: We had it.

The Chairman: All right. Have you another related question?

Mr. Cafik: You see the problem I have now? I am not in order to ask my questions because they are not related to the supplementaries.

• 1005

The Chairman: We will finish this particular one and come right back to you.

Mr. Noble: Mr. Chairman, I have a supplementary and I would...

The Chairman: On the same subject?

Mr. Noble: On the very same thing.

Mr. Winch: Do you have permission?

An hon. Member: Are you not going to continue?

Mr. Cafik: I am going to continue if I get a chance.

The Chairman: I will return to you.

Mr. Noble: My question is related to what we were talking about.

Mr. Chairman, the question that enters my mind in this matter is whether the security of the Canadian Government so bad that when we enter into a contract we have to pay in advance for all these obligations with the United Kingdom and the United States?

Mr. Hunter: Sir, I do not believe there is any question of the security of the Canadian Government's word. These are cases, as Mr. Armstrong has mentioned, where we are buying, as in this case, through the United States Air Force and they, in turn, have to pay their contractors who are performing this work for us. Therefore, we are putting them in funds so that they may pay their contractors in accordance with the terms of payment that they may have.

Our arrangement with the United States Department of Defence, or the United States Air Force, was to pay them on demand. They would tell us when they needed the money. If the year end had not intervened at this point we would have carried on, and as we always do, paying on demand.

They had asked us for this money and it came at the year end. We had a contract that said one thing. There could be a different interpretation in the Financial Administration Act. Therefore, we went to Treasury Board and said, in effect, that we had a conflict here; that we had a contract with the United States Department of Defence to pay them on demand, as I say, to put them in funds to pay their contractors, but that we were well aware of the year end cut-off—and Mr. Henderson knows we are. We had a contract, so we put it to Treasury Board, "Do we do it, or do we not?" and we got approval to pay it.

Mr. Noble: Mr. Chairman, this is in direct conflict with how we do business in private enterprise. We usually wait until we get the goods before we pay for them. I just cannot make sense of this.

The Chairman: Was $6.7 million the total amount of the contract?

Mr. Hunter: I believe it was, sir.

The Chairman: Then why put the whole amount down at once. Why would you not just pay the portions as you were billed?

Mr. Hunter: I will just check that, sir.

Mr. McCutcheon: While that is being checked, Mr. Chairman...

Mr. Armstrong: Perhaps I could answer that. I think I read out what we said to the Treasury Board to facilitate financing in the Department of National Defence. We put the total amount down in advance, which is an optional way of making this kind of contract with the United States Government. As I said, you do have a choice of paying on demand. That means putting the United States Government in funds at the time they, in fact, have to pay. There is a choice, and in this case we paid in advance; but the advance bore interest.

The Chairman: What would you do if you did not have the money?

Mr. Armstrong: If we did not have the money we obviously would not pay.

The Chairman: But if you had not had $6.7 million to send to the United States you would have said, "Send the bills. We will pay you when you send them."

Would this have anything to do with the Estimates of your Department. Was it a matter of getting $6.7 million out of that year's Estimates which had been set up, so that you would not have to carry it over into the next year? Is there any relationship here.

Mr. Armstrong: I think that is obviously the case. We had $6.7 million in our Estimates in this fiscal year, and we paid it out in this way for this particular project. We did not have this project financed in the following year's Estimates. That is what we said. It was to facilitate the financing in the Department of National Defence and we were forthright in explaining this to the Treasury Board, and they accepted it.

Mr. Cullen: Mr. Chairman, I have a point of order. It arises out of what Mr. Cafik has said. This happened the last time, or the time before, to Mr. Crouse.

Members are developing lines of questioning which they have obviously studied, and they want to go through them. Perhaps they have six or seven questions. They ask two questions and these give rise to some other member of the Committee saying, "That gives me an idea. I had better pursue that point". That might have been exactly the point that the member was going to pursue in his third, fourth or fifth question.

• 1010

I wish to align myself with what Mr. Cafik said. I am sure he has a train of thought he would like to pursue. He has asked two questions. He has now been interrupted. Because he is polite he allows these gentlemen in, as I probably would myself. An individual should be permitted to pursue a line of questioning, although he should not so dominate the meeting that he is talking for an hour or an hour and a half. I think there might be a 10 or 15 minute time limit on a topic and then he can come back to it if he has a series of questions.

Nothing interrupts a line of questioning more than having people asking supplementary questions. I know as a lawyer, cross-examining a witness, that one of the most difficult things is when opposing counsel or the judge keep interrupting with little questions. It can break down the whole line of questioning.

I am new on this Committee, but I do know a little bit about cross-examination. I suggest, with respect, that if one is pursuing a line of thought there is nothing worse than having eight or nine supplementary questions. Can we not have them after the line of questioning?

The Chairman: All right. Mr. Cafik, will you proceed with your line of questioning?

Mr. Winch: He is not quite certain what it was now.

Mr. Flemming: You have good counsel.

Mr. Cafik: Fortunately, or unfortunately, the majority of my questions have now been asked. I will not take too much time.

When Canada is doing defence work for other countries, such as under our defence-sharing agreement, is it the general policy that we are paid in the same manner as we have prepaid in this particular instance?

Mr. Hunter: In many cases we do, sir.

Mr. Cafik: Can you give me a case where the American Government have bought material from us and have deposited millions of dollars here in the hope that some day we may deliver the goods?

Mr. Hunter: Yes, sir; we have a very good example in the last year. We were building the NF-V aircraft for the Netherlands Government. They gave us an advance of $50

million before we had turned a hand for them, so to speak.

Mr. Cafik: What was the total value of the contract?

Mr. Hunter: It was $162 million.

Mr. Cafik: They gave you $50 million?

Mr. Hunter: I believe it was $50 million. I can check that, but I am told it was approximately $50 million.

Mr. Cafik: Was that by contract or arrangement, or were they trying to get around a vote?

Mr. Hunter: I cannot say, sir.

Mr. Winch: A good question, that will probably get a good answer.

The Chairman: Keep your questioning on this continent, Mr. Cafik.

Mr. Cafik: Is there a contractual arrangement whereby they are obligated to make subsequent advance payments prior to the completion of the job?

Mr. Hunter: Yes, there is, sir. I am not sure what they are but I can find out. I am told there is a sequence of payments laid out, Mr. Cafik.

Mr. Cafik: But there is a sequence?

Mr. Hunter: Yes; for the balance.

Mr. Cafik: Is this typical of all such contracts that we have with other governments?

Mr. Hunter: No, sir, it is not; although neither is it unique. There is another contract for the Reconnaissance Drone that we are doing with the United Kingdom and with Germany. In both cases we had advances from time to time from them because we were doing the development job and they had funds. Therefore, we took them into our account and I believe we invested them and paid them interest on some of them while the funds were unused.

Mr. Cafik: Have you any idea of the net position relative to the money that we have advanced to other countries for defence arrangements and the advance money that they have with us?

• 1015

Mr. Hunter: I could not give it to you without checking, sir, but I could get that information.

The Chairman: Mr. Cafik, I think Mr. Armstrong said that we are no longer following this procedure. Is that not what you said earlier this morning, Mr. Armstrong?

Mr. Armstrong: Mr. Hunter said that, Mr. Chairman.

Mr. Cafik: What do you say, Mr. Armstrong? I gather you want to say something different.

Mr. Armstrong: No, I do not want to say anything different. For some time, the policy of the Department of National Defence has been not to make in advance any payment that normally we do not have to. This particular, cosmopolitan case was brought to me in advance of making this decision. We had the money in the particular year's Estimates that we are talking about. I took the view that if the advance payment could be made under conditions that would not be unfavourable to Canada—that is, that we would get interest on the money—and would be satisfactory to the Treasury Board this was acceptable to me. We made the submission on that basis, and I think those terms were fulfilled.

We do not go out of our way to get around the Financial Administration Act. This was perfectly legal, and I think I have explained the situation. That is it.

Mr. Cafik: Mr. Armstrong, I have one question for clarification. Was the case brought to you at the time that the contract was entered into, or at some subsequent time?

Mr. Armstrong: This was at about the time the contract was to be entered into.

Mr. Cafik: So, in conjunction with Treasury Board you made the decision to enter into a contract which obligated you to fulfill this particular . . .

Mr. Armstrong: Yes. In essence, my position on this has been that we pay in accordance with contract. We obviously do not make advance payments that we are not obligated to make if there is a disadvantage to Canada. In this particular case we drew interest on the advance payment. It fitted into our financing. If this was acceptable to the Treasury Board it was acceptable to me. That is about the size of it.

Mr. Cafik: What rate of interest did you draw?

Mr. Armstrong: It was the current Treasury Board rate. I would have to get you the specific rate, I do not have it here.

Mr. Cafik: You do not know whether it was more or less than the amount of interest the Canadian government pays for borrowing funds?

Mr. Armstrong: I do not know offhand. Of course, we could get that for you.

The Chairman: Mr. Cafik, to assist you in your line of questioning, I am sure the contract must have stipulated something about how payment would be made and the Auditor General must have had the contract in order to make these remarks, so I am going to ask tge Auditor General on what basis he made this observation.

Mr. Henderson: I have two points I would like to make, Mr. Chairman. The first is with respect to advance payments by other countries to Canada. It is not at all unusual for Canada to be on the receiving end of advance payments, as in the case

> Reimbursement of the estimated cost of $5,106,000.00 (U.S.) will be provided from funds already deposited with the Treasurer of the United States of America . . .

in account number so-and-so, Secretary of the Treasury. So, you see, presumably the money was paid before the order was made.

Mr. Cafik: I would then like to go back to Mr. Armstrong and find out how he approached the Treasury Board, in advance of the contract, to make this payment. From the answer that you gave before I thought there was a contractual obligation to do so.

• 1020

Mr. Armstrong: As I pointed out, when the Department of Defence Production went to the Treasury Board for authority to make this contract—and that was on March 18, 1966—they included this paragraph which I have already read in their proposal. Would you like me to read it again?

Mr. Cafik: I certainly would.

Mr. Armstrong: It reads:

> In order to facilitate Department of National Defence funding, it is proposed to deposit an amount of $6,700,000 available from 1965-66 program funding, with the United States Government Treasury by way of advance payment, which amount will bear interest at current rates until required to meet disbursements under the contract.

The Chairman: What is the date of that, Mr. Armstrong?

Mr. Armstrong: This was the submission on March 18, 1966, to the Treasury Board.

Mr. Winch: When was it made and when was it. . .

Mr. Cafik: There was one point I did not understand. Right at the beginning when you started to read, you said, "In order to facilitate. . .". What did you say after that?

Mr. Armstrong: ". . . Department of National Defence funding. . .".

Mr. Cafik: "In order to facilitate Department of National Defence" funds?

Mr. Armstrong:

> . . .funding, it is proposed to deposit an amount of $6,700,000 available from 1965-66 program funding . . .

That is what it says.

Mr. Cafik: It would appear, then, on the surface that the motive for that is what we really suspect, I suppose; getting it out of the vote and into the United States for the future purchase of hardware in that country.

Mr. Armstrong: It means exactly what it says. We had program funding for it and we put this to the Treasury Board and they agreed to do this.

The Chairman: Mr. Armstrong, I want you to answer Mr. Cafik's question. Is that exactly what it means, getting it out of the estimates of that year?

Mr. Cafik: That is a beautiful term "program funding". Is that another of the Netherlands aircraft order that has been mentioned, nor is it unusual for Canada to make advance payments. In fact, if you look at Public Account at March 31, 1967, which I have before me, page 23.22, you will notice there is a whole section in there entitled "Advances to other Governments, etc." and, in point of fact, Canada had advanced over $118 million to other suppliers. The point of this question is the fact that the payment was made in advance of the order eight days before the new year's funds became available, and here I have a letter contract from the Washington office of the Department of Defence Produc-

tion to the United States Air Force in the Pentagon, which reads:

> The Government of Canada hereby orders from the Government of the United States (Department of the Air Force) under the authority of the Foreign Assistance Act, 1961, the following supplies:...

Then as to payment, it states: word for taking the money out of the vote and putting it in a box somewhere so that you can get at it a little later?

Mr. Armstrong: Let me put it this way.

Mr. Cafik: Is that the definition of "program funding"?

Mr. Armstrong: It means we had it funded in 1965-66...

The Chairman: That means it is voted.

Mr. Armstrong: ...and we did not have it funded in 1966-67, and we paid it out of the estimates we had it funded in. That is precisely what it means.

Mr. Cafik: You have got me "befundled"! I am still not too clear.

The Chairman: I think the Committee follows it.

Mr. Cafik: You think we understand, do you?

The Chairman: I think, to summarize it, that the Department of National Defence had that $6.7 million set up their 1965-66 estimates and they wanted to transfer it over to the United States so they would be in a position to re-estimate in the next year...

Mr. Winch: And before March 31...

Mr. Cafik: Without increasing the budget for the following year.

The Chairman: Yes.

Mr. Cafik: Take it out of last year's budget. This is really the idea.

The Chairman: Mr. McCutcheon has a question. You are finished, are you not, Mr. Cafik? Would you allow a supplementary?

Mr. Cafik: Yes, I think I will. Thank you very much.

Mr. McCutcheon: Mine is a straightforward question to get this down to my level. Like my friend Mr. Cafik, I am also a little confused. A number of years ago, in my area, wall-to-wall carpeting was established and laid down in the RCMP barracks on Walpole Island one week after the detachment had been moved out. The only answer I got at that time was that the money for that carpeting was in the estimates, and if they did not spend it it would be lost. Is there a parallel here? Is this advance payment the same thing? In other words, was there a good, smart salesman, the Minister, and he presented this to the Treasury Board and in effect they set themselves above the law of Canada?

Mr. Armstrong: Sir, I cannot speak for the example you gave, but if you are asking me if we did this only because we happened to have the money, the answer is no.

• 1025

The Chairman: All right. Are there any further questions?

Mr. McCutcheon: No. I am more confused.

Mr. Duquet: I just have one question. I understand there was no requirement in the contract that this payment should be made.

Mr. Armstrong: I think I have said that this is so. In placing a contract of this kind there is no requirement to advance the total amount of the contract price. Under the procedures that apply, there is a requirement to advance money before the United States has to pay on the contract. Do you follow me?

Mr. Duquet: In this particular case not only was there no requirement, but I understand that a transfer was made before the contract was signed.

Mr. Armstrong: I am merely saying that there was a choice of doing it this way. The way we did it was an optional way of doing it. Of course, the other option was open to us.

Mr. Duquet: What were the advantages in doing it before, or...

Mr. Armstrong: As I explained, we had this program funded in our 1965-66 budget and we did not have it funded in our 1966-67 budget, and having regard to the fact that it is an optional way of doing business and the United States pays interest on the money, I was satisfied with doing it this way provided it was acceptable to the Treasury Board, and we did put the case to them. I have read to you what we said and they accepted it.

Mr. Duquet: Thank you.

The Chairman: Mr. Armstrong, along that line of questioning, is it not right that your Department could have allowed the $6.7 million to lapse at the end of the year and then in your estimates for the following year put it in for the year 1966-67?

Mr. Armstrong: Yes, one could seek a supplementary estimate. As the Auditor General has pointed out, there was about $7 million worth of unpaid accounts in operations and maintenance, and assuming we had been able to get this money put in the right places in time there would not have been any money lapse anyway.

Mr. Winch: May I ask one short question?

The Chairman: I have just one question and then I will come right back to you, Mr. Winch.

Could we go back to the Blue Book for the year 1965-66 and find this $6.7 million, or is it in...

Mr. Armstrong: You would not find it specifically in your Blue Book. As you know, the way the Blue Book is set up you will find a sum for aircraft, and so forth—I have forgotten the exact heading—but you would have to look under your object of expenditure. It gives a total sum but it will not give the detailed items.

The Chairman: Perhaps this would bring up the point that now that estimates are going before committees the members of Parliament will have a better opportunity to ask what that total amount includes and if that was asked they may have been told that there was $6.7 million set up there for so and so.

Mr. Armstrong: Yes, you certainly have that opportunity.

The Chairman: Mr. Winch on a supplementary.

Mr. Winch: May I just ask one supplementary for clarification. I am not going into the matter of options but do I understand, Mr. Henderson, that one of your complaints or criticisms, and the reason you have drawn a certain matter to the attention of the House of Commons in your report, is that money was actually paid eight days before there was the required official authorization for that money. Do I understand you correctly in this respect?

• 1030

Mr. Henderson: If I were to restate the case again, Mr. Winch, it might provide an answer. The Financial Administration Act specifically provides under Section 35 that the balance of an appropriation granted for a fiscal year which remains unexpended at the end of that year has got to lapse, except that for 30 days immediately following the end of the year, that is, during the month of April only, payment can be made under that particular appropriation if it is to discharge a debt payable for work performed, goods received or services rendered.

Mr. Winch: Yes, I understand that and it seems to be very specific...

Mr. Henderson: The contract I gave you was entered into on March 21. It acknowledged the fact that it already had been deposited in advance of March 21. As you see, if they had just waited eight days they would have had it out of the new funds.

Now as far as the size of the lapsing in that particular year is concerned, Mr. Armstrong has said that that amount of money could have been used in paying unpaid bills. I think perhaps he had reference to 1966-67, if I am not mistaken.

Mr. Armstrong: I was just quoting from what you said. I did not look it up myself.

Mr. Henderson: It has been the practice to put into the public accounts unpaid accounts carried forward to the new fiscal year in considerable detail. It may interest the members of the Committee to know that there is quite a considerable figure of accounts that are not paid. Lapsings are shown, but in point of fact there are a lot of bills lying around that are not paid. In 1966, it exceeded $31 million, and in 1967 it was about the same. This is a subject with which I will be dealing in my next report.

At the end of that year National Defence Vote 15 itself had, as I think I have said, $7 million. That is the point, Mr. Winch, if that answers your question.

The Chairman: Mr. Noble and then Mr. Roy.

Mr. Noble: Mr. Chairman, am I correct in assuming from the evidence that we have heard this morning that there is competition between departments to nail down as much

money as possible for the projects of their particular departments? It seems to me that if one department could put money away in advance, that other departments could do the same thing, thereby creating competition between departments to get as much funds as possible into their particular departments for their own use at some future date.

The Chairman: Mr. Noble, I think that is a reasonable assumption. I do not know whether Mr. Armstrong or Mr. Hunter wish to say anything about that.

Mr. Armstrong: I do not know whether I have very much to say about it. I think I gave in evidence before this Committee that in so far as the Department of National Defence is concerned, in 1964-65 we established a five-year program and the budgetary figures in that program in terms of programming, started out I think at $1.55 billion. The actual financing during the five years provided for an escalation at the rate of 2 per cent a year.

We have followed that budget almost precisely. The variation up to the end of the current fiscal year has been roughly 1 per cent. That is the way it has been financed. I think that is a pretty good answer to your question. I suppose the answer, as far as I am concerned, is no.

The Chairman: Mr. Roy?

Mr. Roy (Timmins): When this particular amount of money was placed in the estimates was it placed there for the particular purpose for which it was used?

Mr. Armstrong: I would like to go back. I did not go through those particular estimates before I came up here, and I would be glad to do that for you. I do not want to misinform you. I would have to look back to the estimates as they were determined in the fall of 1964 to see if this item was specifically listed. I would be glad to do that if you would like me to.

• 1035

Mr. Roy (Timmins): Yes, it seems to me, Mr. Chairman, that the essence of this particular thing is whether the money that was appropriated was in fact appropriated for this purpose. If it was not appropriated for this particular purpose then how much flexibility do departments have in spending money for other than those things for which these moneys are appropriated?

The Chairman: It could be possible that that money was transferred within the vote, Mr. Armstrong? You have that authority.

Mr. Armstrong: If I could answer the question, the money is appropriated for the purposes stated in the vote, which in broad terms are for the defence of Canada. Obviously, in the type of operation that we are engaged in there are variations that occur in the course of a year. Let me give an example. If, on purchase of aircraft, there is a given sum provided, there might be a variation in the course of the year as to the specific aircraft that that may be spent on. It is possible.

If we reached the point where the amount listed per aircraft was inadequate but we had money, say, under "ships" that we did not need, we then would go to the Treasury Board and say, "We want a transfer from 'Ships' to 'Aircraft' ". If they accepted that the money would be transferred over to aircraft. What we cannot do is exceed the amount appropriated. If we in our vote had less money than we needed and if something arose that we had to have more money then the government would have to go back to Parliament and get a supplementary estimate.

The Chairman: I think Mr. Henderson might add to this answer, Mr. Roy.

Mr. Henderson: Mr. Chairman, I was quite interested in Mr. Roy's question, which was a very good one if I may say so. I think, however, Mr. Armstrong has answered it, because while this specific item of $6.7 million for this aircraft in that year may or may not have been in the departmental calculations behind it; it would not have been evident to the Members of Parliament in the Blue Book. We discussed Vote 15 of this department before in this Committee. The size of this vote in 1966-67, the year we are talking about, was $1,435 billion, which is a good chunk of the total estimates for the particular year.

The department operates within that vote with the freedom that Mr. Armstrong has described, subject to the transfers that Treasury Board approve and that he would recommend and so forth. And all the wording that Parliament has approved with respect to this $1.435 billion is—and I will read it:

> Defence services
> Vote 15—Operation and Maintenance and Construction or Acquisition of Buildings, Works, Land and Major Equipment and

> Development for the Canadian Forces and $1,750,000 for Grants to the Town of Oromocto

That is the wording of Vote 15 in that year. I thought I should bring this to your attention because of your interest in the specific item of $6.7 million that we are discussing.

The Chairman: Gentlemen, if you are finished we shall proceed to the next paragraph.

Mr. Cafik: I have a question for Mr. Henderson. As you know, we are now going to some revised form of estimates. I was involved in this Committee, like others, and I am now getting a bit confused with all the subsequent things that have happened. Under the revised form what would be the condition under Vote 15?

Mr. Henderson: You may remember, from discussions on that, that there will not be too much change, Mr. Cafik. There will be one figure shown for construction and one figure shown for administration. You will remember the set-ups in the format.

Mr. Cafik: Yes.

• 1040

Mr. Henderson: I do not have Vote 15 to hand, but perhaps Mr. Long could draw on his memory in that connection.

You might like to turn to paragraph 54 page 21 in my 1967 Report, where we are talking about the Revised vote pattern. It says:

> The vote pattern considered by the Public Accounts Committee in 1963 included separate votes for Construction and for Operation and Maintenance for each of the three Services of the Department of National Defence.

That was in 1963.

> In the 1964-65 Estimates there was only one vote for each Service which provided for both Construction, and Operation and Maintenance, and in the 1965-66 Estimates the requirements for the three Services were amalgamated into a single Defence Services vote for both Construction, and Operation and Maintenance, subject to the Treasury Board proviso that no assurance could be given that "the single vote will be continued beyond 1965-66

As a consequence of these amalgamations, as I pointed out in my reports for several years, transfers have been permissible by the Treasury Board of substantial amounts between the allotments within the votes concerned for the purpose of utilizing available funds in these allotments.

Now we move into the new format which is...

Mr. Cafik: Mr. Henderson, I have a specific question here. In the new form of estimates the estimates under a given department will be for administration, if I remember correctly, construction, grants. Was there not one other category?

The Chairman: Construction, maintenance and grants. There are three.

Mr. Cafik: There are only three?

Mr. Henderson: There are three. About the only change will be the separation of maintenance and operation from construction. You will remember that we felt that was a desirable change. But there will be the figure for construction.

Mr. Cafik: Are you saying, Mr. Henderson, that it is now going to be divided then into four, into administration, construction, maintenance and grants?

Mr. Henderson: No, there are three: administration, construction, grant subsidies and so forth. There will be one figure for each.

Mr. Cafik: So the control is improved a little bit then?

Mr. Henderson: Yes, I think, that can be quite properly said. This point on page 21 shows how this amalgamation has taken place into this tremendous large vote of over $1.5 billion.

Mr. Cafik: Which is 10 per cent of the budget...

Mr. Henderson: That is the point.

Mr. Cafik: ...left under one vote.

Mr. Henderson: That is the point.

Mr. Cafik: Under the arbitrary or diligent control of one department.

Mr. Henderson: I said before and I say again, I think that is something that the members want to bear in mind in any discus-

sion on the question of parliamentary control of public expenditures. I think it is a very important point.

Mr. Cafik: So even under the new revised form—I am just taking a figure off the top of my head . . .

Mr. Henderson: There will be relatively little change except there will be the advantage of getting the administration cost as a separate figure in respect of each department, which I regard is a step forward.

Mr. Cafik: And the grants.

Mr. Henderson: Grants have always been shown separately.

Mr. Cafik: Right.

The Chairman: All right.

Mr. Henderson: I have never liked the way operation and maintenance have been grouped in with construction.

Mr. Cafik: No, I do not either.

Mr. Henderson: You may remember it was stressed that it is the construction you do today which affects the costs of operations and maintenance tomorrow.

Mr. Cafik: I am sorry, Mr. Chairman, but I just wanted to get that point clear in my mind.

• 1045

The Chairman: Gentlemen, page 51, paragraph 97, the Hydrofoil development program is next. Mr. Henderson, will you introduce that?

Mr. Henderson: Mr. Chairman, reference was first made to this program in paragraph 85 of my 1966 Report to the House. The program relates, as paragraph 97 before you says; to the development of an anti-submarine-warfare hydrofoil craft of some 200 tons capable of operating at high speeds in the open sea. It was developed at a naval research establishment after several years of experimenting with hydrofoils and is considered to offer greatly increased effectiveness against submarines. After carrying out an engineering study and a model test program to determine the feasibility of the concept which cost some $900,000, a contract was finally awarded in May 1963 for the design and construction of a development prototype hydrofoil at an estimated cost of $9.1 million, excluding the cost of sea trials and spares, with delivery scheduled for April 1966.

The records of the Department of Defence Production show the difficulties they encountered in evaluating the probable cost of this program because they did not have sufficient information either from the company who was going to build it or in terms of historical cost data available in Canada and the United States for similar hydrofoil programs. The contractor's cost proposals did not provide any detailed breakdown of labour, material and other items. However, the Department was I understand satisfied that a considerable amount of work had gone into the preparation of these proposals, that the contractor had a good appreciation of the task involved, and therefore they reached the conclusion that the figure of $9.1 million was realistic.

These reservations, however, do not appear to us to have been communicated in so many words in the departmental submission to the Treasury Board when entry into the contract was recommended. I give you the wording in my 1966 Report of this advice which went forward, but I will read it to you again here. I am quoting from the letter:

> "The contractor's estimates for this program are recommended for funding purposes. The methods used there based on broad parameters are considered conservative and it is our considered opinion the program as now understood, but not including contractors' and users' trials, will be accomplished within the $9.1 million allocated." As the project progressed it was necessary to return to Treasury Board for further approvals of increased costs and details of these including dates are given at the foot of page 51.
>
> At the top of page 52 we have endeavoured to summarize the explanations we obtained for the overall cost increase from the figure of $9.1 million in April 1963 to that of $50,006,000 in March 1967.
>
> There was fire damage aboard ship in November 1966 whilst on the premises of the shipbuilder and this I understand cost $3.5 million for repairs to the ship and related reengineering modifications.
>
> I understand the ship was actually launched last year but that its trials will not be completed before 1970.

That is all I have to say at the moment on this.

The Chairman: Are there any questions? Mr. Crouse?

Mr. Crouse: Mr. Chairman, this is a very interesting piece of research and we note in the Auditor General's report on page 52 that the department advises that the ship launching as been rescheduled for late 1968. To the best of my knowledge 1968 has come and gone and the ship is not operative as yet. I would like to know even if it has been launched.

There are all kinds of questions that emanate from this information. One that quickly comes to mind deals with the fire which, as the Auditor General has just read out to us, occurred in the yard and cost something like $3.5 million. Was this expense borne by the contractor who would, in normal procedure, be required to have fire insurance on the ship? Was the cost of the fire paid by an insurance company, or was the cost paid by the Canadian taxpayer?

The Chairman: Mr. Hunter, I guess that would be your department.

Mr. Hunter: The cost of the fire was met by the government, because we were using the principle of self-insurance on this ship and the contractor was not required to carry fire insurance.

• 1050

Mr. Crouse: Are all contracts issued by the Department of Defence Production on this basis, whereby the contractor is not required to carry insurance on our Canadian government ships once they are placed in his yard?

Mr. Hunter: Up until the recent placing of the DDH contracts, the policy of self-insurance had been in effect on Defence Department ships, because we felt that there was such a spread of risk that to insure them really would be just paying the insurance companies administrative overhead and one thing and another. We felt that we had a large enough spread of investment and risk that it was cheaper to be our own insurer.

The Chairman: What would be the reason, Mr. Hunter, that you made the contractor refitting the *Bonaventure* carry $5 million insurance, but you did not ask that it be carried in this case. What is the difference?

Mr. Hunter: I am advised, sir, that the change in policy was made about the time of the refit of the *Bonaventure,* concerning a large risk in any one place, as there was in this. The policy changed in 1966 with the *Bonaventure.* It has been followed in the construction of the DDH's which represent a very large investment of government funds in two yards where a single fire in either would be a catastrophe.

Mr. Crouse: Mr. Chairman, on this point, is not the evidence being given by the witness a bit contradictory? If we look at the figures on page 51 as supplied by the Auditor General we note that in 1966 the amount expended on this one ship, the hydrofoil program, totals $43,922,000 and by comparison the *Bonaventure* cost the Canadian taxpayer $30 million and the refit which was in excess of $12 million still does not come up to this figure. You insured one piece of equipment, but you have ignored this $43,922,000 investment which has now escalated to $50 million. On what basis can you justify this type of thing?

Mr. Hunter: Sir, our change in policy was actually dictated by this fire, I am told. It was this fire and the substantial loss that was occasioned and the greater loss that might have been occasioned with this great investment that has, in fact, changed the policy.

Mr. Crouse: Then are we to assume in this Committee that from this day forward you do insure departmental ships when they go into the refitting yards?

Mr. Hunter: In all cases of major risk, I am informed sir. Where there there is a major risk.

Mr. Crouse: And who determines the major risk?

Mr. Hunter: We would determine it in conjunction with the Department of National Defence.

Mr. Crouse: Mr. Chairman, could we have the names of the people and the department who carried out two years of engineering studies and model tests on this hydrofoil, and what was the cost of this phase of the development? After all, the entire project, as I read the Auditor General's report, was decided upon following the engineering studies which estimated that the project could be built for $9,100,000.

We are right back again at the question of faulty estimates by departmental officials somewhere. Since the project was originally to cost $9,100,000 and which now has cost in excess of $50 million, I think it would be of interest to the Canadian taxpayers to know who the people are who carried out these engineering studies and who were so faulty in their estimates. We should know what the cost of this phase of the development was.

• 1055

The Chairman: Mr. Hunter. That is a broad question.

Mr. Crouse: What department carried out two years of engineering studies and proposed the estimate of $9,100,000?

Mr. Hunter: The information I have is that from roughly 1958 to 1961 the naval research establishment of the Defence Research Board of the Department of National Defence did certain studies. They then came to us in 1961 and asked us if we would place a feasibility study with a contractor who was to be selected. As it turned out, it was DeHavilland Aircraft of Canada Ltd. for the hydrofoil itself, and Westinghouse for the fighting equipment on this ship.

These feasibility studies were done and then I am told taken back and studied by your naval department, I think it is, Mr. Armstrong, after which study it was decided to place the contract for the development and design along this concept with DeHavilland, the people who had previously done the feasibility study.

The Chairman: Mr. Armstrong, as the research establishment falls under your Department, perhaps you would like to answer part of this question.

Mr. Armstrong: As Mr. Hunter mentioned, there was a feasibility study, and so on. The point that I would like to make is that this is a development contract and it is not possible to define in advance all the specifics of this type of contract. At the time of the $9 million estimate, we did say it would be impractical to evaluate the probable cost of this program in detail, as we do not have sufficient information from the company and there is complete lack of historical cost data both in Canada and in the United States for similar hydrofoil programs.

In a research and development project where you are exploring in effect the unknown, it is not possible to estimate in detail the way you would in a production contract where you know specifically what you are going to produce and you are able to give a detailed specification. Therefore we were aware of the fact that there was not a detailed basis for estimating the cost.

Mr. Crouse: Mr. Chairman, may I pursue this? If this ship ever does perform satisfactorily, it is the Department's intention to adopt it as an operational craft and, if so, how many of these ships does the Department plan to build?

Mr. Armstrong: Sir, I cannot answer the latter question at all. This is a research and development project.

Mr. Crouse: For what purpose?

Mr. Armstrong: Let me go on and answer you as far as I can. In March, in this coming month, the ship will commence its trials in its foil-borne mode. It has had trials in the non-foil-borne mode up to this time. If the ship performs satisfactorily in all respects and is established as a satisfactory and useful anti-submarine warfare ship, we will then decide on the number of ships and the type of ship we will want. In this kind of program we have to first of all establish the practicability of the idea. We are exploring the unknown and if it, in fact, turns out to be what the original designers expected it to be, it would be quite a major step forward in terms of cost in the problem of dealing with submarines.

• 1100

A ship of this kind, while the development cost is very large, in terms of production would be considerably cheaper than the kinds of ships we are using now and it would be very considerably cheaper, we believe, in operation. The crew of this ship, for example, is about 25 men, against a crew of 225 in a destroyer escort. This in itself would be a major saving, and it seems to me that if one is going to advance in terms of exploring entirely new fields, one has to take some risks involved in the development problems. That is what is involved in this.

The possible gains may be very considerable if this is a successful ship. It may not be successful, but all the indications to date are that it will be.

The Chairman: We must adjourn gentlemen. Mr. Crouse, you will have the floor when we return. Mr. Cafik?

Mr. Cafik: I would like to forewarn the department of two questions I have in mind that may require a bit of research on their part.

The Chairman: I think that is very fair, Mr. Cafik. Proceed.

Mr. Cafik: I want to know if within this $50 million or more the cost of the preliminary study of the Defence Research Board is included and, if not, could you give us some estimate of what it cost DRB to set it up? Then I would like to know if the feasibility studies that your Department made are included and, if not, what were the costs involved there?

The Chairman: Mr. Armstrong, will you have an official from the Defence Research Board with us at the next meeting?

Mr. Armstrong: Yes.

The Chairman: The meeting is adjourned.

HOUSE OF COMMONS

First Session—Twenty-eighth Parliament

1968-69

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: Mr. A. D. HALES

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 19

TUESDAY, FEBRUARY 25, 1969

Public Accounts, Volumes I, II and III (1966 and 1967)

Reports of the Auditor General to the House of Commons (1966 and 1967)

WITNESSES:

(*See Minutes of Proceedings*)

THE QUEEN'S PRINTER, OTTAWA, 1969

29831—1

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. A. D. Hales

Vice-Chairman: Mr. T. Lefebvre

and Messrs.

Burton,	Flemming,	Noël,
Cafik,	Forget,	Rodrigue,
Crossman,	Leblanc (*Laurier*),	[1]Roy (*Timmins*),
Crouse,	Mazankowski,	Tétrault,
Cullen,	McCutcheon,	Thomas (*Maisonneuve*),
Duquet,	Noble,	Winch—20.

(Quorum 11)

Edouard Thomas,
Clerk of the Committee.

Pursuant to Standing Order 65(4)(b).

[1] Mr. Roy (*Timmins*) replaced Mr. Allmand on February 20, 1969.

MINUTES OF PROCEEDINGS

TUESDAY, February 25, 1969
(21)

The Standing Committee on Public Accounts met this day at 9.40 a.m., the Chairman, Mr. A. D. Hales, presiding.

Members present: Messrs. Burton, Cafik, Crouse, Cullen, Flemming, Forget, Hales, Lefebvre, Rodrigue (9).

Witnesses: Mr. A. M. Henderson, Auditor General of Canada; Mr. E. B. Armstrong, Deputy Minister, Department of National Defence; Mr. G. W. Hunter, Deputy Minister, Department of Defence Production; Mr. M. C. Eames, Head of Fluid Mechanics Section, Defence Research Establishment (Atlantic).

The Chairman advised the Committee that the Sub-committee appointed to study the refit of the *HMCS Bonaventure* in detail had commenced its hearings on the subject.

The Deputy Minister of National Defence provided replies to previous questions on (a) Re-engining of *Cosmopolitan* Aircraft; (b) Hydrofoil feasibility studies.

The Committee was given an outline of the development of the hydrofoil by the Head of Fluid Mechanics Section, Defence Research Establishment (Atlantic) and questioned the witnesses.

The Deputy Minister of National Defence was requested to provide cost figures by category as listed in paragraph 97 of the 1967 Auditor General's Report:

(1) inexperience of the contractor in this new field which gave rise to underestimates of detailed design, engineering and production requirements;
(2) underestimates of sub-contract costs by both the contractor and the Department of Defence Production;
(3) underestimates of the volume of manufacturing work, increased requirements due to engineering refinements, delays in production, increased shipping and material costs, etc.;
(4) fire damage, subsequent design changes and increased inspection and administration.

The Deputy Minister of Defence Production was requested to provide the text of any written policy between the Departments of National Defence and Defence Production concerning fire insurance coverage.

At 10.57 a.m., the Committee adjourned to the call of the Chair.

Edouard Thomas,
Clerk of the Committee.

29831—1½

EVIDENCE

(Recorded by Electronic Apparatus)

Tuesday, February 25, 1969

• 0941

The Chairman: Gentlemen, we shall proceed.

I would like to advise the Committee that your Subcommittee met yesterday with the Department of National Defence officials in the Board Room of National Defence Headquarters to study and look further into the *Bonaventure*. We have decided to meet there again on Wednesday, leaving from the front door here at 3.30 p.m., and again on Thursday this week at 1.30, going direct from here and continuing on this work until we have finished.

This morning we have one or two questions awaiting answers. One concerns the billeting of officials of the *Bonaventure* and Mr. Armstrong advised me that he will have that answer next Thursday. There were some other questions—one relating to the Cosmopolitan aircraft. I do not remember who asked that question but Mr. Armstrong has the answer. Before he proceeds, Mr. Armstrong has with him this morning Mr. Eames from the Defence Research Establishment Atlantic Division, who is in charge of the fluid mechanical section. He will be available to answer many of your questions on the Hydrofoil.

It might be advantageous to the Committee, when Mr. Armstrong has finished with his answers, to call on Mr. Eames for a very brief outline of the research work into the Hydrofoil: when it was started, why it was started, some of the problems they have had and a brief outline of it, as it is a very complicated subject. Is that agreeable, gentlemen? Mr. Cafik.

Mr. Cafik: Mr. Chairman, at the conclusion of our last meeting on Public Accounts, I had asked two questions in respect of the Hydrofoil—its cost, particularly along the lines of research.

The Chairman: Mr. Cafik, we will come to that as soon as Mr. Armstrong gives his answer; then you follow with your question and either he or Mr. Eames will answer.

Mr. Cafik: All right.

The Chairman: Mr. Armstrong.

Mr. E. B. Armstrong (Deputy Minister, Department of National Defence): I have two questions to answer from the last meeting, one relating to the re-engining of the Cosmopolitan aircraft. The question was: was this program included in the original 1965-66 estimates? The answer to that question is no. A program change proposal was approved, after consideration by Defence Council, by the Minister on August 9, 1965, for re-engining the seven aircraft. That program change was submitted to the Treasury Board for approval on October 8, 1965, the funding to be provided by transfer from Primary 69, Unalloted to Primary 62, Aircraft and Engine. That program change was approved by Treasury Board on February 24, 1966.

• 0945

I had another question. This may be the one that Mr. Cafik is referring to. The question was: are the DRB Hydrofoil feasibility study costs included in the $50 million that is listed in the Auditor General's observation? The answer is no. The feasibility study of the Naval Research Establishment was conducted in 1959. Mind you, they had done much work before that but the particular feasibility study for this project in 1959 was done by the Defence Research Establishment, Halifax. It was all done by their own people and the estimated cost in terms of salaries was $40,000.

The second question was, are the de Havilland feasibility study costs included in the $50 million and what are these costs? The answer is also, no. They are not part of that $50 million and the cost for the de Havilland feasibility study was $517,000.

The Chairman: Mr. Cafik, do you wish to proceed on that question? If not, we will

revert to the member who had the floor when we closed.

Mr. Cafik: No; I have a series of questions but we are on this subject next week anyway, I think, Mr. Chairman, are we not?

The Chairman: That is likely. Would you like to have a brief outline about the hydrofoil from Mr. Eames?

Some hon. Members: Agreed.

The Chairman: Could you give the Committee a bit of a history of this Hydrofoil, Mr. Eames?

Mr. M. C. Eames (Head of Fluid Mechanics Section, Defence Research Establishment (Atlantic)): Mr. Chairman, we started hydrofoil research in the Defence Research Board in 1951. To explain the original reasons behind the program. I think I had better explain that ever since about 1914 ships have been against the speed barrier. It is not possible to drive a conventional ship faster than current speeds because of the tremendous resistance caused by wavemaking. It has been estimated that to add two knots to the speed of a modern passenger liner would require doubling its installed horsepower and this means that it is economically impossible to increase the speed of surface ships.

However, this barrier does not apply to submarines. Back in 1951 we could foresee submarine speeds outstripping the speed of surface ships very, very quickly and, in fact, this is now the case. Since the Canadian Navy was primarily an anti-submarine navy we felt that this was ample justification to conduct a small research program into the possibility of the hydrofoil which at that time appeared to be the only feasible method of increasing the speed of surface ships in rough water.

Our early work, from 1952 through 1958, was conducted with small experimental craft which amounted to perhaps one-quarter scale manned models. We operated these in the open sea under realistic conditions and developed a good understanding in what was involved in building hydrofoil craft for operationally useful sizes.

•0950

In 1958 we felt that we understood enough to conduct a study to see whether these ideas could be developed to produce a craft that would be of specific use in anti-submarine warfare in a naval role. It is this study that Mr. Armstrong was referring to as the DREA feasibility study.

When we consider anti-submarine warfare and hydrofoils there is a second point apart from this question of speed. It is important, of course, to have a craft that can outrun a submarine if you intend to catch a submarine, but one of the things that we had learned during our research was that the stabilizing principle provided by hydrofoils enables one to design a very much smaller craft for a given degree or comfort in a particular sea condition. In other words, to fight a ship you require a certain standard of motions in the seaway. With the hydrofoil craft you can obtain this seaworthiness at about one-tenth the size of a conventional surface ship.

When you consider that the first essential role in anti-submarine warfare is to find a submarine, which requires searching large areas of ocean with relatively short range detection devices the possibility, for a given cost, of putting a greater number of detection devices into operation is an extremely attractive one operationally. The idea that one could have several hydrofoil craft doing the same detection job as one destroyer escort was a very attractive one, so from the anti-submarine point of view it was not just a matter of speed; it was a question of using the hydrofoil principle to stabilize the ship to provide the smallest possible vehicle to do the job.

Thus, compared with some of these ferries that you have no doubt heard about, which are operating all over the world now, the anti-submarine hydrofoil craft is a hybrid; it not only operates on its foils at high speed, but it is designed to spend long periods of time in a stabilized floating condition at slow speeds. This is why its design features differ quite radically from those of hydrofoil ferries.

The other point about the anti-submarine hydrofoil craft compared with more conventional hydrofoil craft is that for operational purposes, which I do not think I ought to go into, we need a speed higher than 40 knots. This means that we are into a completely new design regime. Without going into the technical details of cavitation, let me just draw an analogy with aircraft and say that once we exceed a speed of 40 knots we are into the supersonic regime rather than the subsonic

regime of hydrofoil design, and the order of engineering complexity and order of refinement in the design of the foil system itself is very much greater. This undoubtedly accounts for the high cost of this particular type of hydrofoil craft compared with the ferries operating in Japan and Europe, and so forth. I could go on all day, but perhaps it would be more sensible to cut off now and answer any specific questions.

The Chairman: Thank you, very much. Mr. Crouse, you had a question on the floor at the last meeting.

Mr. Crouse: Thank you, Mr. Chairman. First I would like to register a protest against the lack of communication, so to speak, within the Committee, because we are still operating in a bit of a vacuum since we do not have the evidence that was given to us at the last Committee meeting. I would like to register this protest. It makes it extremely difficult for us to continue with our line of questioning when we do not have the evidence at the last meeting. It is my understanding that every effort would be made to provide the Minutes of each meeting to the Committee so that we could have some continuity.

• 0955

I will go on from there. I welcome Mr. Eames' statement this morning.

The Chairman: Mr. Crouse, I might say it went to the printer yesterday, but that is not good for today.

Mr. Crouse: Thank you, Mr. Chairman.

Mr. Eames, you mentioned it was approximately in 1951 that you realized submarines could outspeed surface ships and this led to the research development of the hydrofoil. There are some scientists who are of the opinion—and it is one that I share—that the concept of the hydrofoil development has now been made obsolete by the development of the hovercraft which can travel in excess of speeds attributed to the hydrofoil. Is this correct and has your Department given any thought to securing hovercraft for navy service?

Mr. Eames: Mr. Chairman, we have investigated the use of hovercraft. As a matter of fact, we have a sort of unwritten agreement with the United Kingdom by which we obtain information on hovercraft from them; they obtain information on hydrofoils from us since neither of us can afford to do both.

The relative merits of the hovercraft and the hydrofoil craft depend very much upon the particular role you wish it to play. Asking the question, which is better is rather like asking which is better, the helicopter or the airplane? We do not know enough about either of them yet to be able to define exact roles for each, but the consensus of expert opinion in both the U.K., which one would think would be favouring hovercraft, and in Canada where you would think we would be favouring hydrofoils, is that for the anti-submarine role the hydrofoil is the better machine.

For roles such as amphibious warfare, the hovercraft is the better machine. Basically the problem with the hovercraft to date is that it is not possible to develop the seakeeping capability that we require in anti-submarine operations. I could go into more detail on this point if you wish, but that fundamentally is the problem with the hovercraft.

Mr. Crouse: Is this the opinion of our Research Establishment and is this opinion buttressed by the experts who have developed the hovercraft?

Mr. Eames: Yes, it is.

Mr. Crouse: Since primarily this ship would be used for submarine detection, which is the faster of the two, the hydrofoil or the hovercraft?

Mr. Eames: In ship detection?

Mr. Crouse: In submarine detection.

Mr. Eames: I do not think there is any difference because the speed at which you can search for a submarine does not depend on the maximum speed of your ship; this is the function of noise. If you mean interception once you have detected a submarine, then in calm water a hovercraft could be faster.

Mr. Crouse: Mr. Chairman, since we will be the only navy in the world using such high speed ships, has any effort been made by our government to sell its knowledge gained on this prototype to other countries in an effort to recoup some of the money that has been spent on experiment and development?

Mr. Eames: These ideas are already being discussed in various international committees.

We have a working relationship with the United States, with the United Kingdom and with NATO. From the point of view of the private contractor and whether his particular designs are being sold or attempted to be sold, I could not answer that question.

• 1000

Mr. Armstrong: I think I might just add to what Mr. Eames has said. The program has not really gone far enough in terms of proving the equipment to sell it. As I said last week, we are about to start the trials in the foil-borne mode in March and until the equipment is proven I do not think there is any real expectation of making any sale. The United States, as you probably are aware, have developed hydrofoils on a somewhat different principle than we, in a different weight range in terms of the vehicle. This program has been one in which there has been joint co-operation between the two countries, we developing the 200-ton one while they have developed a 300-ton one and, I believe, a 100-ton one. There has been a complete interchange of information in relation to these programs as we have gone along.

Mr. Crouse: Mr. Chairman, I am still concerned about the tremendous cost of this particular development and now we have just been told by the witness that, in effect, we are duplicating research work being done in a friendly country adjacent to us. When I look on page 52, of the Auditor General's Report of 1966-67 I note that the over-all cost increase since April, 1963 was due to underestimates of detailed design, underestimates of engineering, underestimates of production requirements, underestimates of subcontract costs by both the contractor and the Department of Defence Production, underestimates of the volume of manufacturing work, increased requirements due to engineering refinements, delays in production, increased shipping and material costs. We were told this morning by Mr. Eames that none of the costs of the research work which was carried on over a period of two years is included in this $50 million. I wonder at what point in the construction of this completely experimental craft you throw in the sponge and say, "It is finished; we have made a mistake." Is there a top guesstimate on this project beyond which this country will not go? Or is it like Pinocchio's nose? Will it just keep growing and growing indefinitely?

Mr. Armstrong: Mr. Chairman, may I comment on this? First of all, I did not say that we were duplicating the work of the United States, or at least I did not intend to say that. I said that this was an agreed joint effort where information was being exchanged between the two countries in respect to developments that were complementary. I might add that from such information as I have been able to get on the development costs of the hydrofoil in the United States, if one excludes the costs that resulted from the fire and certain other differences such as the fighting equipment that we have included, our costs are very comparable to the costs that the United States has incurred in this respect.

This project has been reviewed on a number of occasions within the Department of National Defence. And of course when the costs have risen we have had to have this considered at the governmental Treasury Board level. It is always a matter of judgment as to when a development program should be cut off and when it should not. We have come to the conclusion as we have examined this that the potentiality of the vehicle is such that it was worth pursuing. And I think Mr. Eames has indicated that it does have significant potentiality in the anti-submarine field.

I think you have to bear in mind that it is experimental and that it may not work satisfactorily. But this is something one finds out only by doing the development work that is necessary.

• 1005

I think I should add just one thing, and I say this in relation to the total budget of the Department of National Defence. In terms of the developmental money that the Department spends, we essentially have to make choices. If we conclude that we are going to spend more money on the hydrofoil, as we did on a number of occasions, we have in fact made a choice between doing this and doing some other research work or development work because we generally have an over-all limit—it varies a little—on the money that is available for us for development purposes. These adjustments have to be made within the totals that are available to us.

Mr. Crouse: Mr. Chairman, I have spent some time at sea on my own ships, and I

cannot help but wonder if Mr. Eames and the other witnesses have given some thought to the practicality of this entire operation. I am willing to admit that the hydrofoil concept has been proven. This is not in doubt. This ship will rise up on its foils. It will travel at fast speeds. This we know. But we are talking now of a ship that is to be operational, as I understand it, on the high seas, out where the submarines really travel and where they really plan to do their work in the event of another holocaust.

What happens to this ship travelling at 40 miles an hour or better if it comes in contact with a 30-or 40-ton whale or a 25-foot sunfish basking in the sun, and/or swordfish or similar types of marine life which surface and stay just below the surface for lengthy periods of time? I have personally watched them, and I am wondering what happens to this ship while it is riding on its foils and it suddenly strikes an obstruction of this type.

The Chairman: Mr. Crouse, your question is, "Which one survives?"

Mr. Crouse: Which one survives? That is right.

Mr. Eames: Sir, we have not encountered any whales with our quarter-scale model in Halifax harbour. But we have chopped telegraph poles in two, which I think is a comparable kind of situation.

I think the point is that the foils themselves, by the time they are stressed, take lifting loads of several tons per square foot in the vertical plane. In the longitudinal plane they are immensely strong. We have, as I say, with a five-ton craft travelling at 40 knots, chopped a telegraph pole clean in two, and it only scratched the paint off the foils. If we go on inventing obstructions that are sufficiently large, we come to the point where the same thing happens with the hydrofoil craft as happens when you fly an aircraft into the side of a mountain.

A statistical survey of debris in the ocean was carried out in the U.S. some time ago, and on the basis of this we can be assured that the chances of damage to a hydrofoil due to collision with flotsam in extremely small.

Mr. Crouse: This may be true, Mr. Chairman, but in my opinion this type of obstruction does not affect the hovercraft, because in it you are flying over the waves and over these obstructions. And it is for this reason that I personally feel this entire project should be scrapped now because I believe that technology has superseded the advances that have been made in Canada. I personally believe that the English inventors have superseded us with the development of the hovercraft, and that any further money spent on this particular project is nothing but a waste of the taxpayers' money. I would like your opinion on that statement. Mr. Chairman.

The Chairman: Mr. Crouse, it is bordering on the realm of policy. I do not know whether it is a fair question.

Mr. Armstrong: I think it is a fair technical question.

The Chairman: All right, Mr. Armstrong.

Mr. Eames: So far the hovercraft is totally incapable of operating in the sort of sea states relative to its size that the hydrofoil is capable of operating in. The largest hovercraft to date is some four times as large as our hydrofoil, and it is barely capable of operating across the English Channel.

• 1010

Mr. Crouse: But it is operating, Mr. Chairman, and the hydrofoil is not.

Mr. Eames: There are many. There are 700 hydrofoils operating.

Mr. Crouse: I realize this, but not in the Atlantic Ocean.

Mr. Eames: No, but there are no hovercraft operating in the Atlantic Ocean either. The upper limit of wave height of a hovercraft currently stands at about eight feet. There is a big difference. If you give me enough money I can design you a hovercraft that will operate in a given size of sea. For example, we will pick 12 feet. But the basic principle on which the hovercraft is supported requires a flat base area. And if I design for 12 feet and we happen to meet a 13-foot wave, we are in serious trouble. We lose a skirt.

In a hydrofoil, if we design for 12-foot waves and we hit a 13-foot wave, what happens is that our fine-bowed hull just touches. In order to get acceptable motions to suit one's stomach, one may have to slow down five knots.

Mr. Crouse: Mr. Chairman, is the witness trying to tell us that this hydrofoil will operate on its foils in 12- or 13-foot waves?

Mr. Eames: Sir, I have personally driven a quarter-scale model of the *Bras D'Or*. And I have driven this quarter-scale model in seas which have been measured as eight feet high.

Mr. Crouse: Yes Mr. Chairman, but does the witness not know that this does not prove anything, because your swells are different when your waves are higher on the open sea? The longer your ship, the different effect the swells have on that ship. Long oil tankers, for example, have been known to break up when the crest of a heavy swell strikes them fairly in the middle; they snap in two. Is this not correct?

Mr. Eames: This is perfectly correct.

Mr. Crouse: Therefore, the comparisons you are making between eight-foot waves and your working model which is—I am sorry, how long did you say it was?

Mr. Eames: It is a quarter scale.

Mr. Crouse: A quarter scale. The over-all effect of these high seas on your operational model would be entirely different.

Mr. Eames: No, this is not true, sir, because . . .

Mr. Crouse: Since you have never tested it, how do you know? You have never tested the full-scale model which has cost us $50 million and which has never even hit the water yet.

Mr. Eames: This is the whole reason for building a prototype model to do the final checks. But I think the point is that we have got statistical information on the length, steepness and heights of waves in various parts of the Atlantic from weather ships and weather observations. We can compare these with wave records we take out at sea off the coast. And if we select to do trials in a sea condition which has the same relative type of wave length, swell, chop on top, and so forth which gives us the same energy spectrum, then the forces that the craft is subjected to are similar. This is a fact that is used in the design of conventional ships. It is used in simulating seas in model tank facilities on very small models.

I am not saying that the point is proven. I am saying that within a 90 per cent chance and with the best we can do with a manned model at sea, we are certain of the sea-keeping capability of this craft in seas up to 20 feet high.

The Chairman: Mr. Crouse, I think maybe I should go to another member and come back to you later if you have more questions.

Mr. Crouse: Thank you.

The Chairman: Mr. Lefebvre.

Mr. Lefebvre: Thank you Mr. Chairman. Mr. Eames, maybe I lost something along the way here. Does the original contract for $9 million include the cost of two years of engineering studies and model tests? This original estimate of $9 million . . .

Mr. Armstrong: I explained the feasibility tests. Mr. Eames has spoken of a variety of experimental work in the research establishment starting in 1951. That is not part of the $50 million. The $9 million . . .

Mr. Lefebvre: Could we have a figure?

Mr. Armstrong: The $9 million starts when the contract was let to De Havilland. I think that is right, is it not, Mr. Hunter?

Mr. G. W. Hunter (Deputy Minister, Department of Defence Production): Yes, it starts with the contract of April 9, 1963.

Mr. Lefebvre: But I think it would be important, Mr. Chairman, for the Committee to know what it has cost the federal government in total so far.

• 1015

The Chairman: You mean . . .

Mr. Lefebvre: The $50 million does not include the two years of engineering studies and model tests. So the costs so far are not $50 million, but probably quite a bit more than that.

The Chairman: In other words when you add research costs to the $50 million, it would be considerably more.

Mr. Lefebvre: Yes.

The Chairman: Mr. Armstrong.

Mr. Armstrong: I have a figure that may be of some help to you. I got this from the naval research establishment. They have estimated their direct costs associated with research and

experimentation, starting back in 1952 up to the point I guess where this contract was let, at $3,503,000.

Mr. Eames: So that is the total to date?

Mr. Armstrong: Yes, to date.

Mr. Lefebvre: Three million, five hundred and three thousand dollars. We are up to 53 and a half million and we still have not got the hydrofoil in the water. We expect to launch it in late 1968 and are going for a completion date in mid-1970. Can anyone here tell us what is the difference between the $53,500,000 and the best estimate you can give us for the launching of this ship in mid-1970?

Mr. Armstrong: The best estimate I can give you at the moment is the $50 million that is shown here. This will carry the ship through to its trials in the foil-borne mode. If all of this goes well, as we hope it will, and the ship turns out to be a successful vehicle, there will be additional costs, undoubtedly, in extending trials and eventually, if we want to go into production of the ship, in producing engineering specs and all the other things that would be needed. If in fact we do go into production the $50 million will take us, we think certainly to the point where we can with reasonable certainty say that this is a kind of vehicle that it is worth spending more money on because it has proven itself up to that point. Beyond that I really cannot tell you how much would be involved to finally end up with production vehicles that would go into operational service. What I could say is that if that point is reached, as frankly I hope it will be, this will be an advance in terms of AS warfare. I believe myself, if that point is reached, that we will be doing this job better at a lower cost, but we will have spent quite a bit of money to get there.

Mr. Lefebvre: That is a good answer but it does not answer my question. You still have not given us a figure, sir, on what you think the final cost will be to put this ship in the water in 1970.

Mr. Armstrong: I have not given you a figure because I do not have a figure at this moment. I think we have to go a little further before we know this and can calculate it. It has been in the water but I take it that what you are talking about is going through its foil-borne tests in the ocean, which commence next month.

Mr. Lefebvre: I will not be too long, Mr. Chairman. Mr. Eames, I believe you started off by saying that you felt after these trials that you had a good knowledge of this type of craft.

The Chairman: Mr. Lefebvre, just before Mr. Eames answers that question and you follow along on your line of thinking on the cost of $50 million plus the other figure . . .

Mr. Lefebvre: It is $53½ million.

The Chairman: Yes, but that is with the research added on—I would like to ask Mr. Armstrong if we are going to run into exactly the same situation as we did with the *Bonaventure* and are going to read in the Auditor General's Report a sentence like this about the hydrofoil:

> "These figures do not include the cost of material supplied from stores, certain charges for freight, express, cartage, custom duties, sales taxes and cost of labour provided by departmental service or civilians staffed together, with appropriate charges for overhead."

• 1020

Now from what you have said it would appear that all these items will have to be added over and above the $50 million that Mr. Lefebvre has mentioned.

This brings up another point. I cannot recall what report it was but in it this Committee reported to all departments, particularly National Defence and Transport, that we wanted all estimates, whether it be the *Bonaventure*, the hydrofoil or whatever it was, to include all these costs. To my knowledge, the departments are not fulfilling the request of this Committee. Now if I am wrong in this connection I would like the Auditor General to correct me. But if I am not, I would like Mr. Armstrong to tell the Committee why he does not include these figures in the estimated costs that he provides. I think that is a fair and reasonable question.

Mr. Armstrong: Did you want the Auditor General to comment?

The Chairman: Mr. Henderson, can you look it up to see what report it was.

Mr. Henderson: Mr. Chairman, I think it was in one of the Committee's reports in 1961.

It might be helpful to refresh your minds on this if I said that it was last July that we brought this matter to the attention of the Department of National Defence in a memorandum, where we talked about the principle recommended by the Public Accounts Committee; that when authorization is given by the Treasury Board for a project and the cost as stated is an estimated amount, it should be clearly understood by all concerned that the amount authorized is intended to include not only cash outlays but also the cost of service labour, materials supplied from stores, service equipment utilized and departmental supervision directly associated with the work. This was the recommendation of this Committee and it was accepted by the Department of National Defence in about 1961. In fact, it is reflected in the department's administrative branch circular letter QEP, I think it says, of April 10, 1967.

The Chairman: Whose letter was that?

Mr. Henderson: The Department of National Defence. It is a branch circular letter dated April 10, 1967 dealing with the approval of construction and maintenance projects. We drew the Department's attention here to this principle again, pointing out that we felt it should apply to all projects undertaken by departments of the government, that the case in point is the hydrofoil project which we understand is not being charged with the value of the services and materials provided by the Department. We made reference to the list of these from the working papers on the construction contract. That is why in my report to the House, which will shortly be tabled in respect of 1968, I bring this matter again to the attention of the House when updating the circumstances surrounding the hydrofoil contract, Mr. Chairman.

The Chairman: Mr. Armstrong, maybe you would like to add to that.

May I put it this way: Is there any particular reason that you do not like to include all these incidental costs in your estimates?

Mr. Armstrong: Well may I say that the only way we have of financing anything is the estimates. So the costs are there; it is a question of where they are shown. Let me give you an example. In terms of the services of the Chief of Technical Services Branch, which will be involved in the management of this project and various engineering and technical features concerning it as well as any other technical project, we manage it in the sense of the Branch itself. We allocate of course the work that is to be done in connection with the project, but we do not attempt to break down the CTS Branch costs in terms of every contract that is done by them. And, frankly, we do not have any plans for that at the moment. Now you have asked me a number of questions in relation to some of these projects. One can go back and, in most cases, by breaking down the records—find the direct costs that may have been associated with it—but not, generally speaking, the overhead costs. In the circular letter that the Auditor General referred to we were discussing construction or maintenance projects, and if there is a contribution to that project either by departmental labour or by departmental materials when the project is under consideration, those are included in the total estimates, and they will now of course be shown in the contract portion of it. The contract portion is the contract, and most of the things that we have been considering here have been contracts to do specific jobs. The best I could say is really that we can dig out costs in respect of these things, if you want them, where they are direct and one can pinpoint them. But the administration of the Department is such that it does not really lend itself sensibly to administering it on the basis of endeavouring to allocate your basic divisions to every contract that is done by the Department.

The Chairman: I think what the Committee would be interested in this. You estimate the cost of hydrofoil at $50 million, you go to Treasury Board and get this OK'd, but underneath that $50 million you should say that $5 million will be provided in the other estimate, your departmental operating estimates. Then we, as parliamentarians, would see an estimate of $50 million plus $5 million which is taken care of in departmental estimates, making a total estimate of $55 million. This is what we are interested in.

• 1025

Mr. Armstrong: If we were going to the Treasury Board on a project in which we were supplying materials or labour in connection with it, we would advise the Board that this is the case and this is the estimated cost

of it. That would be so under the systems that we used today. This does not include, for example, a share of overhead costs. We do not do this, I think it would be extremely difficult to do it, and I am not really convinced that there would be value in this.

The Chairman: I do not think we should remain on this matter any longer, unless Mr. Lefebvre wants to carry on.

Mr. Lefebvre: I have a couple of more questions.

Mr. Crouse: Will Mr. Lefebvre permit a supplementary at this point?

The Chairman: Mr. Crouse.

Mr. Crouse: The statement that was just now given to this Committee by Mr. Armstrong is contradictory to the information provided this Committee in paragraph 98 on page 52 of the Auditor General's Report. While I am not sure of my procedure in jumping ahead to this, it is pertinent to our discussion and I think that it should be read into the record. It states here that in January 1964 the contract was terminated—this was for a $3,172,000 simulator—because of a general lack of funds in the Department of National Defence "which has been compelling us to adjust our general operational posture to the extent that we can no longer justify completion of the procurement".

As a result of the juggling—and I use that word advisedly—of the funds to suit particular projects the taxpayer on this project found himself selling $282,000 worth of simulator for $3,162, and I submit that somewhere along the line this right which is vested in the Deputy Minister to adjust funds to suit him must be stopped.

The Chairman: Mr. Crouse, I think I would say the "Department". I do not think that I would pin it down to one.

Mr. Crouse: Well this does happen to come under the Department of National Defence and Mr. Armstrong does happen to be the Deputy Minister. So I say then that the Department—any department must be prohibited from juggling funds and, I believe, should be compelled to follow the course that you just now suggested—that in their estimates an amount be set aside each year and earmarked for a certain specific project.

Mr. Armstrong: If I may say so, you used the example of the simulator and I do not think they are parallel. But the decision to cancel the simulator, was made at a time when we were preparing estimates for a following year. I have said that we have to make choices as to what we think is worth doing within the limited funds available to us. We in the Department decided, that this project should be cancelled and we cancelled it. It is parallel to what you were suggesting should be done in the case of hydrofoil—that you should cancel it. After all, it was done to save money at this time in relation to the alternative choices that were available to the Department.

• 1030

Mr. Crouse: Mr. Chairman, that is not a good simile, if I may say so. The hydrofoil is a ship which I doubt will ever become operational and of value to the Canadian people while the simulator is a useful tool to be utilized for the instruction of student pilots. And initially you made the decision that this was required, and it is this type of bungling that is costing the taxpayers a tenth of the budget and which cannot continue to be tolerated.

The Chairman: Mr. Crouse, I think your point has been made and I think Mr. Lefebvre has made it too, that this Committee wants included in the estimates of all these projects the total estimated cost, including what you have provided for in other estimates in your department. In other words, that example of $50 million, plus $5 million which will be provided from estimates already approved in your department, will make the total cost $55 million. I think this is what the Committee would like, and we have suggested it before, and I hope it can be done.

Mr. Armstrong: I am sure it can be done, Mr. Chairman. Here we are talking about past expenditures. You are familiar with the way the estimates are presented. There are new forms that are being shown to the committees this year and they will have an opportunity to comment on them. Presumably we will be directed to follow whatever is decided as to the form that is desired. We will certainly do that. There is no question about it.

The Chairman: Mr. Lefebvre.

Mr. Lefebvre: I was coming back, Mr. Eames, to when you opened, shortly after you started your statement. If I understood you correctly, you said you felt you had considerable knowledge of this type of craft after the two years of studying and model tests. Subsequently, a contract in the amount of $9 million was given out and now we find that the total cost is in the neighbourhood of $53½ million, and there are still two years to go before this craft is in the water.

Mr. Armstrong: Oh no, it is in the water now.

The Chairman: Before it is in operation.

Mr. Lefebvre: In operation then, I should say. I think the reaction of the average taxpayer to this is that in fact you probably knew as much as anybody else did about this type of craft, which ends up not very much when you consider the difference between the original estimate and the final cost. I hope you can justify to this Committee and to the Canadian taxpayer that, as a matter of fact, your knowledge was good. I think the average person will think that we did not have much knowledge at all. Could you justify this to this Committee?

• 1035

Mr. Eames: What I intended to say, Mr. Chairman, was that we felt that we had enough knowledge to investigate whether the principles involved could be applied to the development of a ship of worthwhile operational use. There is a great deal of difference between this and the detailed design knowledge that is required to produce an operational piece of hardware.

Let me just give you one example. The thickness of the foil itself is a very critical parameter. If it is a little bit too thick we can get cavitation, which is the underwater equivalent of getting shock waves on the foil. This would mean loss of lift, instability, erosion of material, and so on. We have to do model tests and considerable trials to determine the exact thickness of this foil.

The strength of the foil and the way it can be manufactured also depends very critically on its thickness. In reducing the thickness, you may have to go from a material which can be simply welded to a material which cannot be welded and has to be literally carved out. The manufacturing costs of a foil of one thickness, compared with those of a foil of another thickness, could differ by a factor of five. These are not things that can be determined before you have completed design studies and know exactly what you want the craft to do and have put a fair amount of money into model scale trials and this sort of thing.

When I said that we thought we had enough knowledge to apply the principles, I did not mean that for a specific design we could do the engineering design of the craft. This is a further stage. As a matter of fact, all we recommended as a result of our feasibility study was that an engineering design study was justified. That was the only conclusion of the original DREA report. But our point was that this system did have the potential of achieving speed at sea under all weather conditions, and did have the potential of producing an antisubmarine ship of considerably smaller size which in production would still be very considerably cheaper. There is still hope, despite the escalation of costs. In production, this kind of craft can be considerably cheaper than a conventional destroyer escort. I think it is just a question of what you mean by good knowledge.

Mr. Lefebvre: I know. That is the question that the taxpayer is going to ask, though. Is there any other country to your knowledge developing the same type of craft at the present time? Or is Canada ahead of verybody else in this particular thing?

Mr. Eames: Canada is ahead of everybody else in developing antisubmarine hydrofoil craft, that is, a particular combination of craft which can operate at high speed and be stabilized at low speed. The U.S. are developing hydrofoil craft for different purposes, and our programs, as has already been pointed out, are complementary.

Mr. Lefebvre: Would you or the Deputy Minister say that this project was not too sophisticated for this country to undertake, and that there is in fact room for this type of craft in modern warfare?

Mr. Armstrong: I think your first question is answered by the fact that you have a hydrofoil in Halifax. So presumably this country was able to build it. Your second question, I think, remains to be determined, based on the future trials of the ship.

Mr. Eames: Mr. Chairman, may I add one point? I think one way of looking at this is that we stand to gain in the long run if the project is successful and this does prove to be the antisubmarine weapon that we believe at DREA it is. We stand to save the cost of many destroyer escorts in the future. The question is, is it justified to sink the cost involved in one destroyer escort into a process of finding out whether this will work or not. One has to be prepared to gamble in any worthwhile production, and it is an extremely difficult thing to decide exactly where to draw the line, and what is worthwhile. We believe that it is well worthwhile. We believe that in the long run we can save tremendously on this program.

• 1040

The Chairman: Mr. Burton.

Mr. Burton: Mr. Chairman, just to follow up first of all a part of a discussion between Mr. Eames and Mr. Lefebvre. You were citing, Mr. Eames, some of the problems that arose with respect to the thickness of the foil, and so on. How was this provided for in the contract for the building of the hydrofoil? You no doubt anticipated that there would be unforeseen problems during its construction. How was this provided for in the contract? Were there any provisions in the original contract price for such unforeseen contingencies? Or would there be provisions for adjusting the contract, automatic adjustments or amendments to the contract, negotiated amendments?

The Chairman: Mr. Hunter will answer that.

Mr. Hunter: Sir, the original contract was placed under a very brief description, namely to design and construct a development prototype antisubmarine warfare hydrofoil plant. It was based actually on the feasibility study which this firm had done previously. The price of $9.1 million, which were the funds approved in the first contract, were placed on a basis—we knew very little about it in fact—on a basis of price to be negotiated because we still had so much to learn about exactly what was being done. I have a note here:

> At this point, the magnitude of the technical problems ahead could not be appreciated nor could cost allowances be made to cover them.

I think that answers your question. The wording in the Treasury Board submission that we made, and I think the Auditor General quoted this the other day but I might repeat it, was:

> The contractor's estimates for this program are recommended for funding pruposes.

In other words, we had to have a figure to start with.

> The methods used, though based on broad parameters, are considered conservative and it is our considered opinion that the program as now understood . . .

In other words, all we understood about it from the feasibility study.

> . . . but not including contractor's and user's trials, will be accomplished within the $9.1 million allocated.

In other words, for the work that was actually understood at that point. But we were both well aware, Mr. Armstrong and myself, that in fact they had a higher figure in their budget for this. But the point was we did not want to put in contingencies because it would remove a check point. In development work there has to be as close a check as you can possibly make so that if you are doing a job on a cost reimbursable basis, it is our feeling that the best way to do it is to watch those costs and have a number of check points.

As it happened, during this contract there were two very important check points. One came about half way through the contract when we really had it finally defined. The Department of National Defence and ourselves looked at it. At that point it was going to cost, I think, $23 or $24 million, and that was one point when the Department of National Defence took a very hard look to see if this was worth it. Those costs, as a result of certain catastrophic failures on the part of subcontractors which could not be foreseen, ran the cost up to around $35 million. Then there was an unfortunate fire and that was another check point that the Department of National Defence took a very hard look at. There was the damage done by the fire. They then looked at it to see how much it would cost to finish, and I guess they took a pretty hard look to decide whether they would go ahead again at that point. So that really when you do this kind of a contract you do not put contingencies in because that would just be

an invitation to spend, because there are so many things in the state of the art that could be looked into that all we could do was control it as best we could.

The Chairman: Mr. Hunter, would you tell the Committee to whom the first contract was let? What company?

Mr. Hunter: To De Havilland Aircraft of Canada Limited.

• 1045

Mr. Burton: You had to negotiate subsequent changes. When you came to further problems or further items that needed to be included you then negotiated for the additional price.

Mr. Hunter: No. We did not negotiate. We got an amendment to the contract but we redefined the work. Our second amendment, as you will notice the Auditor General points out, goes up to 11.3 million dollars. At this point we redefined the scope of the work. We added requirements for trials and we told Treasury Board that there would be separate additions later when we were aware of what spares would be needed, what trials would be needed, what special instrumentation would be needed, what special manuals would be needed, what display models would be needed, and what training would be needed. These were all things we listed at that point that had not been defined, and that would come on subsequently.

Mr. Burton: Mr. Chairman, Mr. Eames earlier referred to some of the technical factors which contributed to the high cost of this ship, and certainly I think none of us can argue with the validity or relevancy of these factors contributing to the problems involved in constructing this ship. Were these not really appreciated fully in April, 1963? You pointed out, for instance, the stress problems and the construction problems involved in giving the greater speed at which the ship travels.

Mr. Eames: I think the only answer to that is no, they were not fully appreciated. It is always easy to be wise after the event and I think that if you had asked me the same question in 1963, I would have said, "Yes, we think we know what the answers are." But then when experiments are done we find that the situation is a little worse than before, as it were. This is the way research and development goes. I cannot give you a very satisfactory answer to that.

Mr. Burton: It seems to me that this is at variance with the impression left from your original answer.

Mr. Eames: I am sorry. In what sense?

Mr. Burton: I gain the impression that you are suggesting that a lot of these technical problems did contribute to the expensive cost of the ship, but it seems to me the impression was left earlier that there was an adequate appreciation of these problems before the project was undertaken.

Mr. Eames: There was a broad appreciation of the problems, but the specific solutions to the problems were not out by 1963 because an insufficient amount of model test work—development on our ¼-scale model, for example—had been done to tie down the exact solution of the problem.

Mr. Burton: On page 52 there are four general categories of reasons for the over-all cost increase since April, 1963. Is it possible to provide the Committee with figures in connection with the different points that are mentioned?

Mr. Armstrong: Mentioned in the Auditor General's Report?

Mr. Burton: Yes.

Mr. Armstrong: Yes, I think it would be possible to provide the Committee with information in relation to them.

Mr. Burton: It seems to me that it would be very useful if this information could be provided, Mr. Chairman.

The Chairman: Yes, a bit of an estimate on each one. In that fourth one regarding the fire damage—excuse me, Mr. Burton, if you do not mind and since you mentioned them—that fire cost $3.5 million and we were told the other day that there was no insurance on it and yet we have insurance on the *Bonaventure*. Maybe this Committee should know more about this fire. Did you have an investigation? What was the cause of the fire? Could it have been prevented? Was it caused by carelessness? Could you tell us a little bit about the fire?

Mr. Armstrong: I have some information here.

The Chairman: No doubt you had an investigation after the fire.

Mr. Armstrong: Oh, yes, there was a board of inquiry.

The Chairman: Did the board of inquiry make any interesting observations that the Committee should know about?

Mr. Armstrong: I will see if I can locate the information here.

• 1050

I have here a brief summary. There was a board of inquiry convened, as there always is in a fire of this kind. The findings in relation to the cause of the fire, essentially, were that it was caused from a leak in a hydraulic line. Because of the amount of fire damage, they were not able to identify the specific place where the hydraulic line had broken but they were able to conclude that this was the cause of it.

The Chairman: Where was the hydrofoil docked? Was the fire in daytime or at night? Were there men on board? Was it while the work was being done?

Mr. Armstrong: The fire occurred while the ship was in dock at Marine Industries Limited. It occurred on Saturday afternoon, November 5, 1966.

The Chairman: Where is Marine Industries?

Mr. Armstrong: At Sorel, Quebec.

The Chairman: Was there any protection on board? Did you have some of the naval staff men on board keeping an eye on this boat?

Mr. Armstrong: The ship, I am told, was undergoing certain trials—perhaps not trials but tests—and was in the hands of the contractor at the time.

The Chairman: The contractor was not asked to provide insurance while it was in his hands?

Mr. Armstrong: I think this is a matter, really, for Mr. Hunter. I believe he said at the last meeting that the contractor was not asked to provide insurance.

Mr. Hunter: That is right, sir. There was no requirement to provide insurance.

The Chairman: And I think you gave us the answer the other day that you had changed your policy.

Mr. Hunter: It was changed in regard to any area where there is a large investment of National Defence funds. We talked it over with the Department of National Defence, as we did in the case of the two DDH vessels that are just about to be constructed now. It has been decided that in this case there is a very large investment.

The Chairman: In what year was this fire again?

Mr. Armstrong: In 1966.

The Chairman: The estimated investment in the hydrofoil was approximately $36 million when the fire took place. The *Bonaventure* was not much different in value—a little higher, I guess—but you asked the contractor to cover you in that case but not in this, when you had $36 million at stake. I think the Committee would like to have a good reason why you did not ask the contractor, Marine Industries, to provide coverage on the hydrofoil while it was being worked on.

Mr. Hunter: Well, sir, it was not our practice at the time to do this. As I have mentioned, we have since...

The Chairman: Then should it not have been your practice? This is what we want to know.

Mr. Hunter: Well, sir, there are ships at sea worth substantial amounts and the government does not insure them because it believes, I understood, and has believed, that it has a wide enough risk on all the assets that it owned to be its own insurer.

The Chairman: Then why did you put it on the *Bonaventure*?

Mr. Hunter: We had changed our policy. I guess that was in 1966. It is just that we had changed our policy.

Mr. Crouse: Just for that one ship, Mr. Hunter?

Mr. Hunter: No, sir.

Mr. Crouse: For all the ships at sea and ashore?

Mr. Hunter: Just those under construction or undergoing major refits.

Mr. Lefebvre: Was the change in policy a direct result of the fire on the hydrofoil?

Mr. Hunter: I would say that it was.

Mr. Crouse: And now all ships are insured...

Mr. Hunter: That is right.

Mr. Crouse: ...when they are in dry-dock. Is that correct?

• 1055

Mr. Hunter: Just those of major value, Mr. Crouse; not for small ships. I am not sure what the amount is, but perhaps where an amount of $5 million is involved. We talk it over with National Defence and if they agree that we should have fire insurance on it, if they feel the risk is one that they do not want to take, then we put insurance on it.

Mr. Crouse: Are tenders called for these insurance policies, or are they awarded in some other way?

Mr. Hunter: In the case of the *Bonaventure* I believe we asked the contractor to arrange insurance. However, with the DDH vessels which we are just now getting started with, there will be tenders called for this insurance.

Mr. Burton: Do you mean that you asked the contractor to arrange for the insurance and you simply picked up the tab?

Mr. Hunter: We had been doing that, sir. If it was a firm bid, it would be part of the tender price but if it was a cost-type contract we would ask the contractor to pick up the insurance at the time. These are pretty standard rates, by the way; I think it is only Lloyd's of London who give this marine type of builders' risk and fire policy, and I think that these rates are quite standard.

The Chairman: Mr. Hunter, you say you have changed the policy. Is there a written policy between your Department and National Defence on this? We do not have time today but if so, I think we should have this policy read to the Committee at the next meeting. Also, I think the Committee should be provided with a copy of the findings of the board of inquiry into the fire on this ship so that we might read that in detail.

Mr. Armstrong: Mr. Chairman, would you permit me to have a look at the question of the board of inquiry? I believe, these boards' findings have always been considered privileged documents.

The Chairman: Well, it will have to be pretty privileged not to come before the Public Accounts Committee. I do not know where we will draw the line there but we will wait until you have looked into it.

Mr. Armstrong: I will look into it.

The Chairman: Gentlemen, it is 10.58 a.m. The Subcommittee meets tomorrow at 3.30 p.m. and there will be a regular meeting at 9.30 a.m. on Thursday; I do not know where, but on Thursday we meet at 9.30 a.m.

This meeting is adjourned.

HOUSE OF COMMONS

First Session—Twenty-eighth Parliament

1968-69

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: Mr. A. D. HALES

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 20

THURSDAY, FEBRUARY 27, 1969

Public Accounts, Volumes I, II and III (1966 and 1967)
Reports of the Auditor General to the House of Commons (1966 and 1967)

WITNESSES:

(See Minutes of Proceedings)

THE QUEEN'S PRINTER, OTTAWA, 1969

we would ask the contractor to pick up the insurance at the time. These are pretty standard rates, by the way; I think it is only Lloyd's of London who give this marine type of builders' risk and fire policy, and I think that these rates are quite standard.

The Chairman: Mr. Hunter, you say you have changed the policy. Is there a written policy between your Department and National Defence on this? We do not have time today but if so, I think we should have this policy read to the Committee at the next meeting. Also, I think the Committee should be provided with a copy of the findings of the board of inquiry into the fire on this ship so that we might read that in detail.

Mr. Armstrong: Mr. Chairman, would you permit me to have a look at the question of the board of inquiry? I believe, these boards' findings have always been considered privileged documents.

The Chairman: Well, it will have to be pretty privileged not to come before the Public Accounts Committee. I do not know where we will draw the line there but we will wait until you have looked into it.

Mr. Armstrong: I will look into it.

The Chairman: Gentlemen, it is 10.55 a.m. The Subcommittee meets tomorrow at 3.30 p.m. and there will be a regular meeting at 9.30 a.m. on Thursday; I do not know where, but on Thursday we meet at 9.30 a.m.

This meeting is adjourned.

HOUSE OF COMMONS

First Session—Twenty-eighth Parliament

1968-69

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: Mr. A. D. HALES

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 20

THURSDAY, FEBRUARY 27, 1969

Public Accounts, Volumes I, II and III (1966 and 1967)
Reports of the Auditor General to the House of Commons (1966 and 1967)

WITNESSES:

(See Minutes of Proceedings)

THE QUEEN'S PRINTER, OTTAWA, 1969

29833—1

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. A. D. Hales

Vice-Chairman: Mr. T. Lefebvre

and Messrs.

Burton,	Flemming,	Noël,
Cafik,	Forget,	Rodrigue,
Crossman,	Leblanc (*Laurier*),	Roy (*Timmins*),
Crouse,	Mazankowski,	Tétrault,
Cullen,	McCutcheon,	Thomas (*Maisonneuve*),
Duquet,	Noble,	Winch—20.

(Quorum 11)

Edouard Thomas,
Clerk of the Committee.

MINUTES OF PROCEEDINGS

THURSDAY, February 27, 1969
(22)

The Standing Committee on Public Accounts met this day at 9.38 a.m., the Chairman, Mr. A. D. Hales, presiding.

Members present: Messrs. Burton, Cafik, Crouse, Flemming, Hales, Lefebvre, Mazankowski, Noble, Rodrigue, Winch (10).

Also present: Mr. Bell.

Witnesses: Mr. A. M. Henderson, Auditor General of Canada; Mr. E. B. Armstrong, Deputy Minister, Department of National Defence; Mr. G. W. Hunter, Deputy Minister, Department of Defence Production. Mr. M. C. Eames, Head of Fluid Mechanics Section, Defence Research Establishment (Atlantic).

The Deputy Minister of National Defence provided information concerning the number of crew aboard the *HMCS Bonaventure* and living allowances paid during the refit.

The Committee questioned the witnesses on the development of the hydrofoil.

The Deputy Minister of National Defence is to advise the Committee on the possibility of divulging the information contained in the board of enquiry on the fire in the hydrofoil.

The witnesses were requested to provide information as to the increased costs as listed in the table in paragraph 97 of the 1967 Auditor General's report.

The Deputy Minister of National Defence provided the cost figures by category as requested at the previous meeting.

At 11.02 a.m., the Committee adjourned to the call of the Chair.

Edouard Thomas,
Clerk of the Committee.

29833—1½

EVIDENCE

(Recorded by Electronic Apparatus)

Thursday, February 27, 1969

• 0939

The Chairman: Gentlemen, we will proceed. I would like to report to the Committee that your Subcommittee who have been studying the expenditures of the refit of *HMCS Bonaventure* met Wednesday afternoon at Defence Headquarters, and we are meeting again this afternoon. I would like to tell the members of that Subcommittee that we will meet at the front entrance of the centre building at 2:00 o'clock, not 1:30 as in your notice.

• 0940

We were discussing the expenditures of the hydrofoil, the development of the hydrofoil, and before proceeding with that we have a few questions concerning the refit of the *Bonaventure*. Mr. Armstrong will receive some of them at this time.

Before he proceeds I would like to tell the Committee that Mr. Eames, the Technical Adviser on the hydrofoil, will be with us today, and today only. So if you have any questions on the technical aspects, ask them before the Committee adjourns. After Mr. Armstrong has finished answering questions on the *Bonaventure,* I will acknowledge Mr. Burton because he had the floor. Mr. Armstrong.

Mr. E. B. Armstrong (Deputy Minister, Department of National Defence): Mr. Chairman, I had been asked to determine the actual amount of the living allowances paid to the crew during the refit of the *Bonaventure,* and also to provide you with more specific figures as to the numbers of crew on board. During the earlier evidence, I had said that the number on board was approximately 125, with some variations. I regret to say that, in getting the actual figures, I find that is not a correct statement. I will list you the numbers based on a quarterly return, rather than attempt to give it for every day of the refit.

First of all, I might remind the Committee that prior to the refit, the crew of the ship was 1,284. The ship went into refit on April 1 and at June 30, that is the end of the first quarter, there were 392 crew on board. At September 30, at the end of the next quarter, there were 252; at December 31, at the end of the next quarter, 253; at March 31, 1967—234; at June 30, 1967—287. The ship left Quebec in September. The crew built up in the next quarter, and there were 850 on board when it started from Quebec.

The amount of the allowances paid during the period from April, 1966, to September, 1967, was $709,112.32. I perhaps should mention that during the refit the normal meals provided on the ship are not provided to the crew. The average cost of the food and its preparation is $2.49 a day. So that the actual net cost was a little under $500,000, but the actual allowances paid amounted to $709,112.32.

The Chairman: Mr. Armstrong, just to clear up that allowance of $709,112.30, this is the $5 and $7 per day over and above their standard pay?

Mr. Armstrong: That is right.

Mr. Lefebvre: What was the average number of men on board? We were under the impression that it was about 120.

Mr. Armstrong: I count the average to be about 270 to 280.

Mr. Lefebvre: Compared with the figure of 120 that we were given.

Mr. Armstrong: I do not think I quoted that figure exactly as 125 but, as I say, that was certainly an incorrect figure.

Mr. Lefebvre: I just wanted to check that.

The Chairman: We will let Mr. Armstrong finish.

Mr. Armstrong: I was asked to give you a little more information on what these men do. I have broken it down, first of all, by the

various departments on the ship. This breakdown naturally has to be done on the basis, really, of the predominant period when the numbers on board were about 250. Thirty one per cent were in the engineering and hull division, 17 per cent in electrical power, 5 per cent in electronics, 2 per cent in air, 13 per cent in supply, 18 per cent in security watch, 5 per cent in weapons, and 9 per cent were officers. That provided in that period about 20 officers.

• 0945

I think you were interested in the ranks of the officers. During part of the refit there was one captain and four commanders, and the others were lieutenant commanders and below.

With regard to the kind of work they do, I have a list that will give you some general idea of the various jobs that are done in addition to the maintenance jobs that they do in the course of the refit. Principal duties are first, showing the builder what to do and how the systems on the ship work; second, acting as inspectors; third, examining the opened-up machinery and drawing up specifications for work arising; four, marking up drawings and instruction documents to show the new configuration; five, learning the newly installed systems; six, identifying repair parts; seven, doing the stores accounting; eight, handling personnel and pay accounting; nine, administration from the overseeing point of view and the general administration of the ship; ten, security watch and, finally, steaming the ship towards the latter part of the refit.

The numbers on board were affected by the fact that during a good deal of the time the builder was working two shifts, and this meant having to use more people than might normally be necessary, and the refit involved a large number of separate jobs. There were between 2,700 and 2,800 separate jobs involved in the refit and a large number of these—in the area of hundreds—would be proceeding at the same time throughout various parts of the ship.

There is one further factor that I think may have had an effect on the numbers. The ship was left in commission during the refit, and there are a variety of reasons for doing this. As you know, this is a very complicated ship and if it is taken out of commission you really have to de-store it completely, and this is rather a large job. In any case, it was decided to leave it in commission during refit and, of course, under those circumstances the captain of the ship has a responsibility for the ship and I think it is possible that this had some effect on the numbers of people that were kept on board.

After examining this I frankly feel that perhaps this should be looked at with respect to future practice, and I am directing that a study be made of this to determine the relative merits of leaving a ship in commission during a refit of this length. I do not think there is any question if the ship is only going to be in for a short refit of a few months but I think when it is going to be refitted over an extensive period of time that perhaps it may be desirable to take it out of commission, and this might have an effect on the numbers that are kept on board.

I might also add—and this really has nothing to do with the *Bonaventure* refit—that in the last year or so some studies have been proceeding as to the best distribution of naval people on board, particularly on the destroyers during refit; and these studies are still going on but it has been concluded that in the past the numbers usually on board a destroyer have run around and these have now been reduced to about 60. However, this is a continuing study and I do not know what the optimum number will finally be determined to be. Also, I am going to ask them to include in this study the matter of when the ship

• 0950

should be taken out of commission when it is being refitted because I think this might be a factor in the situation. I think that answers the question, as I recollect it.

The Chairman: Mr. Burton, your question had to do with hydrofoils, so I will bypass you until we come to the hydrofoils. I will now accept questions on the statement just made by Mr. Armstrong relating to two matters in particular which I am sure you are interested in. This Committee was advised there was a staff of 125 aboard. We are now advised there was an average of 278. Secondly, that this ship was left in commission, which we were not aware of until this morning. I think your questions should be in this general area.

I will acknowledge Mr. Winch, Mr. Cafik and Mr Crouse. Mr. Winch.

Mr. Winch: In view of the fact that the matter of the hydrofoil is coming up and Mr. Eames, I think it is, not being able to be here, I am not going to ask a question. I

would just like to make a very brief comment. I am sure all the members of the Committee appreciate that Mr. Armstrong, by updating this information, has placed it in a somewhat different light, and as a result of this I want to say that in all probability the subcommittee which has been meeting at NDHQ will now have to do a little backtracking and review his questions and some of the answers we were given.

The Chairman: Mr. Cafik?

Mr. Cafik: Yes. I do not want to hold the Committee up too much on this. As I think Mr. Winch has pointed out we can go into this to some extent in the subcommittee. However, I have two or three questions which I do not think will require very long answers.

First of all, if the ship was still under commission, as you have stated it was, there is a very large item for fire fighting. If the ship was still under commission would this not be within the jurisdiction of the captain?

Mr. Armstrong: One of the problems when the ship is under commission, of course, is that the captain does have responsibility for the ship, but under these particular circumstances he is also aware of the responsibility on the part of the shipbuilder. There is divided authority to some degree, and certainly when welding was taking place the captain used his security guards to oversee the welding in case a fire should break out, and so on. This is one of the problems I would like to examine a little bit because I feel there is some divided authority here and it may result in a few more people being used than necessary.

Mr. Cafik: A large portion of the $2,800 and some dollars per diem that was charged for the ship beyond the original delivery date was for fire protection, and that does not seem to ring true.

Mr. Armstrong: This was a separate responsibility of the shipbuilder, there is no question but that he was responsible, and that is why he had that charge.

Mr. Cafik: Were any of the crew that were on board performing functions as part of the refit? In other words, were any of them doing manual labor connected with it?

Mr. Armstrong: Not as part of the refit, not in that sense. They would do maintenance on board while they were there, but this would not be part of the refit job that was contracted for and paid for by contract.

Mr. Chairman: I think what Mr. Cafik is trying to get at is how did you keep 278 men busy during the refit? I think this is the question. I know you outlined the percentage.

Mr. Armstrong: There are general responsibilities and I am a little at a loss to do this in complete detail, but I can assure you I was kept busy.

Mr. Cafik: I would like to pursue this a little further. The reason I ask this question is that yesterday in subcommittee when I was going into some details about the furniture, roughly, a quarter of a million dollars in furniture repairs, and so on, on the *Bonaventure*, it looked rather large to me and in going into the details and looking at the invoices I found there was one invoice, I believe, where the dockyards supplied 20 men for four weeks to assist the staff of the ship in securing down the furniture once it had been repaired.

Mr. Armstrong: The dockyard or the shipyard?

Mr. Cafik: The shipyard.

Mr. Armstrong: I see.

Mr. Cafik: This gave me the impression that the crew were doing some of this work.

The Chairman: It was $19,000, if I remember correctly.

Mr. Cafik: Yes, it cost $19,000.

Mr. Armstrong: That is, the work that the shipyard did cost $19,000.

• 0955

Mr. Cafik: That is correct, I presume to assist the crew in bolting down furniture that had been repaired, and things of this nature.

Mr. Armstrong: I presume there was a contractural arrangement for this.

Mr. Cafik: Oh yes, of course there was.

Mr. Armstrong: Perhaps it would be better to pursue this in the subcommittee because I am not familiar with it in detail. I would have assumed that this was done because the crew were perhaps unable to do it completely.

Mr. Cafik: Yes, but the point I am making is that you said the crew did not do any of this type of work and this implies that they did.

Mr. Armstrong: I thought the implication of your question was that when a contract was made to have certain work done is it possible the naval crew might have done part of it?

Mr. Cafik: Oh no, I am not asking that question at all. I am asking whether the crew were assigned specific duties in the course of this refit that worked along in conjunction with...

Mr. Armstrong: I think this would be so. Yes, I am sure this would be so.

Mr. Cafik: In other words, to tear out this boiler or do this or do that. The contract with the shipyard, then, would be based upon figures after your crew had done their work.

Mr. Armstrong: Yes, I am positive that this would be the case, and I am sure if you want to pursue it in subcommittee that they could explain it much more adequately than I can.

Mr. Cafik: Yes, we are hoping so. Thank you.

The Chairman: On that question, Mr. Cafik, we might ask Mr. Hunter of the Department of Defence Production, which is responsible for the payment of these bills. Here was a bill for $19,000 which was put in by the Davie shipyard people for 20 men for so many days for moving furniture on and off this ship, and for moving it around, to be repaired and your Department paid the bill of $19,000. Would you check that? Was it necessary? Did you agree to pay for this sort of thing? Is that a fair question when you do not have your books here. Perhaps it is not but you may be able to throw some light on it.

Mr. Hunter: I will check it out, sir. One point is that the bill would not be paid by our Department, as far as I know, it would be paid by the Department of National Defence. We would contract for the work to be done and it would then be done and the Department of National Defence would check it off, as they do all of these other work orders, and it could well be checked in the...

Mr. Winch: Would you also check as to whether there was a possibility of any moonlighting?

Mr. Hunter: On the part of the crew, you are talking about?

Mr. Chairman: Mr. Winch, do you mean by that that some of the members of the staff of the *Bonaventure*...

Mr. Winch: The question has been asked and I do not know the answer. I think we should have an answer. The only way I can get the answer is to ask if you on this particular issue there was any moonlighting. The only way to resolve these sorts of things is to ask and get the information.

Mr. Hunter: We will check between ourselves and National Defence to see if we can answer that, sir.

Mr. Cafik: Do you mean moonlighting where the crew were working for the shipyards and being paid by the shipyards as well as by the navy?

The Chairman: That is the question.

Mr. Cafik: I think there is also another question here in regard to this furniture and the quarter of a million dollar cost. I got the impression yesterday from looking over the documents—and I brought this to the attention of the subcommittee—that in the original fixed price contract from the Davie shipyard to the Department there was a price which included the charges for removing, repairing and replacing the furniture and it spelled out what was to be done, and at the end of the contract, just prior to the *Bonaventure* being finished, there was a charge of $19,000 for returning the furniture and placing it by the twenty men that were involved in doing it for three or four weeks. It appears to me that that is a duplication of the original fixed price contract, and the $19,000 was paid unnecessarily.

Mr. Winch: It was over and above the $253,000 charged on repairs.

Mr. Cafik: That is correct. It looks as if we may have been charged double for the job.

Mr. Hunter: Sir, we will also check that out while we are checking out Mr. Winch's question.

The Chairman: Any other questions, Mr. Cafik?

• 1000

Mr. Cafik: No, I think that is fine.

Mr. Armstrong: This is perhaps not an adequate answer but I am told that the original contract covered certain compartments in the ship and that the additional contract was in relation to other compartments. They were two separate things.

Mr. Cafik: Yes, that is possible. I agree. I am not saying that there is anything wrong but that is what it would appear to be on the surface.

The Chairman: All right, Mr. Cafik. Mr. Crouse, then Mr. Noble and Mr. Lefebvre.

Mr. Crouse: Mr. Chairman, the admitted obvious blunders by the officials of the two departments represented here would indicate a complete lack of control or a lack of concern for the responsible positions they hold. What this Committee I believe must determine is whether this is intentional or due to inefficiency, or both. Now it is always embarrassing when the facts are laid bare under questioning, and it is obvious that we have had the best-watched ship in Canada. Mr. Cafik elicited that information when he pointed out that the watchers and fire guards were provided by the shipyard at a total cost of $390,000, which included some electrical supplies to the ship. But this morning the witness, Mr. Armstrong, informed us that part of the average complement of 250 men who were on board this ship all the time were engaged as security watch, and this seems to me to be further evidence of colossal blundering by this Department. Now we are also amazed to learn that the ship was under commission during the entire 14 months it was under refit and that there was a full complement of 1284 men in this ship and obviously these men . . .

The Chairman: Not all during the refit.

Mr. Armstrong: Mr. Chairman, may I point out that I did not say there was a full complement of 1284 men. I gave you the figures specifically and I think the numbers were very clear. I said that before the ship went into refit the complement of the ship was 1284. I gave you the figures subsequently of the number on board during the refit.

Mr. Crouse: Mr. Chairman, I think we should keep this straight.

Mr. Armstrong: I did not say that.

Mr. Crouse: You said, Mr. Chairman, if I can take down figures correctly, that on April 1 there were 1284 men in this ship.

Mr. Armstrong: Exactly. I said that was the crew before it went into refit.

Mr. Crouse. And that on June 30 there were 392 on board.

Mr. Armstrong: Exactly.

Mr. Crouse: September 30, 252; December 31, 253, March 31, 234; June 30, 287.

Mr. Armstrong: Exactly. But this is not what you said. You said that I had said the crew throughout the refit was 1284. I did not say that.

Mr. Crouse: Well, the question that evolves from this information is what happened to the men or to the difference which results from subtraction of the average crew from 1284. Were these other men on holidays? Were they placed on board other government ships? What were they doing, Mr. Chairman?

Mr. Armstrong: Most of the crew during this period were employed on destroyers. I think you are all aware that we had some shortage of naval people during that period. If it had not been for the fact that we were able to use some of the *Bonaventure* crew to man the destroyers, we would have had either to put some of our ships in reserve status or certainly to underman them seriously. And this is how the majority of the crew were used.

Mr. Crouse: Mr. Chairman, no, there is a broader question. Even during wartime the question of victualling ships seemed to be a very thorny one for the officials of this particular Department to handle and butter and beef were sold out of the Halifax dockyard by navy officials and they were finally caught. This arose simply because the red tape involved in turning off supplies for ships that were under temporary refits for two and three months seemed to be so difficult that rather than to attempt to turn off supplies, the officers in charge let them continue to be sent by victualling departments and when the freezers got full they dumped them overboard, port or starboard—it did not matter. Now I would like to ask the witness this morning what happened to the beef and butter. What yardstick did you use for the victualling of these men since the crew varied anywhere from 253 to 392?

Mr. Armstrong: As I explained to you just now the men were not victualled on board during the refit. They were given an allowance. I explained we did not feed the men on board during the refit.

Mr. Crouse: There were absolutely no supplies, no victualling arranged to this ship all during the 14 months that it was under refit?

Mr. Armstrong: No, we did not carry on the normal feeding arrangements during the refit.

Mr. Crouse: Thank you, Mr. Chairman.

The Chairman: Now Mr. Noble.

Mr. Noble: Mr. Chairman, some of the questions I had in mind have been answered and discussed. The crew was shuffled from 234 to 392 during the period of refit. Who had the responsibility of determining the number of crew who were to remain in the ship during this period?

Mr. Armstrong: The Commanding Officer would have the basic responsibility. I think as you noted from the way the figures were given that the figure of 392 was towards the

• 1005

beginning of the refit; then it settled down and ran to about 250 until the ship began to rebuild its crew, getting ready for departure from Quebec.

Mr. Noble: One other question. Mr. Chairman. Mr. Armstrong stated that 18 of the crew were on security, and I believe we were told when we were discussing this matter before that there were many extra people hired for security purposes. Could he tell me the total number of people involved in the security of this ship during this refit?

Mr. Armstrong: I think I said 18 per cent, roughly, so that would be roughly 45 people at the 250 level.

Mr. Noble: Were these all crew members?

Mr. Armstrong: Those were all crew people, yes. Then, as I think we noted earlier, on the fire-fighting side of it—I have forgotten the exact numbers—I think the shipyard ran 24, did they not? Maybe somebody has them.

Mr. Hunter: Mr. Chairman, I have them before me. There were 24 fire-guards on the day shift when the main part of the work was being done. I am told these are professional fire-guards who stand around with all the equipment while welding is being done in an enclosed place. They must be there. They must be ready at a moment's notice, so that the main part of the welding work would go on in the eight-hour shift from, let us say, eight to five o'clock. There were 24 guards on at that time. There were four fire-guards on after that who, I presume, would make special rounds of the areas where the welding had been done during the day, and at the night-watch there were three fire-guards on who would cover that part of the night. These are people who were hired by the shipyard. They have a ship repair liability insurance policy that requires them to take reasonable care. This is the shipyard's responsibility and you really could not give it to the captain of the ship to say, "Will you guard it tonight?" He has to do it. And any guards that the Commanding Officer puts on would be his type of security guard which might not be just for fire but for many other purposes.

Mr. Armstrong: Yes, I should mention that the security watch are not all concerned with fire. During a refit of this kind there are compartments in the ship that have equipment that must be kept secure. There are guards to see that it is kept secure during a refit of this kind.

The Chairman: Mr. Noble, have you any more questions?

Mr. Noble: That is all, Mr. Chairman.

The Chairman: Mr. Lefebvre and then Mr. Flemming.

Mr. Lefebvre: I asked as question similar to this one on Tuesday relating to the hydrofoil and the *Bonaventure*. On page 52 it is stated that

> The overall increase of $6 million in the past year...and a further one-year delay in the completion of the project...

speaking of the hydrofoil,

> ...are largely attributable to a fire aboard ship on November 5, 1966.

Was the decision to pay the $2800 per day fire fighting fee taken as a direct result of the $6 million fire which took place on the hydrofoil, and is this part of your regulations now?

The Chairman: It is $3.5 million on the hydrofoil.

Mr. Lefebvre: Well, Mr. Chairman, it states here that the over-all increase of $6 million in the past year is mostly due to the fire. It is stated very clearly there in the Auditor General's Report on page 52 at the top.

Mr. Armstrong: I will get you the figure. It was in the area of $3 million or $3.5 million, I think. Then because of the fire there were delays, naturally, and if you combine the actual fire damage with the costs that were directly related to it, then I think you come out with the kind of figure that is in the Auditor General's Report.

Mr. Lefebvre: Well, it still ends up a $6 million fire if you count up all the costs. But was this the first ship for which the Canadian Forces hired fire fighting crew as a direct result of the fire on the hydrofoil?

Mr. Armstrong: We are speaking about the *Bonaventure*?

Mr. Lefebvre: Yes.

Mr. Armstrong: I do not think the contract arrangements on the *Bonaventure* had anything to do with the hydrofoil. I believe these were the standard arrangements.

Mr. Lefebvre: They were standard after the fire took place.

Mr. Armstrong: Not after the hydrofoil fire. The hydrofoil fire was in November, 1966.

Mr. Lefebvre: Yesterday when I asked the question—I forget who answered—I was told that as a result of the fire on the hydrofoil the new regulations stated that we must have fire fighting equipment and a crew on any major ship from then on.

Mr. Hunter: Sir, if I might answer that. Your question, I thought, was: do you now insure where you did not insure before? I used the example of the DDH's as one new construction where we might, with this great concentration of expense in two yards; where we have in two yards two ships each of

• 1015

DDH's that would be together. We are considering now with National Defence whether or not to change our policy, which was not to insure new ship construction for a price.

Mr. Lefebvre: Sir, do you mean by insurance this $2800 per day fire fighting fee? Would this be an insurance policy or a cost over and above any insurance policy?

Mr. Hunter: Sir, I was talking about fire insurance but since you are talking about ship repair and refits, there has always been a policy on ship repair and refits of having the contractor have a ship repair liability insurance policy. This has always been on refits. That is why it was on the *Bonaventure*.

Mr. Lefebvre: But not on new construction like the hydrofoil.

Mr. Hunter: Right. It had not been on new construction where it was cost reimbursable. There is a difference. If it is cost reimbursable, the title is vested in the Crown from the minute that the first piece of material is brought in the yard. It is Crown property.

Mr. Lefebvre: But there is a difference today under new construction.

Mr. Hunter: We have under consideration whether or not we will change the policy on new construction that has been in effect since 1881, I am told—whether or not to insure. We are discussing it with National Defence and we will probably go, finally, to Treasury Board because it is a major change in the government's over-all policy of being its own insurer.

Mr. Lefebvre: One more question, Mr. Chairman. Mr. Armstrong, in these new figures you gave us on the manpower available, the ship's crew, which included from 120 to an average of around 250, I believe, were there any civilian employees included in these figures?

Mr. Armstrong: The only civilian staff were on the naval overseer's staff and there were—I gave the figure earlier in the evidence.

Mr. Lefebvre: This would be over and above the crew?

Mr. Armstrong: Yes. You can check the evidence but I think it was in the area of four civilians.

Mr. Lefebvre: At all times?

Mr. Armstrong: Yes.

Mr. Lefebvre: That is all, Mr. Chairman.

The Chairman: Mr. Flemming.

Mr. Flemming: Mr. Chairman, my question to Mr. Armstrong, would be this: in connec-

tion with a re-fit of this nature of a ship as large as the *Bonaventure*, how often does a refit take place, roughly?

Mr. Armstrong: I think we should draw a distinction: when you say a refit "of this nature", the refit we have been discussing was the midlife refit and modification of the ship. Such a refit has never taken place before and I would not expect in this particular ship it would ever take place again. Now there will be periodic refits, overhauls, and they take place every—a docking every two years.

Mr. Flemming: Really, Mr. Chairman, that is what I had in mind, that I seem to recall that the *Bonaventure* had a refit a few years prior to this one in the dry-dock in Saint John.

Mr. Armstrong: The last refit, the normal docking, took place in 1964, and these have run in the area of somewhere between $1,500,000 to $2,000,000.

Mr. Flemming: I am trying to establish Mr. Chairman, if there would be any previous refit of substantially the same amount of refitting, if you like, so that the expenses of this one which ran to $12,000,000 could be compared. However, I understand, Mr. Armstrong, this would not be proper comparison?

Mr. Armstrong: There has not been in the Canadian navy. Obviously there would be refits in other navies, but we have never had a job of this particular character and size before this one, because it is the first time that has been done to the aircraft carrier. Heretofore it has been a docking and the sort of normal overhaul and refit which runs, as I said, between $1,500,000 to $2,000,000.

Mr. Flemming: Was a refit not done by the dry-dock in Saint John within the last eight or ten years?

Mr. Armstrong: 1964, I am told.

Mr. Flemming: I suppose from memory you could not say what the expense of that refit was?

Mr. Armstrong: It was somewhere between $1,500,000 and $2,000,000. I can get you the exact figure, if you like.

• 1020

Mr. Flemming: No. If Mr. armstrong says that they are not properly comparable, I am quite prepared to accept that. I was wondering if Mr. Armstrong was not shocked and horrified at the increase in the actual cost of the refit of the *Bonaventure* over the $8,000,000, when it got up to about $12,000,000? I wonder if it is responsible for any of the grey hairs?

Mr. Armstrong: You do not really want an answer, do you?

Mr. Crouse: If I may, Mr. Chairman, we were informed as a committee this morning that the ship was not commissioned during the refit.

Mr. Armstrong: It was commissioned.

Mr. Crouse: It was commissioned during the refit; I am sorry. I am not entirely satisfied with the answer given by Mr. Armstrong, and I do not think the Committee is: I would like to know why this decision was taken to not decommission the ship, and what department took that decision?

Mr. Armstrong: Why was this ship not decommissioned, and who would make the final decision?

Mr. Crouse: ... during the 14 month refit and who made that decision? Was it Mr. Hunter?

Mr. Armstrong: This is the responsibility of the Department of National Defence. I did say, I think, the basic reason for not decommissioning it was that if it is decommissioned it has to be completely destored, to use the naval term. This means you take all of the stores off the ship. Also certain of the equipment has to be removed if it is decommissioned, equipment that is secure, and so on. It was decided, I think for the reason that it was not inadvisable—it is rather a major task—to leave it in commission. Also, as I explained earlier, there are certain maintenance requirements during the refit which are supplied out of the normal stores of the ship and there is some advantage, I think, in having a large ship of this kind in commission.

I also said that it has some disadvantages, in my view, in that it involves some rather delicate divisions of authority between the various people concerned. I am going to have a study of this undertaken based on this experience, to try to ascertain the balance of advantage between decommissioning and commissioning.

The Chairman: I think that is fair.

Mr. Crouse: Yes, but was this procedure followed in the past?

Mr. Armstrong: We have never done a ship like this, as we have explained, but in the case of a destroyer if it is a normal docking which involves probably two to three months, the ship is normally left in commission; but if it is, for example, the modification of the St. Laurent class or the Restigouche class, which is a major job and takes a considerable period of time, it is decommissioned.

The Chairman: Have you ever decommissioned any other ship in refit?

Mr. Armstrong: Yes, we have decommissioned where it is a major job that takes a long enough period of time.

The Chairman: So, you did do that but you did not do it with the *Bonaventure*.

Mr. Armstrong: We did not do it with the *Bonaventure*.

Mr. Chairman: Are there any other questions?

Mr. Crouse: We did not get an answer to Mr. Winch's question, Mr. Chairman, about the moonlighters.

The Chairman: I think the subcommittee will follow that, Mr. Crouse.

Mr. Crouse: I see.

Mr. Chairman: Just before we leave this and the billeting business, Mr. Armstrong, you told the Committee that you paid $5.00 to $7.00 per day, and $7.00 would be paid to the

• 1025

top-rank people over and above their salary. This seems to me a very stingy amount to pay a person for a *per diem* rate. There was a captain, four commanders, and some lieutenant-commanders while the refit was going on and they would receive $7.00 per day?

Mr. Armstrong: $7.00, yes.

Mr. Chairman: $7.00 per day. If they decided to stay at the Chateau Frontenac Hotel in Quebec city, that would be their own business.

Mr. Armstrong: Yes, this was entirely up to them. I do not think anyone did, but I do not know, personally.

Mr. Chairman: I ask this question because it has been brought to my attention that some of the officers did stay at the Chateau Frontenac Hotel in Quebec City, and I wanted to make it clear that, if they did, it was their own business because they were paid $7.00 per day. The question then arises, how could they afford it if they did, but . . .

Mr. Armstrong: Perhaps they are personally wealthy. I might add it was brought to my attention that two of them lived in a tent all summer.

Mr. Chairman: Well, wherever they lived it was their own business. Just one other question. Is the captain of the *Bonaventure*, while it was in refit, still the captain aboard the *Bonaventure*?

Mr. Armstrong: Yes, I believe so. Captain Falls. He actually was not there during the major part of the refit; his executive officer acted for him.

Mr. Chairman: Would it be possible to have the man, whoever it may be—the captain or his senior officer who is the commander and person in charge during the refit—before our subcommittee?

Mr. Armstrong: Well, they are all out at sea at the moment.

The Chairman: Well, we will leave it at that.

Mr. Armstrong: The Committee might like to go to sea and visit them.

Mr. Chairman: Well, we want to get out of the sea. We will go on to the hydrofoil and the only question that Mr. Armstrong was going to bring to the Committee before we go to Mr. Burton was that there was a board of inquiry concerning the fire aboard the hydrofoil and we asked to have this tabled for the Committee's perusal.

Mr. Armstrong: I undertook to look at this because I think I mentioned at the last meeting that my recollection was that these had always been regarded as privileged documents. I have examined it and that is the case.

The Chairman: It is a privileged document?

Mr. Armstrong: It is a privileged document. I do not know whether you would like me to go into this in more detail.

Mr. Chairman: Well, if you feel it is a privileged document, we could go into an in camera session at some later date.

Mr. Armstrong: Yes. I would have to have a look at it.

The Chairman: The board of inquiry's report and the investigation of the fire on the hydrofoil. Mr. Armstrong says it is a confidential document.

Mr. Lefebvre: Could he explain why?

Mr. Armstrong: I could go into this at some length in the precedents because I have some with me, but the question arose a very short while ago and I will just read what the minister said at the time. This was in a letter.

> Boards of Inquiry in the Armed Forces are designed to enable senior authorities to obtain information on matters within internal service administration. These inquiries are not public and officers serving on Boards, and officers and men appearing before them to give testimony, are aware that the proceedings are for internal use and that their evidence will not be made public. It would clearly hamper the administration of the services if those called upon to serve or give evidence before Boards of Inquiry were to feel that their actions or their statements might become subject to public debate. It is essential that these men speak freely and this is only possible if they are aware that the testimony and findings will not be used beyond the confines of the services.

• 1030

There have been instances where consideration was given to the production of documents of this kind and they were regarded as privileged.

Mr. Winch: May I ask a supplementary question?

Mr. Chairman: Mr. Winch.

Mr. Winch: As members of this Committee examining certain matters, I think, Mr. Armstrong, that you know, even although perhaps it should not happen, we receive information, sometimes from inside the service, inferring that in this particular instance the fire was caused by absolute inefficiency. How do we as a committee know whether that is true or no, if we cannot get the information from you as to the result of the board of inquiry. I understand your position, but please understand our position, too, on the Committee.

Mr. Armstrong: Well, I am only giving you the precedents and the reasons why this is considered a privileged document. I did say last week, and I would be glad to do it again if you would like me to, specifically what was thought to be the cause of the fire and so on.

Mr. Winch: I, personally, would like you to.

The Chairman: Mr. Lefebvre.

Mr. Lefebvre: In view of the statement made by Mr. Winch, and it is left in the air as to whether this is due to gross inefficiency, I think we should get these documents. Otherwise you are left with a statement that means the fire was caused by gross inefficiency in your Department.

Mr. Armstrong: Well this was Mr. Winch's statement, not mine.

Mr. Winch: I know, but that is the information that comes to people like myself on the Committee from those who maintain that they know. We all get that sort of thing.

Mr. Lefebvre: I could make the same statement, but I have not got any facts to back it up.

Mr. Winch: Here is the one source from whom we can get the facts. Are we to get the facts? That is all I am asking.

The Chairman: Well I think it boils down to whether we get the facts in camera or not. Perhaps Mr. Armstrong would feel freer to give it to the Committee in camera.

Mr. Armstrong: I would be glad to examine what arrangements, if any, could be made considering that the document is privileged, to give you as full information as I possibly can.

Mr. Cafik: I have a supplementary question.

The Chairman: Mr. Cafik, and then Mr. Burton.

Mr. Cafik: Mr. Chairman, I am a little disappointed that we cannot see the documents either publicly or privately. Perhaps we can in camera, but that is a decision I guess the Department has got to make. But it may wish to consider allowing the Auditor General's Department to have a look at these documents and to paraphrase their position in

this regard and let us question them in camera. We can do it in an indirect manner. We may end up with what we want.

The Chairman: Then direct your question to Mr. Henderson, and perhaps he could tell you whether he has seen them or not.

Mr. Cafik: Mr. Henderson, you get the chance here.

Mr. A. M. Henderson (Auditor General of Canada): Mr. Chairman, I am informed that we asked for this document, but it was not given to us. Our knowledge of this comes from references to the document and in particular to a report given by one of the officials of the Department of National Defence to a committee meeting which was convened to examine into the fire. And I was under the mistaken impression that this particular document was in fact the report of the Board of Investigation, but apparently that is not the case. But the document I have here summarizes the contents of the report. I think that would be a correct statement.

Mr. Cafik: Is the summary you have confidential?

Mr. Henderson: The summary carries the word "Confidential", Mr. Cafik, and therefore I think in deference to Mr. Armstrong's position, it would be in the same category as the report itself.

Mr. Cafik: Right, well would you care to make any comments in regard to your perusal of this confidential document and your position or your attitudes toward this fire, as to its causes?

The Chairman: Mr. Cafik, this might throw a little light on the matter. Beauchesne's Section 305, on page 245, reads:

> 305. Sometimes when a committee requires special information it will report to the House a request for the necessary papers which will be referred to it forthwith.
>
> The committee can obtain directly from the officers of a department such papers as the House itself may order, but in case the papers can be brought down only by address, it is necessary to make a motion on the subject in the House through the Chairman.

That is the procedure we follow if you wanted to see them. Mr. Winch.

Mr. Winch: May I ask a supplementary question of Mr. Armstrong. And I know Mr. Armstrong will understand this.

There are quite often boards of enquiry I am referring to boards of enquiry. Upon occasion the Minister has allowed me as a Member on my honour and my oath to see board of enquiry reports, and, sir, I have never broken that confidence. Now how do you differentiate as to how or whether or not one can see a privileged document?

Mr. Armstrong: I was speaking of this as a privileged document and I explained why. I did say that I would be very happy to discuss with the Minister and your Chairman what kind of arrangements could be made if the Committee wanted to have a few people take a look at what is in that document and keep it . . .

Mr. Winch: I just want to stress the importance. This is a board of enquiry into a fire. With the consent of the Minister, I have personally seen the report of a board of enquiry into the loss of an aircraft in an exercise, involving loss of life as well as items on board.

Mr. Armstrong: This was done, of course, Mr. Winch, as you know, on a personal and confidential basis.

Mr. Winch: Right. And I have always kept these in confidence. What I want to know is, how do you differentiate between an enquiry into a fire and one into a death?

Mr. Armstrong: Gentlemen, I am talking about making an enquiry of this kind a public document, and I am saying that the practice has been to regard it as privileged. I think it might be possible to work out some arrangement whereby you could get at least the substance of it. Perhaps we could do that.

The Chairman: It will be for the Committee to decide if it wants to proceed in the normal channels to have this document. If you did, we would go through the normal channels and request it in the House. I as your Chairman would make the request and see what happens. And I think if we are going to look into government expenditures and fires and what have you, if there is any committee that should have the information, I am sure it is the Public Accounts Committee. And I would . . .

Mr. Crouse: Do you need a motion to that effect, Mr. Chairman?

The Chairman: Well, I will take a supplementary from Mr. Burton here first. He might have an idea.

Mr. Burton: I was just going to ask Mr. Armstrong one question. Is not an enquiry and the situation with respect to it in a matter like this a far different matter than an enquiry into operations of the armed forces that involve people and events that happen from time to time? Is this not a far different situation than the normal type of board of enquiry to which the rules you just referred to would apply?

Mr. Armstrong: No, I do not think so. I think the substance is exactly the same. The board of enquiry is an enquiry for internal administrative purposes where members of the armed forces are obliged to give testimony. They give it on the understanding I have explained, that it is a confidential and privileged document. I do not think the circumstances are different at all in that respect.

Mr. Burton: Mr. Chairman, this could be pursued considerably further to determine just where areas of conflict may arise and where a particular interest may rightfully need to be protected. At the same time there is a public interest in this matter. The public has an interest, and one way or the other we have a responsibility to obtain the necessary information, to deal with the points of concern that this Committee has to examine.

The Chairman: I was going to suggest that now that Mr. Armstrong knows the wishes of the Committee, we will leave it with him to report to us at the next meeting. If it is a satisfactory report, all right; if not, we will proceed through the normal channels.

• 1040

All right, Mr. Burton. We are on the hydrofoil. We are still above the water here.

Mr. Burton: Mr. Chairman, at the last meeting there was an exchange between Mr. Crouse and Mr. Armstrong with respect to the research and development programs and the moneys spent for these programs. It was suggested by Mr. Armstrong, as I understood it, in response to certain points and suggestions made by Mr. Crouse, that if money had not been spent for the hydrofoil development, it would have been spent in some other area. I just wanted to make sure that we had a clear understanding of this situation.

As I would understand it, the implication to me of Mr. Armstrong's statement was that the Department as a matter of policy based on the total amount of money available to it and the policy decisions that are made with respect to its allocation of funds, allocates certain millions of dollars or a certain percentage of its money to research and development programs. Then once having done that, it has to examine the various alternatives with respect to possible research and development projects and determine which projects take priority, and which ones are going to be developed at a particular time. Is that a fair assessment of the general situation?

Mr. Armstrong: I think it is, in a sense. What I said was that first of all we have been operating under more or less predetermined ceilings for our total budget, and within that we have, in the over-all priorities of the Department—and I am talking now about programming over a period of time—allocated about $20 million a year for development projects of one kind or another.

This has, in fact, varied a little, but in terms of general programming that is the kind of allocation we have made. It has been somewhat above that on occasion, and somewhat below it. But on the average over this five-year period I think it has been below it.

Mr. Burton: Well, one point that was raised at the last meeting was whether value was received for these expenditures. This, of course, depends on the good management and use of these funds and the results obtained from the programs that are undertaken.

Mr. Armstrong: I think that is a correct statement. It is true that it will depend to some degree on that, yes.

Mr. Burton: Would it be the case that, as a result of the additional unanticipated expenditures in connection with the hydrofoil, this has meant some curtailment of other research and development projects?

Mr. Armstrong: Yes, I think this would be true.

Mr. Burton: One other area that I was just going to make a comment on because I think it is relevant, Mr. Crouse at the last meeting was also examining some of the technical aspect of this particular development. He was noting problems with respect to objects

floating in the ocean, and so on, and possible problems that may arise.

It was noted at that time when a comment was made that there are such things as 40-ton whales and so on in the ocean. And it was commented that the prototype that was developed had cut a telegraph pole in two with very little effect on the prototype.

I must say that fortunately I have never had occasion in my life to come into collision with either a telegraph pole or a 40-ton whale in any type of vehicle, but it seems to me that from a technical standpoint, and from the extent of my knowledge of technical features, this really would not be a fair comparison.

The Chairman: What is your question, Mr. Burton? Ask your question.

Mr. Burton: Has there been further study, or has this particular problem been examined more fully than on the basis of such a comparison?

Mr. Armstrong: We have a technical man here. I think he could answer this much better than I.

The Chairman: Mr. Eames.

Mr. Michael Curtis Eames (Defence Scientific Officer, Defence Research Board): Mr. Chairman, I think I made the statement on Tuesday that apart from this one example I cited—and remember I was talking about a quarter-scale model hitting this telegraph pole, which is 1/64 scale mass—I think I mentioned that there were other studies that had been made of the frequency of occurrence of objects and of the likelihood of hitting them and the damage that would likely result. And I explained how it is that a foil system has a very much greater strength end resistance to damage in this respect than a conventional hull.

•1045

There is no question that if you are traveling at speeds in excess of 40 knots, you incur a greater risk in coming into contact with anything. But I think that there is ample evidence that the hydrofoil craft is perhaps the least vulverable of craft capable of speeds of this order.

I can cite you an example of one of the American boats which was, as a matter of fact, on its final acceptance trials with a United States. admiral aboard. In the Seattle area, which I might add is perhaps the worst area in the world to attempt to run hydrofoil craft because of the prevalence of floating logs, this craft struck a log which bent the bow foil, and caused the hull to settle in the water. The crew were very concerned about this, thinking that the admiral would be most unhappy and maybe this was the end of that boat's acceptance. But the admiral turned to the commanding officer and said, "If I had been in a conventional P.T. boat, I would have been swimming now." And, in fact, this incident gave the hydrofoil gunboat program in the United States a considerable boost.

Mr. Burton: What is the manoeuvrability of the hydrofoil and its capacity for stopping, as you know it at the present time? Do you have full knowledge on this as yet?

Mr. Eames: We will not have full knowledge until we have done trials to confirm. Based on calculations of the quarter-scale model's results, and the results of smaller scale models in tanks, the craft can be brought off its foils, that means from, say, 45 knots to 12 knots, in a time of 15 seconds.

The Chairman: Mr. Burton.

Mr. Burton: At the last meeting I had asked if it would be possible to obtain information on a breakdown of the amounts of money involved in the various points of explanation given with respect to the cost increases. Is there any information available on this item today?

Mr. Armstrong: Mr. Chairman, I think we perhaps were a little confused on whether what had been asked was a breakdown on the basis of the four categories on page 52 of the Auditor General's Report or on the basis of each cost increase as it took place. I understand now that what you are seeking is really an explanation of the cost increases as they took place, as listed on page 51.

I had a few words with the Auditor General before the meeting and we thought perhaps he and I could get together and devise a form where this could be shown. Is that satisfactory to you, and is that really what you are asking?

Mr. Burton: My question applied to the points on page 52. I will be asking questions on the details of page 51 as well.

Mr. Armstrong: If you want the answer on page 52, I can give you, but I must...

The Chairman: Before we proceed with page 52, would the Committee be agreeable to having Mr. Henderson and Mr. Armstrong table that information in respect of page 51? Perhaps Mr. Henderson would like to comment on it briefly.

Mr. Henderson: Mr. Chairman, I think it would probably be quite informative to Mr. Burton and to the members of the Committee if the particulars were given of the figures shown at the bottom of page 51 because the answers there would, in effect, shed considerable light on the information at the top of page 52. I would doubt, frankly, if it is possible to pin an increased figure specifically on each of the items shown in that summary under the four points. You might have to do some approximation.

The Chairman: I recognize that.

Mr. Henderson: But the point is, if you have the breakdown of the major part of the increase as shown at the bottom of page 51, you would have substantially all that I think you would need.

• 1050

The Chairman: Is it agreed that that information will be tabled?

Some hon. Members: Agreed.

Mr. Armstrong: I agree with the Auditor General's statement. A breakdown of the analysis of the items on page 52, I must say, is a sheer matter of judgment and, frankly, it is difficult to give the figures with a high degree of confidence. Our officers have endeavoured to do this and I am prepared to give them to you, but I would like you to understand the qualification.

The Chairman: It is agreed that the other be tabled.

Mr. Armstrong: The figures, going down the list, are as follows: item one, 13 million; item two, 6 million; item three, 6.1 million; item four, 6.5 million. That together with the original 9.1 million adds up to 40.7—and of course the fighting equipment would be added to that.

The Chairman: Yes, Mr. Burton.

Mr. Burton: Mr. Chairman, I was going to ask some further questions with respect to the fire situation.

The Chairman: Could we just make sure there are no technical questions before Mr. Eames leaves. Is this a technical question?

Mr. Burton: No.

The Chairman: Has anybody a technical question?

Mr. Noble: Mr. Chairman, I have a supplementary to put.

The Chairman: I will accept questions directed to Mr. Eames at this time, if there are any, because we have only five minutes.

Mr. Noble: This has to do with a question that was brought up in respect to the hydrofoil . . .

The Chairman: Do I take it there are no questions for Mr. Eames at the moment?

Mr. Lefebvre: Is he leaving before 11 o'clock?

The Chairman: He is leaving at 11.

Mr. Cafik: Perhaps this is not a proper question, but are there copyrights on the hydrofoil principle, royalties payable and things of this nature? Are they owned by the Canadian Government?

Mr. Noble: Mr. Chairman, if my question is—

The Chairman: Wait until we get this answer and then we will come right to you, Mr. Noble.

Mr. Noble: All right.

Mr. Armstrong: I wonder if we could get a specific answer to your question. I would like to look into it a little and see what patents or otherwise have been taken out on it. I do not know the answer offhand.

The Chairman: That is a very good question. Mr. Noble is next.

Mr. Noble: Mr. Chairman, getting back to the question of the hydrofoil running into some object in its course, no doubt a hydrofoil would be equipped with radar and I am wondering if radar would pick up a whale or, say, a school of dolphin?

Mr. Eames: This depends entirely upon the sea state. In relatively calm water, yes, it would but it is entirely possible that even a large whale basking on the surface could be masked by heavy seas.

Mr. Noble: Thank you.

Mr. Crouse: Mr. Chairman, I would like to ask Mr. Eames this question. In view of all the unknowns in the hydrofoil construction, how did you arrive at the cost estimate originally of $9,100,000?

Mr. Armstrong: We did not. Mr. Eames did not arrive at this cost.

The Chairman: Would you answer that, Mr. Armstrong?

Mr. Armstrong: I think it was explained, last week that the $9.1 million folowed the feasibility study done by DeHavilland Aircraft of Canada Limited. There was a contractor's estimate in relation to certain aspects of the hydrofoil but that was never considered to be an estimate for the total completion of the project because it did not cover the full project. There were aspects of it that were certainly unknown and it was not possible to make a complete estimate.

Mr. Crouse: Mr. Eames, have you invited any of our NATO allies to be present for the sea trials of this ship and have they indicated any interest—that is, other than the United States—in procuring this type of hydrofoil?

Mr. Armstrong: Perhaps I should answer that question. I am advised that none of our NATO allies had been invited to the trials that are about to commence in March. They will be invited once we have satisfied ourselves that the trials are going successfully.

Mr. Crouse: Mr. Chairman, if this ship ever does perform satisfactorily after the sea trials are completed, which we were told earlier was some time in 1970, is it the Department's intention to adopt it as an operational craft and, if so, how many of these ships do you plan to build and what will be their cost now that the prototype has been completed?

• 1055

Mr. Armstrong: I think I attempted to answer that question before. We have not decided this. I think on the basis of the trials, on the basis of certain operational research studies going on now, one would have to decide on the kind of mix of various ASW systems including the hydrofoil, if it is successful, would make the best ASW defence, and this is something that will be determined a little later.

Mr. Crouse: How much would be the fixed cost to the Department be? Have you been able to determine without the fire, for example, what the materials and the ship would cost the Canadian people if you decided to go ahead with it? Has this been established?

Mr. Armstrong: It has not been established to the point that I think I could give you a reliable figure, no. I have heard some ball park figures on it.

The Chairman: That, of course, would depend on what production you got into and so on.

Mr. Armstrong: Yes, there are many factors involved in it.

Mr. Noble: Mr. Chairman, is this the first type of hydrofoil for defence purposes being built anywhere in the world?

Mr. Eames: Mr. Chairman, it is the first hydrofoil intended for open-ocean operations in an operational role. There have been other military hydrofoils for coastal and inshore water operation.

Mr. Noble: Mr. Chairman, it strikes me that this is quite a big undertaking for a country like Canada, especially when we have a nation to the south of us that can well afford to do this kind of experimenting. I think that we should have been sitting back and waiting for somebody else to take the initiative to spend this kind of money.

The Chairman: That is an observation, Mr. Noble, but I do not think we should ask Mr. Armstrong to comment on policy. It is more of a policy question.

Are there any other questions?

Mr. Lefebvre: Was this original contract for $9 million after tenders were called publicly, was there more than one contractor involved in the bidding, or how was this arrived at?

Mr. G. W. Hunter (Deputy Minister, Department of Defence Production): The contractor was chosen because he was deemed to be the one most qualified.

Mr. Lefebvre: There was no open bidding?

Mr. Hunter: No. It was the DeHavilland Aircraft company which had done the feasibility study and it was demonstrated to the Department of National Defence and ourselves that this company seemed to be the most qualified to do this. In effect, this was a new field of work altogether in Canada. I

might say, there was some doubt whether the prime contractor should be a shipbuilder or an aircraft company. It was decided that this ship was really more in the nature of the kind of thing that would go into a large transport aircraft rather than a ship, and this was only after much discussion and consideration between ourselves and the Department of National Defence.

Mr. Lefebvre: Were all the increases that brought it up to $39,874,000 negotiated with the DeHavilland Aircraft company?

Mr. Hunter: They were, sir.

Mr. Lefebvre: It was always the same contractor all the way through?

Mr. Hunter: Right.

Mr. Lefebvre: And does this hold true also for the fighting equipment?

Mr. Hunter: The fighting equipment was with three different contractors: Canadian Westinghouse Company Limited, Fleet Manufacturing Limited and Marsland Engineering Limited. These were the three main contractors, there were seven or eight smaller ones.

Mr. Lefebvre: Were these invited tenders or open tenders?

Mr. Hunter: No, these were by invitation, sir.

Mr. Lefebvre: And each of those three companies got part of the fighting equipment contract?

Mr. Hunter: That is right, sir.

The Chairman: Mr. Hunter, you said that you felt that this contractor was the one most capable to undertake this. Your opinion and the Auditor General's are not exactly the same because the Auditor General tells us on page 52, when he summarizes the explanations for the increase in cost:

> (1) . . . inexperience of the contractor in this new field which gave rise to underestimates .

Did you run into this inexperience as you went along?

• 1100

Mr. Hunter: Sir, I wonder if I could make a comment. The word "inexperience" has been used here and it seems to me that it has an unfortunate connotation. "Inexperience" to me means someone who did not know. I would rather use the words "lack of previous experience in this precise field". Perhaps the Auditor General would agree that that is just another way of saying it, but I think it is a fairer way of putting it. This contractor had an awful lot of experience in the type of work that we felt he was going to be called upon to do. DeHavilland Aircraft had done four or five very successful developments and they had not missed one.

Mr. Crouse: Mr. Chairman, I am trying to get clear in my mind the prime purpose of going ahead with this project. Do I understand that it was decided to go ahead with this project because it would be a potential submarine chaser or unit used for this purpose?

Mr. Armstrong: I think I should answer that question. The purpose of going ahead with the project, it was believed and still is, is that this particular type of ship could be a very significant advance in terms of, shall I say, cost-effective ASW work.

Mr. Crouse: In other words, you believe that this type of unit would be of greater advantage in time of war in seeking out submarines, for example, than helicopters equipped with sounding devices which could be lowered into the sea or hover over certain areas, listen for awhile and then move to another area. It is my understanding that a helicopter, using a sounding device, could cover twice the area of ocean that any other type of ship could cover, could listen for submarines and if it found one could drop a depth charge or a suitable device from the air to destroy a submarine much faster and much more efficiently than any of this type of service craft. Is this not correct? We have had people playing with boats and having their own little fun at the expense of the Canadian taxpayer when, obviously, the utilization of a helicopter with a sounding device would have been much more efficient, faster and much more effective. Is this not correct?

Mr. Armstrong: I could have Mr. Eames answer this, if you like, in a technical sense. Any submarine problem is one that involves—I am going to just give a very general answer—a considerable number of systems, not only the destroyer with its helicopter but many others. These work in combination and in combination they can produce a fairly effective system in a very difficult job.

The belief, in terms of this particular vessel, and the hope for it, is that it can become part of that system and successfully replace—perhaps not replace but substitute for some other parts of the system that are now more expensive. It would not mean that it would eliminate, for example, a helicopter destroyer entirely but it might involve having some hydrofoils and a fewer number of helicopter destroyers along with the other kinds of systems that are used. This is a problem that has to be worked out finally in the whole proposal. Perhaps our technical man would like to answer that.

The Chairman: Gentlemen, I am afraid we will have to adjourn because our time is up. Before adjourning I want to thank Mr. Eames for appearing before us as a witness and giving firsthand technical knowledge in this matter of the hydrofoil.

The meeting is adjourned.

HOUSE OF COMMONS

First Session—Twenty-eighth Parliament

1968-69

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: Mr. A. D. HALES

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 21

TUESDAY, MARCH 4, 1969

Public Accounts, Volumes I, II and III (1966 and 1967)
Reports of the Auditor General to the House of Commons (1966 and 1967)

WITNESSES:
(*See Minutes of Proceedings*)

THE QUEEN'S PRINTER, OTTAWA, 1969

HOUSE OF COMMONS

First Session—Twenty-eighth Parliament

1968-69

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: Mr. A. D. HALES

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 21

TUESDAY, MARCH 4, 1969

Public Accounts, Volumes I, II and III (1966 and 1967)
Reports of the Auditor General to the House of Commons (1966 and 1967)

WITNESSES:

(*See Minutes of Proceedings*)

29835-1

THE QUEEN'S PRINTER, OTTAWA, 1969

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. A. D. Hales

Vice-Chairman: Mr. T. Lefebvre

and Messrs.

Burton,	[1]Guay (*Lévis*),	Noël,
Cafik,	[2]Gervais,	Rodrigue,
Crouse,	Leblanc (*Laurier*),	[3]Roy (*Timmins*),
Cullen,	Mazankowski,	Tétrault,
Flemming,	McCutcheon,	Thomas (*Maisonneuve*),
Forget,	Noble,	Winch—20.

(Quorum 11)

Edouard Thomas,
Clerk of the Committee.

Pursuant to Standing Order 65(4)(b).

[1]Mr. Guay (*Lévis*) replaced Mr. Duquet on March 3, 1969.
[2]Mr. Gervais replaced Mr. Crossman on March 3, 1969.

MINUTES OF PROCEEDINGS

Tuesday, March 4, 1969.
(23)

The Standing Committee on Public Accounts met this day at 9:36 a.m., the Chairman, Mr. A. D. Hales, presiding.

Members present: Messrs. Burton, Cafik, Crouse, Cullen, Forget, Hales, Leblanc (*Laurier*), Lefebvre, Mazankowski, Noël, Thomas (*Maisonneuve*), Winch – (12).

Also present: Messrs. Bell, Bigg, Major, Pilon.

Witnesses: Mr. A. M. Henderson, Auditor General of Canada; Mr. E. B. Armstrong, Deputy Minister, Department of National Defence; Mr. G. W. Hunter, Deputy Minister, Department of Defence Production; Captain T. S. Allan, Hydrofoil Project Manager, Department of National Defence.

The Committee questioned the witnesses on the chart of the funding evolution for the hydrofoil which was tabled.

The witnesses were requested to provide a chart of actual expenditures on the hydrofoil in the same form.

At 11:02 a.m., the Committee adjourned to the call of the Chair.

Edouard Thomas,
Clerk of the Committee.

29835–1½

EVIDENCE

(Recorded by Electronic Apparatus)

Tuesday, 4 March 1969.

• 0938

The Chairman: Gentlemen, at our last meeting we were discussing the escalation of the cost of the hydrofoil on page 51 of the Auditor-General's Report. Mr. Henderson and Mr. Armstrong have prepared a document setting out the detailed funding evolution of this hydrofoil. By the way, does the Committee have copies of it? There are copies available. The Clerk will send them around so members will be able to follow along as you describe them.

Mr. Armstrong, would you like to proceed?

Mr. E. B. Armstrong (Deputy Minister, Department of National Defence): Mr. Chairman, this is a table which we developed–

The Chairman: Would you mind waiting until the copies have been distributed?

• 0940

Mr. Armstrong: Mr. Chairman, we were asked if it would be possible to summarize the reasons for the increases at each of the dates listed at the bottom of page 51 in the Auditor General's Report. This has been done in the two tables which I am tabling before the Committee this morning, the one table dealing with the ship cost, and the other one with the fighting equipment. I believe this, in a fairly simple way, does help to show the Committee where the changes took place over the period that was involved.

The Chairman: Mr. Henderson, do you want to make any observations? We will then ask the questions on it.

Mr. A. M. Henderson (Auditor-General of Canada): There is not very much I can add by way of explanation to what Mr. Armstrong has said, Mr. Chairman. This shows the composition of the estimates that were set forth and you will notice that each estimate was the subject of a submission to and approval by the Treasury Board as indicated in the top line, beginning in April, 1963 and carrying on until March, 1967. The ship items are shown on page 1. On page 2 you have similar information with respect to the fighting equipment. I think it is a schedule that the members will probably wish to study and will have some questions on later, Mr. Chairman.

Mr. Winch: Perhaps we should do that, but it comes to my mind immediately on glancing over these figures that there was an increase of over $400,000 on the sea trials. A sea trial is a sea trial. Could you tell us why, when it was estimated in 1964 that the cost of the contractor's sea trials would be $400,000, in 1967 it cost $822,000? A sea trial is a sea trial.

Mr. Crouse: Mr. Chairman, in each year, as far as I read these reports, there were increases. It went from $400,000 in 1964 to $500,000 in November 1964, which is $900,000–

Mr. Winch: That is estimated cost.

The Chairman: We are looking at the third line from the top, under the title of Contractor's Sea Trials.

Mr. Winch: Of course, you will also notice that–I am going by what it says here–from March 1964 to November 1964 the cost for sea trials went up from $400,000 to $500,000, but in 1965 it dropped to $300,000. Then it went from $774,000 to $822,000. I would like to have an explanation on that because I just cannot figure it out from this document.

Mr. Armstrong: The explanation of this is simply that the sea trials, in the sense of being determined in any detail, really were not determined until the April 21, 1966 figure which amounts to $774,000. The items in the earlier estimates and they varied, as you pointed out–$400,000, $500,000 and $300,000–were put in as rough estimates for funding purposes. This was something that had to be done, obviously, but had not at that stage been worked out with the kind of detail which would have enabled a better estimate to be made. The first time a figure appears after some detailed examination of the kind of sea trials that were thought to be necessary is the one of $774,000.

The Chairman: Mr. Armstrong, what would be involved in sea trials? Who was the contractor?

Mr. Armstrong: This would be the prime contractor, de Havilland Aircraft of Canada Limited.

Mr. Winch: The prime contractor was de Havilland, but this is called Contractor's Sea Trials. Was this not included, although it was a contractor's sea trial, in the original $9.1 million?

• 0945

Mr. Armstrong: There is and has been, perhaps, some misunderstanding throughout and it seemed to me that this table would help to clarify the situation. The $9.1 million was never anything more than a funding estimate and, I think as was explained earlier, was not believed to be the amount of money that would produce a complete hydrofoil. As you see by this list, virtually all of the items down below here were not included at all in that figure. So I think I am trying to say you should not expect that figure to be such that you can trace right through here and expect all the things that were eventually incorporated in the hydrofoil to be shown somewhere in here, and the costs associated with them. The figure was not based on that kind of knowledge of the program.

The Chairman: Mr. Crouse and then Mr. Leblanc.

Mr. Crouse: The witness just stated this money was paid to de Havilland Aircraft of Canada, Limited, but was not the ship built by Marine Industries Limited? Would not this money go to Marine Industries Limited?

Mr. Armstrong: I did not say the money was paid to de Havilland Aircraft of Canada, Limited. I said de Havilland Aircraft of Canada, Limited, were the prime contractors. Just the hull was built at Marine Industries, Limited, as a subcontract with de Havilland.

Mr. Crouse: But throughout the entire design construction all money spent by Treasury Board went to de Havilland Aircraft of Canada, Limited, and not to Marine Industries Limited, is this correct?

Mr. Armstrong: Well, they were paid, I guess, initially to de Havilland Aircraft of Canada, Limited, yes, and Marine Industries, Limited, were a subcontract of de Havilland Aircraft of Canada, Limited.

Mr. G. W. Hunter (Deputy Minister, Department of Defence Production): That is right, Mr. Crouse. This is for the ship part only. The fighting equipment were, as I mentioned last week, separate contracts.

Mr. Crouse: In view of the fact, Mr. Chairman, that only the foils were the design of de Havilland, why was this procedure followed when the ship construction, which is an entirely different phase of engineering, was built entirely by a boatyard? Why was this type of contracting method followed? It seems to me it simply built up the cost but I would like an explanation if . . .

Mr. Hunter: Sir, the reason that de Havilland were chosen as the prime contractor was, as I think I mentioned last week, because after considerable discussion between ourselves and the Department of National Defence it was found that this job more closely resembled the techniques that were required in aircraft construction rather than in shipbuilding. The fact that the hull was a ship was really incidental to all of the other components that had to be tied together more in the nature of the cockpit of a transport aircraft really, and the fact that even the hull itself was constructed of new materials requiring really, I am told by our technical people, more in the nature of aircraft construction. It had to be very light and very strong which are really more of the things that are looked for in an aircraft that would stand this kind of buffeting.

The Chairman: All right. Mr. Leblanc.

[*Interpretation*]

Mr. Leblanc (Laurier): Mr. Chairman, I am sorry to notice that the documents given to us by the Department are not bilingual. This may be due to the fact that the technical terms are not easy to translate. But I wonder whether the witnesses, and especially the various Departments, should not keep in mind, when submitting documents to a Committee, that since we are carrying out a campaign in favour of bilingualism throughout the country, we should obviously set the example within our own organizations.

[*English*]

The question I want to ask, Mr. Chairman, is regarding the . . .

• 0950

The Chairman: Mr. Leblanc, perhaps I might answer that first part. I regret these are not in French and I am sure Mr. Armstrong does too. It was a matter of time, I think he produced these since last Thursday. In this regard, Mr. Armstrong could have tabled his report of the board of inquiry on the fire on the hydrofoil today but we are not doing that today because he could not have it translated and available in English and in French in time for today. It will not be tabled until Thursday of

this week but that report will be bilingual. That is the reason you are not getting the report today and I am sure it was a matter of the time factor in this case. All right, Mr. Leblanc?

Mr. Leblanc (Laurier): Thank you, Mr. Chairman. My question is on the schedule of fighting equipment, the Action Information System. Would you kindly explain what you mean because those amounts seem to be quite large each year. Would you like to explain to the Committee what this is all about?

The Chairman: This is on the other page?

Mr. Leblanc (Laurier): Yes.

The Chairman: Sixth line down.

An hon. Member: Yes.

Mr. Armstrong: The Action Information System is really the operations group of the ship. It includes computer systems and in this way provides for the people who are running the ship all the information necessary with respect to the fighting situation in which the ship might be involved. It is rather complicated and sophisticated, no question about it, and that accounts for the considerable expense.

The Chairman: Thank you, Mr. Lefebvre then Mr. Mazankowski and Mr. Winch.

Mr. Lefebvre: My question is also on the fighting equipment, Mr. Armstrong. I see on the list here two items for sonar, one is marked "Interim" and the other "High Speed Sonar". The Sonar (Interim) started off at $886,000 and gradually went up to $1,564,000 or approximately double. The High Speed Sonar started off at $800,000 and ended up nil, if I understand this correctly. Would you explain to the Committee the difference between these two systems. Also is it the Interim Sonar that is now being used?

Mr. Armstrong: Yes, it is the Interim Sonar that is now being used. The development of the High Speed Sonar was eventually discontinued, as you see, in that there are no figures in the latter part of the table. The Interim Sonar, I believe, was found to be considerably better than it was originally expected to be and the High Speed Sonar was dropped partly because of that reason and partly because of a necessity to save money in the total project.

Mr. Lefebvre. So there were no moneys expended on High Speed Sonar; none at all?

Mr. Armstrong: The $66,000, Assistance to NRE, was related to the High Speed Sonar and that was the total amount spent.

Mr. Lefebvre: It was the total amount spent?

Mr. Armstrong: Yes.

Mr. Lefebvre: So the final figure on sonar would be approximately what you had expected to spend on both systems when you started out?

Mr. Armstrong: That is right, yes. The two together came to the final figure.

Mr. Lefebvre: I have one other question. This is on:

> Spares including shipping costs and Government Furnished Equipment

This item started out at an original figure of $230,000 and ended up $1.07 million or approximately five times the original amount. Could you explain this figure?

Mr. Armstrong: I am advised the reason for this increase was simply that as the Fighting Equipment Development proceeded and the system became known, it was necessary to provide more spares. The original spares provision, or the amount that was put in for that, of $230,000 was simply not enough to provide sufficient spares back-up for the system and it eventually ended up with the figure you see there.

● 0955

Mr. Lefebvre: Did you also end up getting heavier fire-power equipment than you had originally planned?

Mr. Armstrong: Heavier which?

Mr. Lefebvre: Heavier fire equipment than you had originally planned?

Mr. Armstrong: No, I do not think so. Just a moment and I will check with the technical experts. You are speaking of the Weapon Delivery System are you, on line two?

Mr. Lefebvre: Yes, we could call that "Weapon Delivery System" I guess. It also went from $26,000 to $99,000.

Mr. Armstrong: No, this was not changed as the program proceeded. There was no change in the Weapon Delivery System that was intended. It was a torpedo system and it may have changed a little in design but the basic torpedo was the same from beginning to end.

An hon. Member: There was a 4 per cent increase in price.

Mr. Lefebvre: There was quite an increase. Was this through contract?

Mr. Armstrong: This was contracted. I think it was contracted with the USN I believe, the United States Navy. I will check it for you. Yes, this was bought directly from the United States Navy.

Mr. Lefebvre. They just escalated their costs without negotiating with the Canadian navy?

Mr. Armstrong: I would not think they escalated their cost in that sense. I think it very often happens in these situations that at the time the original estimate is produced we have very preliminary information on what the system might cost. As we got better information, this was, in fact, what it cost in contract.

Mr. Lefebvre: I have one more question, Mr. Chairman. The last line reads:

Provision for Fighting Equipment Installation

There was nothing in the estimates for the first three times and all of a sudden we have a figure here of $763,000. Did you feel at the beginning that this equipment would be installed for the original contract price or what is the reason for the sudden three quarters of a million dollars cost for installation: That is the last line on the second sheet.

Mr. Armstrong: Yes, I know the item you are speaking of. I think, this was transferred over from the ship cost and that is the reason it was not shown. I am endeavouring to identify it. If you look at the front table you will see an item, "Provision for Fighting Equipment Installation". It was $1 million in June, 1965, $760,000 in 1966, and that was transferred over to Fighting Equipment in 1967.

Mr. Lefebvre: What line would that be on the first page?

Mr. Armstrong: It is about half-way down.

Mr. Lefebvre: Oh, yes.

Mr. Armstrong: If you look about half-way down the page.

Mr. Lefebvre: Even so, Mr. Chairman, this was only entered in June, 1965. When the original first table was made in 1963 there must have been some knowledge that you would be having some type of fire equipment installation. Why was there a delay in making an estimate as to the cost?

Mr. Armstrong: Again I think this really comes down to putting the figure in when one has enough knowledge about the subject to make some intelligent estimate of it. Up to that point it was not possible in terms of the fighting equipment. Obviously the fighting equipment would eventually be installed in the ship. However, as I think I have been indicating in all of these development estimates, the initial estimate is built up as you know a little more about the situation and are able to put a figure in for given items.

• 1000

The Chairman: I wonder if I might follow along your line of thinking with two questions? First, dealing with the Provision for Fighting Equipment Installation, why would you purchase fighting equipment until you knew whether this hydrofoil was feasible, whether it would be practicable and whether it would be put into operation? Why would you not wait until you have the feasibility studies completed?

Mr. Armstrong: I think that is a very good question, Mr. Chairman. It was considered in relation to the program whether the development should proceed on the basis of developing the ship alone without any fighting equipment in it. It was finally decided that the ship would only be valuable if, in fact, you could put a suit of equipment in it that was useful for the role that we have in mind, that to develop the ship, test it, and subsequently develop the fighting equipment and instal it would extend the program by a very considerable period of time. It was decided on the basis of this that it was better to do them both concurrently.

The Chairman: Could we ask this question: These are estimates we have in front of us but how much money have you actually spent on fighting equipment?

Mr. Armstrong: It is most of it, I know. Do you want a precise figure?

The Chairman: No, an approximate figure.

Mr. Armstrong: Approximately $9 million.

The Chairman: $9 million has been spent on fighting equipment for this hydrofoil. Then the next question would follow. Could you assure the Committee that this hydrofoil is operational and successful?

Mr. Armstrong. Are you asking me?

The Chairman: Yes, Mr. Armstrong.

Mr. Armstrong: As you know, I have said the trials commence in March—the foil-borne trials. I think obviously one cannot answer your question until the trials have been completed.

The Chairman: Well then, could you not have waited until the trials were completed before you bought the fighting equipment?

Mr. Armstrong: We could have, yes, but it would have meant a delay I would think of approximately three years because you build the ship test it, and then start developing the equipment. This was not thought to be a wise way to deal with the program.

The Chairman: Mr. Lefebvre, I am going back to your other question about spares, including shipping costs and government furnished equipment. This is something unusual, estimating for government furnished equipment. In other cases we have had you did not put in an estimate for government furnished equipment; it came out of naval stores or some place like that and was never figured in your estimates. Apparently you have it here. Could you explain why you are doing it here?

Mr. Armstrong: I do not think this is unusual, Mr. Chairman, if I may say so. In a contract where equipment is to be provided by the government we do estimate it and state it. In this case it is equipment that was to be bought by the government and supplied to the contractor. I do not think this is unusual.

The Chairman: As I recall in the *Bonaventure* all those things that came out of naval stores were not included in the cost of the *Bonaventure.*

Mr. Armstrong: No sir, there were both as you recall. There was some government furnished equipment in the *Bonaventure.* Also, there was the item of naval stores which did not constitute equipment supplied to the contract. It was equipment used for maintenance of the ship during the refit by the crew.

The Chairman: This is the way we like it. This is the way the Committee likes it.

Mr. Cafik, you have a supplementary; then we will get over to Mr. Mazankowski.

Mr. Cafik: Yes, I have a supplementary on that direct point. As I recall from investigations on the *Bonaventure* there were no shipping charges involved in the estimates for that particular contract and they seem to be involved here. I think this is a welcome change as well, but was there a basic change in policy?

• 1005

Mr. Armstrong: My recollection of the *Bonaventure*—perhaps you know even more about it than I do since you have been spending your afternoons on it . . .

Mr. Cafik: We are beginning to think so. We know more than we did.

Mr. Armstrong: My recollection is there were some of both. Shipping costs were included in some cases; it depended on where the article came from and how it was bought. In this case the equipment we are talking about constituted equipment we bought, I think from the U.S. Navy, and we, of course, shipped it in direct and charged the shipping costs.

Mr. Cafik: Mr. Chairman, I had a supplementary on your previous point when you were following up by asking questions about why the fighting equipment was purchased. Our witness has indicated that it would have caused a three-year delay in getting this equipment had it not been ordered for installation in this trial ship. I would like to ask, was it really the intention that this particular hydrofoil would become a fighting vessel? I did not think that was really the ultimate intention.

Mr. Armstrong: You are quite right. It never was the intention that this ship would become a fighting vessel. It has always been looked on as a type of prototype development ship, in the parlance I think is used in the navy. If it were not it would be called the first of class. It is not a first of class; it is an experimental development ship.

Mr. Cafik: How do you relate this to the answer you gave to the Chairman in respect of waiting three years?

Mr. Armstrong: I relate it in this way. As an experimental development ship it is useful basically because it can do a job for the navy which includes the use of this equipment as an ASW vessel. It is perhaps a little more complicated than I stated, although the basic reason I think was the one I gave. If you did not do both at once the end product was delayed a very considerable period of time; that is, the decision whether this development ship was a success, and you could then proceed to producing the first of class and others that you might need.

It also, of course, is of some importance in developing the prototype ship itself. The question of how you fit in and what you fit in in fighting equipment is rather important to the actual development of the ship itself so it has a bearing on the ship. However, I think the basic reason is the one I gave, the question of bringing the program to a conclusion and the finding at an earlier date than would be possible if you did them successively.

Mr. Cafik: Would you not think, by putting in the fighting equipment or developing the fighting equipment simultaneously with the hydrofoil itself, that in effect delayed the determination of whether the hydrofoil principle under these circumstances in open sea was a worthwhile principle?

Mr. Armstrong: My experts say it did not but it is a very difficult question to answer. It is conceivable that it might.

Mr. Cafik: It would seem to me that the elimination of this certainly would have sped up the development of the basic principle of the ship.

Mr. Armstrong: Of the ship itself?

Mr. Cafik: Yes.

Mr. Armstrong: It seems rather logical that if you forgot about the fighting equipment you might be able to develop the ship a little faster. That is conceivable. I am told by the people who should know that this would not have made any significant difference in time; that to build the ship and all the machinery involved in running the ship, since the fighting equipment was developed concurrently and by separate contractors, did not involve any real delay in the completion of the ship itself. I would have thought because you have to fit or at least design the ship to take the equipment that it might make it slightly more complicated and therefore, perhaps, it would involve a minor delay but I do not think an extensive one.

• 1010

Mr. Cafik: I think my last question and the real question I would like answered is that I feel the Department has made a mistake in putting fighting equipment in an experimental vessel when they did not know whether it would work. I think the real question is if you had to do the job over again—I can understand your justifying what has happened—if you started from scratch again would you proceed and put the fighting equipment in a ship when you did not know whether it was going to be successful in view of the experience you have had in this particular case?

Mr. Armstrong: Are you asking me?

Mr. Cafik: Yes, or course.

Mr. Armstrong: I am one of the people that would be involved in the decision.

Mr. Cafik: Right; I am asking your view.

Mr. Armstrong: It is very difficult to answer a question like that at this point.

Mr. Cafik: I know; that is why I asked it, I suppose.

Mr. Armstrong: I think you should make up your mind on this and let me make mine up in future.

The Chairman: Then perhaps we could ask this question. What will you do with the $9 million for the fighting equipment if the hydrofoil is not successful?

Mr. Armstrong: If the hydrofoil is not successful part of the equipment will be used for other purposes; for example, the installation of the action information system into the hydrofoil is pending. We now have it installed in the Maritime Warfare School and the Maritime Commander tells me it has been extremely valuable in terms of training his naval officers.

The Chairman: Gentlemen, I must get down to these supplementaries. Mr. Bigg, was your question answered?

Mr. Bigg: No, not quite.

The Chairman: Mr. Mazankowski, if you will allow a supplementary then we will come to you. All right, Mr. Bigg.

Mr. Bigg: I was wondering where this fitted into our long-term planning for defence. It sounds like a big bill but if we were to produce 50 of these hydrofoils, supposing it was successful, perhaps the over-all cost would not look so bad if we were able to produce these ships for, say, $10 million in round figures, later on.

Mr. Armstrong: Obviously, the more you produce the greater spread of your development cost. If you produce 50 and the development costs, say, are roughly $50 million, then you have $1 million of development cost per ship that you produce.

Mr. Bigg: I realize you have to spend a lot at the first perhaps to save a lot of money at the last. I am just worried about whether they had any—not any, I do not want to be that cynical about it—whether it actually fits into a proper long-term view of the defence of Canada and the safety of the seas around our tremendous coastlines. If so, then it is worth a $50 million gamble. My next question is in the same vein, actually. Has any thought been given, say, to sharing this with NATO or the United States or some of our other allies provided it is successful?

Mr. Armstrong: No. When you say "provided it is successful", no. Except, of course, if another nation were interested in them we might recover some of our additional development cost by sales to other

people. There is, however, no possibility whatsoever of any nation coming along later and saying: "We will take up part of the development money that you have already spent on this ship." If that was your question there is no possibility of that.

The Chairman: I think, Mr. Armstrong, this might be a good point at which to give the answer to either Mr. Lefebvre's or Mr. Cafik's question at the other meeting when they asked whether there were any patents or protection on these inventions. Do you recall someone asking that?

Mr. Armstrong: Yes, I have an answer on that. Beginning in 1961 the Superintendent of Patents in the Department of National Defence began an investigation of the possibility of obtaining patent protections on approximately 14 ideas that the de Havilland

• 1015

Aircraft of Canada, Limited, had reported. That examination extended over some period of time and the conclusion of the Superintendent of Patents was that none of those were patentable. However, as this was a major program we hired a firm of patent attornies, Ridout and Maybee, and they were asked to report on some of these items. They confirmed the opinion of our own superintendent. The position at the moment is that there are no developments of a clearly patentable nature. The subject will be followed up later on when the ship is completed and the situation will be reviewed further, but there are none now.

Mr. Lefebvre: Although this is a highly experimental vessel and the only one of its kind in the world, there cannot be that many new ideas in it if they have not been patented or if there are already patents on those very same ideas.

The Chairman: That is a pretty good question.

Mr. Armstrong: I suppose, in a sense, it is true that there are no ideas in here that are patentable and, therefore, presumably such ideas or similar ones as are included in the ship are already patented or are not of a patentable nature. I am not an expert in this, but I could bring along Mr. Mcgee if you want to go into it in detail. I could read you some of his report, but I think it would be better to deal with him directly.

Mr. Lefebvre: I think it would be a very good idea to have Mr. McGee called as a witness at a future meeting because we were under the impression that this was a very sophisticated ship that had never been built anywhere before. Now we find out that none of the ideas that went into it can even be protected by copyright.

The Chairman: In other words, for this kind of money we should have had, at least, a patent or two out of it?

Mr. Lefebvre: I would imagine so, yes.

The Chairman: Mr. Mazankowski, we have finally arrived at your name on the list.

Mr. Mazankowski: Thank you, Mr. Chairman. The Committee was told last week that the de Havilland Aircraft of Canada, Limited, was awarded the job of developing this hydrofoil because in the opinion of the Department of National Defence and the Department of Defence Production it was, perhaps, the most capable of undertaking such a project and in view of the fact that it had conducted a feasibility study, it was awarded the contract. We were told this morning that the figure of $9 million was only a funding estimate, but, is it possible that this project would never have gotten off the ground if, in fact, the original estimate had have been somewhat closer to the actual cost of $53 million? In other words, is it possible that this project would have been scrapped before it was even started if the estimate had been more accurate and if so, is there any explanation for this as it appears, on the outside, that it was almost a deliberate underestimate? The difference between $9 million and $53 million would certainly indicate it was not a close estimate.

Mr. Armstrong: I do not think, if I may say so, this was a deliberate underestimate–I do not think there is any question about that–nor did anyone really expect that the job would be completed for the $9 million. I think I have made that clear. However, I would say at the same time I do not think anybody expected it would cost $50 million.

You asked me what would have been the decision if the estimate had been $50 million. I really cannot say what the decision would have been since that was not the way it was, but it obviously would have been a rather different consideration.

As you can see, the estimate really developed right through the piece and, I suppose, the first estimate that was regarded as being anywhere nearly complete was probably the one in March 1964, but even that had a number of elements which were not included. It then went on until June of 1965 when the full fighting equipment design study was added, so the total was brought up to $35 million at that point. The estimate in 1966, I think was a very thorough one–it was the $43 million one–and probably might have been sufficient, at least one would have expected it to be, if it had not been for the fire.

I cannot really answer your question, you know; it is a question that I suppose everybody who ever has been involved in a development project asks himself. If only I had known when I started this project that

this was going to cost two or three times as much—and this happens on many, many development projects—would I have started?

The Chairman: I think, Mr. Mazankowski, Mr. Henderson might give you a further answer on this concerning Treasury Board because when they asked for the money, they had to give some good reasons to Treasury Board why the expenditure should be approved. Mr. Henderson, I would like to hear your views on this.

Mr. Henderson: Mr. Chairman, I think it was two or three meetings ago on this subject that I referred you to what I said on page 48 of my 1966 Report—that is the year previous. I do not know how many members have this report here, but if they do, I would invite them to open to page 48, where it is explained that:

• 1020

> In May 1963 a contract was awarded for the design and construction of a development prototype hydrofoil at an estimated cost of $9.1 million excluding the cost of sea trials and spares.

A report on that contract to the Deputy Minister of Defence Production—I am informed that that more accurately might be referred to as the Department of National Defence—is quoted there. It was felt that it would be impractical for the Department of Defence Production to evaluate the probable costs of this program in any detail, as they only had insufficient information from the company. There was also complete lack of historical cost data both in Canada and the U.S.A. for similar hydrofoil programs. The contractor's cost—presumably de Havilland's proposal—while not providing any detailed breakdown—this, I think, is confirmed by the schedules Mr. Armstrong has given you this morning—of labour, material and bought-out items, indicated a considerable amount of effort had gone into its preparation and it was thought that they had a good appreciation of the job. Therefore, they suggested that for preliminary funding $9.1 million was probably realistic.

However, I then went on to say that when this estimated cost of $9.1 million was submitted to the Treasury Board the Department's submission was fairly brief on this point—it did not go into it in this detail—and their statement to the Treasury Board is contained in the paragraph on page 48 in which they said very broadly that they thought the thing could be accomplished within the $9.1 million allocated.

The important point to our way of thinking is that when all this took place—this was in May 1963—the circumstances were as follows:

1. All proposals lacked reference to drawing and manufacturing specifications.

So obviously in the absence of that, you could not be very specific.

2. The Statement of Requirements for the hydrofoil had not been completed. This was done some seven months later in December 1963.

3. A materials study contract begun earlier had not been completed. Its results could be expected to require compromises.

Well, the extent of the compromises is reflected by the changes that came along later.

4. A number of special items such as transmission and hydraulic components had to meet novel requirements which made it impossible to foresee all technical problems, or accurately predict costs.

I should think that would certainly be true enough.

5. From the stability standpoint, the foils were still creating problems.

So that was the situation when the thing took off in April 1963. It is understandable, I think, that they would get more accurate as time progressed and it was that experience that necessitated the referrals back for further approvals to the Treasury Board until we arrive at the present situation.

• 1025

The Chairman: Thank you, Mr. Henderson. Are you finished, Mr. Mazankowski?

Mr. Mazankowski: No, I have one further question. The United States has undertaken some research in the development of hydrofoils. What degree of success have they achieved with respect to this development?

Mr. Armstrong: This, I think, was discussed earlier when Mr. Eames was here. My understanding is they have one large ship—a hydrofoil ship—in the area of 300 tons, I think, that also is about to undertake trial. The information we have in respect of that ship—this, I am afraid, is somewhat unofficial—is that the cost excluding any fighting equipment—they are not planning it for the same use—is approximately $33 million. If you leave out the fighting equipment and the factor of the fire, their costs are not significantly different from ours. Does that answer your question?

Mr. Mazankowski: Yes.

The Chairman: Mr. Winch is next and then Mr. Burton.

Mr. Winch: Mr. Chairman, could I ask Mr. Armstrong for an explanation of one item? If you look at Additional Ship Items, which is separate and apart from the original . . .

Mr. Armstrong: Are you looking at the table?

Mr. Winch: Yes, I am looking at the table on page 1 at the moment at what is called Additional Ship Items of which there are 21. If we study at the bottom of the page the double asterisked note as well as Notes 1 and 2 there is basically an addition of approximately $14 million. I would like to ask Mr. Armstrong if on these Additional Ship Items of this amount–I have tried to figure it out and I think I am about right–he could tell us whether any of these–and if so, what–were in addition to the original negotiated contracts with 7½ per cent bonus for performance as we discovered had happened on the *Bonaventure* where, 1501 additional contracts to the original one were negotiated with this 7½ per cent bonus for performance?

Mr. Armstrong: This was an entirely different type of contract and, I think, if I may so suggest, that Mr. Hunter would be in a better position to deal with this than I am.

Mr. Winch: In view of all our discussions, Mr. Hunter, on the *Bonaventure* I think you know what I am getting at now.

Mr. Hunter: Sir, as I mentioned several meetings ago, we had so little information at the time the first contract was placed that we placed it on a price-to-be-negotiated basis. On the first amendment to it in March 1964 where the funds approved went to $11.3 million, I believe, we worked out a target incentive contract with the contractor giving him 6 1/2 per cent as a target fee with certain bonuses for performance, for time and for cost. If his costs were below those to which we had agreed with him, if the time was better and if the performance was better he could have made up to 12.5 per cent under that contract, but the basic target fee was 6.5. This varied as we renegotiated each time with him. The fee that he earned–perhaps you would be interested in it–and this went all the way to the time just prior to the fire, on the first $27.15 million worth of work turned out to be two-thirds of 1 per cent. For his post fire work he made 2.88 per cent. For work that had already been started and had not been interfered with by the fire, the estimated fee is 7.46 per cent. His over-all fee on what will turn out to be $39 million worth of work is going to work out–if our estimates are now right–at 1.65 per cent of the total work done.

Mr. Winch: These are negotiated?

Mr. Hunter: They have been negotiated. These were renegotiated each time we came to a point where additional funds were required. We assessed what he had done under the original contract that we had. This is what we call a multiple incentive type target with a ceiling.

Mr. Winch: Did I understand you to say that you started out with a 6.5 per cent profit on a negotiated basis? Is that right? You said 6.5 per cent.

Mr. Hunter: It was 6.5 per cent on the target, and this was a negotiation with them because we placed the original contract on a basis of the contract . . .

Mr. Winch: You set the target at 6.5 per cent. What have you ended up with?

• 1030

Mr. Hunter: No, we set the fee at 6.5 per cent on the target. If he was less successful than the target, his fee would go down. If the time that we had estimated he should complete the job was exceeded, his fee would go down. If his work was not considered to be as perfect as we thought perhaps it should be, his fee would go down. And this in fact is what happened. His fee on the first $27 million worth of work went down to two-thirds of 1 per cent. That is his profit, his fee.

Mr. Winch: And what is the situation now, if I may ask, as far as you know it?

Mr. Hunter: As far as we know now, it is just as I read off. If he finishes the job at $39 million, having done all the work after the fire correctly, he will earn 1.65 per cent fee on $39 million worth of work.

The Chairman: I do not follow here. That is 6.5 per cent on the target, and you add 1.65 to that?

Mr. Hunter: No, sir. This 6.5 was just our first negotiation if everything had hit on the target, and the target at that point was $11.3 million.

The Chairman: I do not follow, and I am sorry.

Mr. Winch: If I may, I would like to make just one point now. You set a target at 6.5. This is on a negotiated contract. It was tied in in some manner whereby it would go down, and it did.

Mr. Hunter: Right.

Mr. Winch: This consideration came about in March of 1964.

Mr. Hunter: That is right.

Mr. Winch: Can you then explain to the Committee why you did this type of negotiation on the hydrofoil, a target with a maximum 6.5 per cent, and yet at almost the same time or shortly thereafter on negotiated contracts on the *Bonaventure* you established a definite 7.5 per cent?

Mr. Hunter: Sir, this contract had a maximum of 12.5 per cent. The target fee was 6.5 per cent. This was based on what we thought was a reasonable fee for this kind of work. It is cost-reimbursable in the first place, so he is taking little or no risk except perhaps with his reputation, because he is going to get his money back and he is going to get a basic 6.5 per cent on the target. But there were incentives. He could earn up to 12.5 per cent if he improved on our estimated cost at that time on the estimated time performance.

Mr. Winch: Well, could I put it the other way then? Why this difference of negotiated contract basis between the hydrofoil and the *Bonaventure?*

Mr. Hunter: Well, sir, with the *Bonaventure,* firm prices were negotiated in the contracts.

Mr. Winch: Are these not negotiated contracts?

Mr. Hunter: Well, these are negotiated, but they are cost-reimbursable. On the *Bonaventure* we made one basic contract for $5,900,000, and then each time there was additional work we looked at that piece of work and negotiated a firm price. If the contractor exceeded that firm price, that was his tough luck. We paid only that figure; therefore he was taking a larger gamble in that case, a much larger gamble than in this case where his costs are going to be reimbursed and he is going to get a basic 6.5 per cent on the target, plus an incentive bonus that would earn him up to 12.5 per cent if he improves on his target. So the reason is that on the *Bonaventure* he was giving us a firm price before he even started the work.

• 1035

Mr. Winch: I think I will turn this over to accountants, because to me it is more confusion confounded.

The Chairman: I am with you, Mr. Winch. It ends up in a cost plus, really.

Mr. Hunter: In this type there is a ceiling, Mr. Chairman.

The Chairman: Cost plus for the ceiling.

Mr. Hunter: Cost plus for the ceiling, if you will. Once the target is exceeded you are really on cost plus, but his fee is going down and, as I mentioned, his fee went down to the point where he actually earned only two-thirds of 1 per cent on the total work he did.

Mr. Winch: So you mean that the cheaper he can do it, the more he can make.

Mr. Hunter: Right.

Mr. Winch: Up to 12.5 per cent.

Mr. Hunter: Yes.

The Chairman: Now we have Mr. Burton and then Mr. Crouse. Do you have a supplementary question on this point, Mr. Cafik?

Mr. Cafik: Yes. I notice that on your spread sheet here there is $561,000 under fees. Is that the figure you are talking about? Is that the amount of money de Havilland made as a result of this, which works out to less than 1 per cent of the $50 million? If this is not the fee to de Havilland, to whom is it payable?

Mr. Hunter: Sir, that is de Havilland's fee. My figures here that I gave you, the 1.65 per cent earnings, were a projection of the fees that might be earned.

Mr. Winch: Can you differentiate between fee and profit? That is what I do not have clear yet?

Mr. Cafik: It is the same thing, a euphemism I guess.

Mr. Hunter: When you got down to 1.65 you called it fee. The $561,000 is the contractor's fee. Our projection now is that if all goes well with the $39 million worth of work, he will earn $645,000 because my officials have just pointed out that the $561,000 is based at a point where the figure just above it, sir, was $33,849,000.

The Chairman: You do not mean by that, Mr. Hunter, that the contractor's total profit would be $645,000 on a $39 million contract?

Mr. Hunter: That is what I mean, sir.

Mr. Winch: Why was there nothing whatsoever included then on the original contract for a fee or profit?

Mr. Hunter: The original contract?

Mr. Winch: Well, I am just going by this. It says $9,100,000 in April, and there is nothing—or is there? No.

Mr. Hunter: Sir, the $9,100,000 was an estimate for funding purposes. These are the words that we used when we went to National Defence. We really had very little to go on, as the Auditor General just mentioned. This was a contract for the design and construction of a development prototype hydrofoil. The $9,100,000 was a fee for funding purposes, and the Auditor General is quite right, we lacked an awful lot of information.

Mr. Cafik: May I pursue this business of the fee just a bit further?

The Chairman: I wish you would try and find out if on a $39 million contract, a firm would be satisfied with a profit of $645,000.

Mr. Cafik: Well, it is over the figure they quoted anyway. It is well over 2 per cent. But the next thing I want to know is what is the $566,000 fee in the fighting equipment development? Where did that come about? There is a $10 million expenditure there and $566,000 in sales tax and fee. Why sales tax is lumped in with fee, I do not know. They are not related items at all, I would not think.

Mr. Hunter: Sir, the figure for projection of the profit to the Westinghouse Company on the fighting equipment that I have is $456,000. It will work out at a profit of 7.08 per cent.

Mr. Cafik: Who presented these figures, your Department or the Auditor General? Why are you paying something different than the figures we have in front of us?

Mr. Armstrong: You mean why do we include the sales tax in with the fee?

Mr. Cafik: Yes.

• 1040

Mr. Henderson: I will take the responsibility for that. I asked the same question and I was informed that this schedule had its origin in our working papers and these probably should have been brought down separately, Mr. Cafik. There are several other places where we have done a little bit of quick grouping, for which I take the responsibility.

Mr. Cafik: Well, what is the breakdown, Mr. Henderson?

Mr. Henderson: We would have to find that, Mr. Cafik, and give it to you.

The Chairman: We will get it for you.

Mr. Cafik: Anyway, the Department says that that $566,000 should be $400 thousand and something – what was the figure?

Mr. Hunter: The figures I am using are a projected profit level to the completion of the work at $39 million.

Mr. Cafik: No, I am talking about the $10 million now in the fighting equipment.

Mr. Hunter: Well, $6.4 million of that was done by Westinghouse or will have been done when they complete, and the Westinghouse fee is $456,000 or 7.08 per cent.

Mr. Armstrong: If you want the figure that was added to the $456,000 included in that estimate, there was a $30,000 fee for Fleet Manufacturing Ltd. So that gives you $486,000.

Mr. Cafik: A $30,000 fee to whom?

Mr. Armstrong: Fleet Manufacturing Ltd.

Mr. Burton: Mr. Chairman, my first question is to ask where does the cost of the fire show up in the table that is before us? Where would it be included or covered?

Mr. Armstrong: The cost of the fire—the estimate in the final column, the final estimate, was developed after the fire and the estimate of April 21, 1966, was the estimate before the fire.

Mr. Burton: So the increase in cost between the two times would include both the cost of the fire and additional costs as estimated subsequently.

Mr. Armstrong: That is right.

Mr. Burton: Who is considered to have responsibility for the fire?

The Chairman: Mr. Burton, this will be given to you on Thursday with the full report. That question will be answered on Thursday.

Mr. Burton: I see. Now, as I understand it, the original contract did not include any provision or coverage with respect to fighting equipment at all. Is that correct?

Mr. Armstrong: The de Havilland contract did not have anything in for fighting equipment at all.

Mr. Burton: Nothing at all.

Mr. Armstrong: No, and as you can see from the table, the fighting equipment estimates first took shape in June, 1964.

Mr. Burton: When was the original contract with de Havilland signed?

Mr. Hunter: Approval by Treasury Board was on April 16, 1963, and the contract, I presume, would be placed immediately after that.

Mr. Burton: The other day you read out the basic wording of the contract. It was to design and develop this particular ship. I cannot reconstruct the exact wording that you used.

Mr. Hunter: I have it here. Would you like me to read it?

Mr. Burton: Yes, please.

Mr. Hunter: It reads:

> Design and construction of a development prototype hydrofoil

That is the description I have just spoken about.

Mr. Burton: What provisions were there in that contract for escalation of costs?

Mr. Hunter: Well, sir, this was on a basis of a price to be negotiated. It was clearly indicated that we did have enough information and the Auditor General has told you why. We used the words:

> The contractor's estimates for this program are recommended for funding purposes. The methods used though based on broad parameters are considered conservative and it is our considered opinion that the program as now understood . . .

• 1045

Those are really the key words to us because it is recognized that we did not understand too much. But we said:

> . . . the program as now understood but not including contractors and users trials will be accomplished within the $9.1 million allocated.

Now, there were so many things added after that, certainly it was clear then that the cost would exceed $9.1 million. I would not like to say how much, but we know now.

Mr. Burton: What provision was there in the contract for further negotiation of these items?

Mr. Hunter: The basis of that contract was "price to be negotiated". In other words, we said we will sit down with the contractor. We set this $9.1 million for funding purposes to get on with the job. In the meantime, while the technical people sat down and tried to refine what they really wanted in the ship, we sat down with the financial side of the house and worked out a target-incentive type contract that would be based, as I said, on a basic fee of 6.5 per cent on the target price with further incentives if they exceeded cost-performance that we thought was reasonable, or time performance, and we had a limit of 12.5 per cent profit which would be the maximum he could earn if he did a perfect job or more than perfect—exceeding what would be normal.

Mr. Burton: Then in February, 1964 the Treasury Board approved the new figure of $5.5 million plus an almost $1.2 million fee; then this would have involved a contract renegotiation or further negotiations at the time.

Mr. Hunter: That was really our first negotiation; that is right, sir, based on just what I have told you.

Mr. Burton: Then was that considered a firm price at that time?

Mr. Hunter: No, it was not firm by any means, sir. It is a target-incentive type contract that really depends wholly on the contractor's performance, cost, and a number of other things on what he makes. As I mentioned, he did not make anything like 6.5 per cent.

The Chairman: Are there any more questions for this witness?

Mr. Burton: Well, I am really interested in knowing what the contract as described here, the de Havilland contract and the sub-contracts, covered or just how these costs were estimated or what it was to include.

The Chairman: They were all "prices to be negotiated".

Mr. Burton: This, I gather, are costs or what are to be considered laid out costs, the figures proceeding from $9.5 million right up to $33.8 million in the final estimate.

Mr. Hunter: Well, sir, if you look at the spread sheet which Mr. Armstrong tabled this morning, you will see in the $9.1 million there are really no extras. At the first point of renegotiation there were still no extras, but each time we added certain things. I have a record of what was added here. We would adjust the original contract that we had with the contractor on a basis of if there was additional work added we might change the target, but he would still be limited by those incentive-type clauses.

Mr. Burton: Well, in the increase from $9.5 million up to $22.25 in June, 1965, looking down the individual items I see that all of these items are listed individually up to that point with only one deletion for support facilities. Subsequently I recognize, as you point out, that there were a number of these items changed. Are you suggesting, for instance, that this item of spares was dropped from $1.5 million to $450,000 and then later $855,000? Does that mean that some of these items were then included with the basic contract?

Mr. Hunter: Sir, I am told as far as spares are concerned, these were strictly funding figures all the way across until it was really determined what you were going to have so that you would know what spares you would really order. I am told by DND officials that it was really 1966 before they were sure enough to really know what spares they would need for what they finally had at this time. Therefore, the $1.5 million was strictly a very wild estimate and more than enough to cover it as it turned out—in fact, double what they needed.

• 1050

Mr. Burton: I am afraid I do not have a full knowledge of the type of contract that would be involved in this case. There may be members here who do have a more adequate knowledge of it. Frankly, I am very much at sea on it, but as I understand it, reading this first figure of $33.8 million in the last column, this is really a cost figure, is it not? It is what is considered to be the cost to the firm and the fee that is received by the firm is the $561,000 in addition.

Mr. Armstrong: Yes, that would be right.

Mr. Hunter: Yes. Those are figures that were really estimated for funding purposes and those were the changes that happened as we went along.

Mr. Burton: Cost figures would include all costs including depreciation, interest on capital, and so on as well, would they?

Mr. Hunter: Sir, he would have his direct labour, overhead and materials and if you are speaking of contractors costs, yes, they would include reasonably incurred overhead, materials or the government furnished equipment that we supplied, and direct labour.

Mr. Burton: And the fee is really a sort of service fee, a profit fee?

Mr. Hunter: Yes, that is right.

Mr. Burton: So it is really a guaranteed cost, in effect.

Mr. Hunter: It was a guaranteed cost as closely as we could fix the fee. To start we used for an estimate 6.5 per cent of the target.

Mr. Burton: It seems to me, Mr. Chairman, that we need to go into this contract in the same way that we are going into the cost of the *Bonaventure*. There is a great deal of detail here and I suggest at this point that if deemed appropriate we strike off a sub-committee to conduct the same sort of detailed investigation as is being done for the *Bonaventure*.

The Chairman: We will consider your suggestion, Mr. Burton. Have you finished now?

Mr. Burton: Yes.

Mr. Chairman: I have two or three names here and I would like to give them an opportunity before we adjourn; Mr. Crouse, Mr. Noel and Mr. Lefebvre.

Mr. Lefebvre: I just have a short supplementary, sir.

The Chairman: All right, Mr. Lefebvre.

Mr. Lefebvre: If we add up the two sheets given to us this morning we arrive at a total of $50,006,000, but if I remember correctly we were given an additional $3,503,000 last week in reply to one of my questions concerning the amount of funds expended directly by the departments in research and studies prior to giving out the original contract.

I think that figure should be added to these two sheets so the Committee members will be aware that the cost as of March, 1967 is actually $53.5 million and I would just like to ask this. Can anybody give us the total costs since March, 1967 because we are approximately two years behind?

Mr. Armstrong: This estimate is a valid estimate at this point. Would you like the actual expenditures? Is that your point?

Mr. Lefebvre: Could you give us a rough idea of what the additional costs have been since March, 1967, which is about two years ago?

Mr. Armstrong: This was not an expenditure; this was an estimate at March, 1967. You want to know the actual expenditure to date; the estimate remains the same.

The Chairman: The estimate as of March, 1969 remains the same, Mr. Armstrong?

Mr. Armstrong: Exactly, yes, sir.

Mr. Lefebvre: It remains the same but what is the total cost of date? May I put it that way?

Mr. Armstrong: I do not have the actual expenditure figure. I am told it is between $48 million and $49 million. I can get it precisely for you if you like.

Mr. Lefebvre: Full total costs?

Mr. Armstrong: Expenditures to date.

The Chairman: Now Mr. Crouse.

Mr. Crouse: Mr. Chairman, on these sheets that were provided my first question is one for clarification. On the second sheet, for example, under "design study" it shows $150,000 and then on November, 1964, $150,000; then June, 1965, $235,000 ; then $232,000 and then $232,000. Do we total all these amounts, or is the final figure the one that has actually been expended?

Mr. Armstrong: The final figure is the final estimate. You do not add them across.

Mr. Crouse: That is the final estimate or the final expenditure, Mr. Chairman?

Mr. Armstrong: It is the estimate for funding purposes and it shows the increases that took place at those successive dates, so that the final column shows the current latest estimate.

• 1055

Mr. Crouse: Well, then, Mr. Chairman, we come down to radar, for example; $156,000 is the amount listed for radar. Is this correct? This is the amount that has been expended?

Mr. Armstrong: This has not necessarily been expended. It is the estimate. This is not an expenditure figure. Do you understand me? It is not intended to record the actual expenditures at this date. This is the figure which adds up to the $50,006,000 which the Auditor General referred to in his comment at the bottom of page 51. It is the latest estimate of cost, but it is not the actual expenditure.

The Chairman: To clarify, Mr. Armstrong, perhaps you could tell the Committee concerning the estimate of $156,000 for radar what you have spent to date.

Mr. Armstrong: I will see if they have it here. They do not have it here. I will have to get it for you, Mr. Crouse.

Mr. Crouse: The question asked by the Chairman is a very good one because we have here, for example, $1,564,000 for sonar; $156,000 for radar; $355,000 for navigation and $280,000 for communications. All of these items primarily are electronic equipment and I would like to know whether we have actually purchased any of this equipment and what amounts of those listed in this fifth column have been expended.

Mr. Armstrong: If you want it in detail, I am afraid my people do not have it. Of the $10 million total there, the amount that has been spent is approximately $9 million to date. I can get the details if you want them; I just do not have them with me.

Mr. Crouse: Here we have, Mr. Chairman, a very sophisticated, highly experimental ship. We are not yet certain whether it will work, yet the department has obviously purchased a lot of equipment unnecessarily. The officials in charge of this work, if not lacking in common sense, are lacking in good business sense. Unlike private industry our department heads do not have to produce or function efficiently. All they seemingly have to do is dream up a project and ask the taxpayers to provide the money.

From private industry we can rent Decca navigational equipment for approximately $1,500 per year over a five-year period; that would come to $7,500. Mr. Chairman, we rent our radars and I would like to know why, in the case of an experimental ship the department officials were not certain would operate, they did not go to the people who manufacture this equipment and rent radar, rent Decca and rent radio telephones until they ascertained whether this would work and whether it was going to be operational. Why did you not follow this course?

Mr. Armstrong: The answer is very simple. The equipment that is listed here could not be rented. We did rent Decca, for example, but you just do not rent this equipment.

Mr. Crouse: Are you trying to tell this Committee that you can not rent radar?

Mr. Armstrong: We could not rent the equipment that is in here. This is a system. Decca is installed in the hydrofoil. Decca is an anti-submarine weapon system.

Mr. Crouse: But radar, Mr. Chairman, used by the navy is the same radar used by private industry. Is this not correct, Mr. Chairman?

Mr. Armstrong: This is a development project, Mr. Crouse.

Mr. Crouse: Am I to understand that radar used by the navy is not the same as the radar used for private industry? In a special radar built for navy?

Captain T. S. Allan (Hydrofoil Project Manager, Department of Defence Production): The type of radar we are using in the hydrofoil was not commercially available with the performance that we felt we needed to make it compatible with the weapon system.

Mr. Crouse: That is your opinion, but in . . .

Mr. Armstrong: Captain Allan has answered that question, Mr. Crouse.

Mr. Crouse: Is this point of view substantiated by the electronic people?

Capt. Allan: By the Department of National Defence electronic people; yes.

Mr. Crouse: Could you not have rented radio telephone equipment which would have been acceptable for your communications system? This is the method used by private industry.

Capt. Allan: I answered you on the radar side.

Mr. Crouse: Yes, but my question deals with the extravagant sums which are listed here for sonar, radar, navigation and communications, all of which are rented by private industry. Under the rental system the equipment is protected because the person supplying it insures it. In the event of this fire the equipment on board would have been covered by the people who supplied the equipment. They also service it and private industry has found that this is the best method of securing this type of equipment. I am amazed that the Government of Canada has not yet become aware of this particular fact of industrial usage.

• 1100

The Chairman: Mr. Crouse, you are asking the witnesses why they did not rent this equipment. The witnesses are saying that this equipment could not be rented.

Mr. Armstrong: I am saying that this equipment which was included in this ship–this fighting system–could not be rented. If you can tell me where it could be rented, all right, but as far as I am aware it could not be rented.

Mr. Crouse: Mr. Chairman, the witness has already stated that you did rent Decca navigators. Is that correct?

Mr. Armstrong: Yes, because Decca navigation equipment is available as a commercial item, so we rented it, but you cannot rent the system that is in here.

The Chairman: Mr. Crouse, perhaps you should ask the witnesses if they endeavoured to rent the equipment.

Mr. Crouse: This is what I am trying to do.

Capt. Allan: Yes, we did. The equipment we needed for the fighting system which was commercially available, for example Decca, was rented. The radar and the communications systems which we required which had to meet certain specifications were not available commercially. Therefore, they were not rented.

Mr. Crouse: This is the whole point, Mr. Chairman. Five years ago the government rented equipment and they are still not aware–they sit here to this day–whether or not this ship will be operational. You have been renting highly sophisticated equipment and have purchased much more not knowing whether it would be functional or operational. Is this correct? This is why I said you are not business-minded people.

Mr. Armstrong: I think I should answer this question, Mr. Crouse. This question was dealt with earlier. The reasons we developed the fighting equipment concurrently with the ship, I think, were gone into at some length at the beginning of this meeting.

The Chairman: Concerning Captain Allan's answer that they could not rent this equipment because of the specifications that you required, could you not have used less sophisticated equipment that would have served the purpose until the hydrofoil was functioning and then bring in the other equipment?

Capt. Allan: Yes, if we had decided not to proceed with a weapon system development concurrently with the ship system. I will quote an example. Because of the space limitations and weight limitations of the ship, we wanted one set of radar equipment which would give us some aircraft control capability and some surface warning capability. The set that Mr. Crouse refered to that is available commercially, is primarily a navigation set which gives you surface capability, not an aircraft control capability, so we had to go to a specific radar set which was, as a point of fact, developed outside the country.

The Chairman: Mr. Crouse, one more question then we must adjourn.

Mr. Crouse: I simply want to raise doubt about the statement given by the witness that the radar required for this ship could not be rented. I find this highly questionable, Mr. Chairman.

The Chairman: Mr. Noel, I apologize for not getting to you, but we will start the next meeting with you. Mr. Cafik?

Mr. Cafik: Yes, I have only one point to bring up. Perhaps the Department could prepare a spread sheet along the lines of the one we have before us, but instead of giving us the estimated cost give us the actual cost to date broken down in the same categories.

The Chairman: You are suggesting one more column next to this last one with the amount of money spent to date?

Mr. Cafik: That is correct.

The Chairman: The meeting is adjourned.

HOUSE OF COMMONS

First Session—Twenty-eighth Parliament
1968-69

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: Mr. A. D. HALES

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 22

THURSDAY, MARCH 6, 1969

Public Accounts, Volumes I, II and III (1966 and 1967)
Reports of the Auditor General to the House of Commons (1966 and 1967)

WITNESSES:

(*See Minutes of Proceedings*)

THE QUEEN'S PRINTER, OTTAWA, 1969

29925–1

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. A. D. Hales

Vice-Chairman: Mr. T. Lefebvre

and Messrs.

[2]Bigg,	Forget,	Noël,
Burton,	Gervais,	Rodrigue,
Cafik,	Leblanc (*Laurier*),	Roy (*Timmins*),
Crouse,	[1]Major,	Tétrault,
Cullen,	Mazankowski,	Thomas (*Maisonneuve*),
Flemming,	McCutcheon,	Winch—20.

(Quorum 11)

Edouard Thomas,
Clerk of the Committee.

Pursuant to Standing Order 65(4) (b),
[1]Mr. Major replaced Mr. Guay (*Lévis*) on March 4, 1969.
[2]Mr. Bigg replaced Mr. Noble on March 6, 1969.

REPORT TO THE HOUSE OF COMMONS

March 6, 1969

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

SECOND REPORT

Your Committee recommends that it be authorized to adjourn from place to place within Canada and that the Clerk of the Committee and the necessary supporting staff accompany the members.

Respectfully submitted,

A. D. HALES,
Chairman.

29925-1½

MINUTES OF PROCEEDINGS

Thursday, March 6, 1969.
(24)

The Standing Committee on Public Accounts met this day at 9:37 a.m., the Chairman, Mr. A.D. Hales, presiding.

Members present: Messrs. Cafik, Crouse, Flemming, Hales, Leblanc (*Laurier*), Lefebvre, Major, Mazankowski, McCutcheon, Noël, Rodrigue, Thomas (*Maisonneuve*), Winch (13).

Witnesses: Mr. A. M. Henderson, Auditor General of Canada; Mr. E. B. Armstrong, Deputy Minister, Department of National Defence; Mr. G. W. Hunter, Deputy Minister, Department of Defence Production; Capt. C. W. Ross, Director of Maritime Combat Systems; Mr. R. O. McGee, Director Patents Administration; and Capt. T. S. Allan, Hydrofoil Project Manager.

The Chairman read a report from the Sub-Committee appointed to study the refit of the *HMCS Bonaventure* in detail:

Your Sub–Committee has concluded its meetings with departmental officials in its study of the various contracts covering the refit and improvement of the *HMCS Bonaventure.* The report will be prepared shortly; however, as two of the members will be departing this weekend with the Standing Committee on External Affairs and National Defence, it will not be possible to complete and approve the report in the Sub-Committee until they return.

Owing to the vast sums involved in the refit program, your Sub-Committee is of the opinion that the Committee should not discuss and agree or disagree with the report until members have actually viewed the carrier. It is understood that the *Bonaventure* will be at Halifax the latter part of the month. The Committee would be afforded an opportunity to see the hydrofoil at the same time. This would mean a two day trip to Halifax.

If the Committee is agreeable, I will entertain a motion to request the necessary authorization of the House.

Moved by Mr. Leblanc (*Laurier*), and

Agreed,– That the Committee seek the authority of the House to adjourn from place to place within Canada and that the Clerk of the Committee and necessary support staff accompany them.

The Deputy Minister of National Defence tabled a chart of the funding evolution for the hydrofoil including actual costs.

The Committee questioned Capt. Ross on the development of the hydrofoil in particular the equipment.

The Committee questioned Mr. McGee concerning the lack of patents for the hydrofoil.

At 11:00 a.m., the Committee adjourned to the call of the Chair.

Edouard Thomas,
Clerk of the Committee.

EVIDENCE

(Recorded by electronic apparatus)

Thursday, March 6, 1969

• 0939

The Chairman: Gentlemen, may we proceed? I would like first to report to you about the work of the Subcommittee.

(See Minutes of Proceedings)

• 0940

Gentlemen, as Chairman of the Public Accounts Committee I agreed to present this report to you about making the trip, keeping in mind that the expense is well-founded and appropriate.

We would fly by Air Force carrier and it is suggested that we might stay at Naval Headquarters or be billeted by the Department, thereby cutting out a hotel bill, and we would return the next day.

If the Committee agrees we will make the necessary arrangements and I would ask the Committee for approval of a resolution along these lines:

> That the Committee seek the authority of the House to adjourn from place to place within Canada and that the Clerk of the Committee and necessary support staff accompany them.

That is the usual resolution.

Mr. Leblanc (Laurier): I so move.

The Chairman: All those in favour?

Motion agreed to.

The Chairman: Gentlemen, we will advise you when the *Bonaventure* and the hydrofoil are in Halifax at the same time and you will have plenty of notice. Yes, Mr. Major?

Mr. Major: Could you give us a definite date as soon as possible, Mr. Chairman?

The Chairman: Yes. We will give you the date as soon as possible. It will be when the other members get back from their trip, perhaps two or three weeks from now. Yes, Mr. Cafik?

Mr. Cafik: One point, Mr. Chairman, in view of the size of the *Bonaventure*—I do not know much about the hydrofoil—but in view of the size and the complexity of the *Bonaventure* and the nature of the investigations that we have had on the subcommittee, I frankly, with all due respect, do not feel that a worthwhile tour and in depth investigation of the factors involved on location could possibly be achieved within a one-day period, as we have to go over both of these projects. I may be wrong, but I feel that we should allow ourselves a little more time if we are going to have the in depth knowledge of the situation necessary to make a final judgment.

The Chairman: Mr. Winch, do you have an observation?

Mr. Winch: I do, sir. Having spent a week on board the *Bonaventure* I think one conducted tour with all members is almost an impractical suggestion. I think we could achieve the same objective by splitting up into two or three groups and then meeting afterwards and each group reporting.

I think from a practical point of view, having spent a week on board, that it would be a lot better than all of us trying to go through on one conducted tour to see all of the nine or eleven decks, if my memory is correct.

The Chairman: Eleven, I believe.

Mr. Winch: I suggest that it could be done that way within one day.

The Chairman: All right, the length of time we will be away will not be settled today. The length of time will not be in our motion.

Gentlemen, at the close of the last meeting we had before us two large sheets such as this; please put them before you. The Department and I ask the indulgence and the forgiveness of the Committee for this report being prepared in English only. It is all figures. The figures bring the costs spent up to date. It will save reading them to you, if it is all right, if we pass them around just in the one language. Gentlemen, we will not accept questions on these at the moment, but you may want to refer to them when you are putting questions later on.

• 0945

As you recall, we were discussing the fighting equipment aboard the hydrofoil and there were many questions asked concerning this. Mr. Armstrong has asked permission of the Committee to bring as a witness this morning one of the members of his Department who is well versed in the fighting equipment on the hydrofoil. I will ask Mr. Armstrong to introduce Captain Ross to you and then we will proceed with questions on the fighting equipment where we left off at the last meeting.

Mr. Lefebvre: Mr. Chairman, I was under the impression that there would be a gentleman here to answer questions from the Patents Division also.

The Chairman: Yes, that is right. I do not know whether we will be able to get someone, but we will keep that in mind. I notice from the minutes there was a question asked about the fire insurance policy. A request was also made for the report of the fire on the hydrofoil and as promised last week, Captain Allan will give it to you this morning.

Mr. Armstrong, if you will introduce Captain Ross we can get started. As we have a lot of ground to cover this morning, I hope everything will be brief and to the point.

Mr. E. B. Armstrong (Deputy Minister National Defence): Mr. Chairman, Captain C. W. Ross is Director of Maritime Combat Systems. With your permission, he will give the Committee a very short statement on the nature of the fighting system that we were discussing last week and deal with the question of the ability to rent it and the extent to which bits and pieces were rented.

Captain C. W. Ross (Director of Maritime Combat Systems): Mr. Chairman, to expand on the answer that was given to your Committee to the question of renting versus buying fighting equipment, with your permission, I would like to outline very briefly what we are attempting to accomplish, the options that were available to us and then explain to you why we were unable to rent in the majority of cases.

The objective, of course, is to evaluate the hydrofoil as a complete weapon system and to determine how effective it is in relation to other weapon systems. How does it compare with a destroyer, with a helicopter, with a submarine? Such an evaluation cannot be a simple "go, no-go" test, but must be a comprehensive quantitative measurement of the performance of the fighting equipment at sea. We must answer such questions as at what ranges will we be able to detect the target; at what speeds can we launch torpedoes; can men effectively operate fighting equipment in the noise, vibration, roll-pitch environment of the hydrofoil?

To have a meaningful evaluation such as this there are a number of constraints that are placed on the equipment. First, it must be reliable and rugged to

• 0950

allow evaluation without excessive breakdowns and faulty performances. If the equipment does not operate to standards and it is poor equipment, how can we tell whether the fault is the equipment or the environment of the hydrofoil?

The equipment also must be flexible enough to permit experimentation of tactics and modes of operation without modification. A radar that would be suitable for evaluating the safety and navigation requirements would not be suitable to evaluate the mission of controlling a helicopter.

Next, the equipment must approximate the equipment that would be used in a production ship, in size, in weight and in technical complexity. You would not evaluate the ship using depth charges if, in the production model, you intended to use torpedoes.

Another constraint is that the equipment must be capable of being installed in the hydrofoil without extensive modifications to the ship. This means that the ship and the equipment design must proceed together. I think we would be highly embarrassed if we went to fit fighting equipment in the hydrofoil only to find that we had not allowed enough electrical power. Even more embarrassing would be the situation where we proceeded with a ship design with fighting equipment and later discovered that we did not have enough men to operate the equipment. I think it is clear that we have to operate in parallel, both the ship and the fighting equipment design.

Based on these constraints and above all the operational requirement, the equipment we selected after exhaustive study fell into three categories. First, standard equipment used by the Canadian Armed Forces or other NATO navies. Second, standard equipment that was suitable, but needed modification for the hydrofoil and third, where no suitable equipment existed at all, to engineer or develop some.

Due to the differences between the hydrofoil and other naval vessels, the majority of the equipment that we are discussing fell in the last two categories. The sources of such equipment are limited. They are limited to other navies and to industrial firms engaged in military production. It is common practice for navies to loan equipment, but rarely are industrial firms prepared to rent to such a limited market. However, sir, we tried. The original intent was to obtain some of the equipment on loan from the U.S. Navy and some on rental. Our Treasury Board submission 629181, July 22, 1964, Annex A page 4, referring to the action information, states: "maximum use of rental equipment is envisioned".

As the detailed engineering studies progressed it became obvious that with the exception of a commercial computer and the decca navigator, loans or rentals were not viable concepts due, primarily to the degree of modification required and the shortages in some

• 0955

cases of the required equipment. For example,–I will not bore you gentlemen by going through all of the fighting equipment; I will just pick a few examples and be prepared to answer questions on any of the specific items–in the weapon delivery system of this ship we planned to use a torpedo–a homing torpedo of whatever variety was available at the time the ship would come into production or at whatever time the evaluation was to be carried out. However, you have to launch that torpedo and this requires torpedo tubes. It is a system where you launch the torpedo over the side using compressed air. Originally, we were going to borrow these tubes from the U.S. Navy, however, we found that in a ship such as the hydrofoil, tubes designed for larger vessels were not suitable. There were weight considerations and also the necessary controls for launching the torpedo had to be integrated with our own command and control system. So the extent of the modifications precluded the use of stock items from the U.S. Navy or any other navy. These tubes, by the way, are now standard fitting in the fleet.

Another area of considerable interest has been the sonar. In the ideal situation, we should take account of the speed of the DDH and utilize a sonar system that makes maximum use of this speed–in other words, a high speed sonar. By the nature of the ship, the nature of the Canadian requirement, variable depth sonar is the answer. This is a system by which the transducer is towed over the stern of the ship on a length of cable, the power to the transmitter is sent down the cable and the signals returned to the electronics which are on board the ship. The basic problem is the size and strength of this tow cable together with the configuration to permit us to tow with reasonable power at speeds through the water.

Originally, we did not think that we could meet this requirement. The concept that was developed was that we would have a sonar where the ship could stop, the transducer would be lowered into the water, the search carried out, the transmitter raised and we would then go off to the next search area. The reaction time for such a system is so long that we would lose all of the advantages of speed. However, fortunately some of our tow cable development paid off and we now feel that we are, at least, able to tow the sonar at high speed. We are not sure at what speed we will actually be able to operate the sonar; this will evolve from the evaluation in the hydrofoil.

With respect to the actual buying of sonar, there is no small ship variable-depth sonar that is suitable for the requirements of the hydrofoil. Indeed, we adapted a Canadian-developed sonar for this use. The system today is installed in Halifax and because of the commonality with the system we intend to use in future ships, we are doing pre-training on it to provide knowledge for future officers and men on the new systems.

There are a number of navies that are interested in this equipment and by my side there, Mr. Chairman, are the contracts negotiated by DDP for this equipment which contain a clause concerning Crown rights to all designs. There was no possibility of any rental.

• 1000

The radar system, as I have mentioned, is required not only for safety in navigation. but also for control of helicopters. This severely limited the number of equipments that were available and, in fact, it narrowed down to two and one was decreed unsuitable. The modifications to integrate this with our control system precluded rental even if the company had been willing. I understand the particular company has never engaged in any rentals.

There are various types of navigation equipment but the one mentioned as being of interest to this Committee is the DECCA navigator. This is a navigation system that is viable only in specific parts of the world. We have never bought DECCA navigation equipment, we always rent it. It is a contract with a Canadian firm, and this is the situation in the hydrofoil.

Our pride and joy is the Action Information System. The requirement for size and the limited number of men demanded automation. The operations room of the hydrofoil could not handle standard operations room equipment. Since 1949, with the commencement of DATAR, we have been engaged in the automation of Action Information System for naval ships. We have considerable in-house expertise. Extensive studies were carried out and the most suitable equipment selected.

We had hoped to borrow some of the displays and signal generators from the U.S. Navy. Unfortunately their commitments precluded this. They did allow us to enter in and buy a set from the contractor so this would later be followed by our order actually being delivered to the U.S.N.

We were however, able to rent a commercial computer, which we did. This is a computer for simulation and for program compilation. This system provides our commanding officer with up-to-date tactical data that he needs "to fight his ship". Such information as zone ship motions, target motions and predictions are all made available to him as he requires them with a minimum number of men.

Systems have been developed for larger ships, but up to the point when we commenced our hydrofoil development no small ship ASW system existed. The knowledge gained from this system permitted us to prepare a specification which the Department of Defence Production were able to put out to competitive tender for the complex system in the DDH 280. It is my personal opinion that we saved a considerable amount of money and time with this process.

The hydrofoil system today is installed in Halifax. It is used for training personnel, for doing subprogramming for our destroyer system, and for checking out tactical situations. I trust, sir, that when the Committee is in Halifax it will find the time to visit this establishment

The type of equipment we have been discussing is not simple. It is highly sophisticated, it is modern and it is designed to perform a complex task. In the fighting equipment field we are always pushing the very limits of the state of the art. Such technology is expensive. In my opinion, Canadians can be proud of the efforts of their countrymen in industry, in the civilian

• 1005

and military side of Defence Production and National Defence for a complex job planned, scheduled and completed in a fashion that I consider well done and on time.

The Chairman: Thank you Captain Ross. Before we proceed with questions, Mr. Noël was on the list, Mr. Crouse and Mr. Lefebvre. I have now Mr. Cafik.

I want just to ask one question, Captain Ross before we get into questions about equipment. I am no graduate engineer, but I wonder if you could answer this question which seems to stick in my mind. Was not the first feasibility test to prove that the hydrofoil could get out of the water, skim over the surface at a high speed and combat all types of rough seas? Was that not the first feasibility test? After we had proven that then it was time to go into equipment?

If you could prove to the Committee that this first feasibility test was successful, then we could discuss equipment. I think it must be proven that we have a ship capable of doing this first before we put equipment on it. Would you mind answering that?

Captain Ross: I think, Mr. Chairman, on the first question; that is, the actual performance of the ship, that I would ask Captain Allan to comment. I would then be prepared to comment on how the fighting equipment phasing fits into his program.

The Chairman: We, as a Committee, want to know that this ship is capable of doing these things before we put equipment on it.

Mr. Armstrong: This is Captain Allan, he is the Project Officer for the Hydrofoil.

Captain T. S. Allan (Hydrofoil Project Manager, Technical Services Branch, Department of National Defence): The evaluation is being done in two stages. First the ship evaluation as a ship alone. If that is successful the intention would be to consider putting in the fighting equipment and evaluating the total system as a complete weapon system.

The decision to proceed in parallel with the weapon system development and the ship development was to make sure that both the ship and the weapon system were compatible with one another, and that we were not involved in large scale modifications to either in order to make up a complete weapon system.

The Chairman: Does that answer the Committee? It does not quite satisfy me.

Mr. Cafik: It certainly does not satisfy me, Mr. Chairman.

Mr. Armstrong: I think the other point which I mentioned at the last meeting is still valid. If you developed them separately—this is a possible course of action—it would mean approximately three years' delay between the time you proved that the hydrofoil worked and the time you were able to test it as a ship and fighting system.

In other words one would have to build the fighting equipment later. The total cost under that arrangement would, of course, be more expensive if the project were successful. If the ship did not work you would save money obviously because you would not have built the fighting equipment.

Aside from the reasons given by Captain Ross, there was another reason the decision was taken to proceed this way, and it is still valid, although there has been a slippage in time. As you recall, decisions had been taken to buy the DDH 280's and the supply ships and the expectation as to the future of Maritime equipment for the Navy was that the next point at which basic decisions involving significant re-equipment were likely to be taken would be about 1975.

It was important, if the hydrofoil were to be a consideration in the sense of being a ship that had been tested as a fighting system, to have both the ship and the system tested in the early 1970's, so that a decision could be made and taken into account on an

• 1010

intelligent basis. I think this was quite an important reason for the decision to go ahead with both the ship and the fighting system simultaneously.

Mr. Winch: May I ask a supplementary on that?

The Chairman: Yes, followed by Mr. Cafik.

Mr, Winch: It is just a supplementary. I am pretty certain that I can follow the reasoning Mr. Armstrong

has given us. I would like to ask, as the construction of the ship as a ship and the fighting equipment were going on on a parallel basis and if the testing, which I presume is not done yet on the ship as a ship, was a failure whether you could tell us if the experience gained and the equipment produced, which could no longer be used if the ship was a failure, was of such a nature that the $10 million would have been a good expenditure and that the knowledge gained and the equipment would be adaptable for any other type of ship in our navy?

Mr. Armstrong: I think I will ask Captain Ross, who has already dealt with this to some degree, to answer this question because it is a technical question. At least some of this equipment is valuable for other purposes.

Captain Ross: Yes, sir. In the primary areas of the sonar and the AI system, certainly the knowledge gained in the development for the hydrofoil is directly applicable to our other systems. The sensing unit that was developed for the hydrofoil system, for example, is now in the equipment in Terra Nova, which is being evaluated for the Restigouche conversion in the DDH. The whole programming technique developed in the hydrofoil system is being applied to the combat control system for the DDH. All of the fighting equipment developed because there was no suitable equipment, was certainly aimed at long-term objectives because the hydrofoil's operational requirement is by its very nature the same as the operational requirements for other ships, with only the modification for the nature of that particular ship required.

The answer to your question is, yes, in those areas where we were pushing the state of the art and developing new concepts and new equipment.

The Chairman: I have Mr. Cafik and then Mr. Noël on my list.

Mr. Cafik: I have a couple of questions. First of all, I would like to know on what date the decision was made to proceed simultaneously with the development of the ship and with the development of its fighting equipment? When did you realize you had to do both things? I ask this question because it appears obvious, to me anyway, by looking at the facts and the Auditor General's Report that originally you must have thought you were only going to proceed with the ship.

Mr. Armstrong: No, this is not the case. I think the decision was made officially in 1963.

Mr. Cafik: In April, 1963 there was an estimate, I think, approved by Treasury Board for $9.1 million for the hydrofoil, at least categorized in that way, and nothing for fighting equipment.

Mr. Armstrong: Let me explain. The figures shown there do give you the authorizations by specific items.

I do not think this listing is actually shown in your breakdown on November 6, 1963; however, the overall funding estimates for the total program, as given to the Treasury Board, were shown as $18 million and this included fighting equipment shown for funding purposes as $3 million. Subsequent to that the feasibility studies and so on were done on the fighting equipment and it was not until 1965, I guess, that the detailed estimate was available. A June, 1965 estimate is the first one on the fighting equipment after the completion of the feasibility studies and the detail work which had been done to determine the probable cost. It was, in fact, contemplated really from the beginning, but it was first introduced officially in 1963.

Mr. Cafik: You are telling us that it was never really the intention of the Department to build this hydrofoil for the original estimate of $9.1 million?

Mr. Armstrong: Never; we have said that from the beginning, I think.

Mr. Cafik: Right. My second question is to clarify things in my mind or to obtain your view. It seems to me just judging from things on the surface and taking such projects as, say, the Avro Arrow and so on where the cost was phenomenal and then the project was ultimately dropped, that there is always a danger in research projects like this. I think the development of the hydrofoil is a worthwhile investment, but there is a great danger when you add the cost of the weapon system and the hydrofoil together and come up with a figure like $50 million that suddenly the public really begins to wonder about this project and the whole thing might be scrapped for the simple reason that you have added two things together and created an enormous sum. I think you would have been far better off in terms of public relations to develop the one, complete it and have it workable and then if you spent another $10 million or $15 million to develop weapon systems it would be very understandable under those circumstances. But it certainly asks the public, I think, who are not too well informed and even us on this Committee to stretch our imagination a little bit to believe that there is very much sense in developing both together.

I do not think a weapon system is much good on a ship that will not work, so I think the fact that the ship either works or does not work, is satisfactory or is unsatisfactory is the fundamental decision to be made, would you not think?

Mr. Armstrong: Obviously it is fundamental, yes, that the ship should work. I have endeavoured to explain a number of what I believe to be valid reasons why the system should be developed as a fighting system, both the ship and the equipment that goes

into it, but obviously if the ship does not work, then that equipment will not be needed for the hydrofoil. I think, as has been explained, it is certainly not a total loss. There is obviously some considerable skim-over into other areas that will be valuable and, in fact, has been valuable. The action and information system and its advantage in terms of DDH 280 was obviously an important item and we have already gained from this.

The Chairman: Mr. Cafik, have you finished your questions?

Mr. Cafik: Yes, I think so.

The Chairman: Mr. Armstrong, I would like to interject here. I will read from the 1966 Auditor General's Report from your Department's submission to the Treasury Board which says:

> The Contractor's estimates for this program are recommended for funding purposes. The methods used though based on broad parameters and considered conservative and it is our considered opinion that the program as now understood, but not including the Contractor's and user's trials, will be accomplished within the $9.1 million allocated.

Now, you told Mr. Cafik that you never did think that you would do it for $9 million?

Mr. Armstrong: And I confirm that we never thought it could be done for $9 million. That quotation has been explained, Mr. Chairman. This was not a submission of my Department, it was a submission of Mr. Hunter's. Perhaps Mr. Hunter should explain it as he has explained it before.

The Chairman: I am sorry I have the wrong department. It was the Department of Defence Production.

Mr. Cafik: Are you quoting from the 1966 Report of the Auditor General?

The Chairman: The Report of the Auditor General on page 48.

Mr. Cafik: Thank you.

The Chairman: And it distinctly says here, "will be accomplished within the $9.1 million allocated". This is what they told Treasury Board, according to this document here. I just brought this up in answer to your question.

Mr. Cafik: Mr. Chairman, as a matter of information, exactly what was the intent of that statement again? I was trying to find it in my book while you were reading, but I do not have a copy of the 1966 report.

The Chairman: All right, I will read it:

> The Contractor's estimates for this program are recommended for funding purposes.

This was the submission by the Department of Defence Production to Treasury Board:

> The methods used though based on broad parameters are considered conservative and it is our considered opinion that the program as now understood, but not including the Contractor's and user's trials, will be accomplished within the $9.1 million allocated.

• 1020

That is on page 48 of the 1966 Report of the Auditor General. I want that submission to be part of the record because it was stated that you felt, at one point at least, that it could be done in that range of $9.1 million.

Mr. Hunter, if you want to add to it, you may proceed.

Mr. Hunter: I have further explanations to the note you just read which, as far as I know, were certainly given to Treasury Board, because we said that the program, as understood, did not include spares, trials, manuals, fighting equipment, reports, sales tax, instruments and training. They were not included because they had not been defined, but certainly, we were aware that they were to come and this was the basis for the contract with de Havilland Aircraft of Canada, Limited, to design and construct a development prototype hydrofoil. However, we certainly were aware that these were not included in the $9.1 million as shown by this statement.

The Chairman: We are straying from the subject, but I will ask Mr. Henderson to substantiate the remarks in his report.

Mr. Henderson: Mr. Chairman, this reference made in note 85 of my 1966 report was taken directly from the submission made by the Department of Defence Production, signed by it's Minister, to the Treasury Board asking for authority to enter into the contract. I cannot find the second reference that Mr. Hunter read but possibly it could be on an additional sheet. The fact of the matter is that the submission stated quite categorically that it was their considered opinion, as stated here, that it would be accomplished within the $9.1 million allocated.

Mr. Winch: Did you not get all of the submissions from the Treasury Board when you spoke to them?

Mr. Henderson: This was obtained from the Departmental files, Mr, Winch. This is a standard request made by the Department to the Treasury Board asking for approval . . .

Mr. Winch: But when you got that you did not get from the Department the list that has just been read by Mr. Hunter.

Mr. Henderson: The additional listing of other items that Mr. Hunter has just read could have been from some supplementary information that is not attached to my file right here. I have the official Treasury Board report.

The Chairman: There is a little confusion here. Let us straighten it out as briefly as possible.

Mr. Armstrong: The $9 million submission that we are speaking of is one that was made by the Minister of Defence Production in terms of authority to negotiate a contract. The Department of National Defence established in advance of that the program funding for this particular proposition. On December 18, 1962, the Chairman of the Defence Research Board, who at that time handled development estimates, included an amount of $10 million for funding purposes in his development estimates. This was considered as part of those estimates by the Treasury Board and was agreed to. The Board considered the project showed sufficient promise to warrant approval in principle at that time and they, therefore, left in the funding item to enable the project to go ahead. Subsequent to that there were further studies done and the initial contract was negotiated with de Havilland Aircraft of Canada, Limited on the ship itself for $9.1 million. However, as Mr. Hunter has said, it did not include all of the costs that were associated with it because there were unknown items which no one could determine at that time.

The Chairman: We will not deal with this any longer. There were a lot of items not included because the cost went from $9.1 million up to $53 million. However, we will not belabour that point.

Mr. Henderson: Mr. Chairman, if I might interrupt for one minute and just point that right after this

• 1025

quotation from this Treasury Board submission, our report does go on to say, as I drew to your attention the other day, that when the contract was entered into the circumstances were, among other things:

1. All proposals lacked reference to drawing and manufacturing specifications.

2. The Statement of requirements for the hydrofoil had not been completed.

3. A materials study contract begun earlier had not been completed.

and so on. They are listed. There are five points listed so this confirms the point that Mr. Armstrong has been making. You will see from the tabulations that this was in June, 1964. I gained the impression that Mr. Armstrong had used a 1965 date, but it was in June, 1964 that the first estimate of the fighting equipment was introduced into the operations and it does not seem unreasonable to me, looking back over the history of it, that they would follow along with that.

The Chairman: Mr. Noel, do you have a question? Mr. Crouse will be next and then Mr. Lefebvre?

Mr. Noel: Mr. Chairman, with your permission, I would like to delay my question because my question has a general scope and I would like to arrive at general conclusions. I will wait for the details that are presently being discussed.

The Chairman: Thank you very much. This will enable us to keep on subjects that move along in the right direction. Mr. Crouse and then Mr. Lefebvre.

Mr. Crouse: Mr. Chairman, Captain Ross informed us this morning that, among other things, the equipment, if I heard him correctly, must be installed without modifications to the ship and it was for this reason, he stated, that it had to be purchased or, at least, some of it had to be purchased. Were there no blueprints for this ship, Mr. Chairman?

The Chairman: Captain Ross, were there any blueprints?

Mr. Crouse: Were there blueprints, Mr. Chairman, which would permit, allow or indicate space for some of this equipment in the wheel-house?

Captain Ross: Yes, sir, there is no question about it. When I made the statement that the designs should proceed in parallel, it was for this very reason that the allocation of space had to be on the basis of what we intended to put in there. It was a chicken and an egg situation, you have to start somewhere. So after the basic displacement of the hydrofoil and the basic outline was determined we then proceeded with our fighting equipment studies and constantly kept feeding the information of weight, space and requirements into the ship design section. They, in turn, came back to us with statements such as, "We much regret we are unable to accommodate that much space". We, then, went back to our design study team and said, "Make sure this equipment is limited to this size and this weight". It is the whole design process that goes on that makes sure your total ship will come out as an entity, as a complete system.

Mr. Crouse: In other words, then, Mr. Chairman, the electronic equipment had to be designed to fit the space which these engineers allowed on the ship rather than the other way around? This ship was not blueprinted and designed to take care of electronic equipment, is this correct?

The Chairman: Captain Ross?

Captain Ross: Yes, Mr. Chairman, but your statement is not quite correct, sir. The cycle for designing is constantly a compromise. The fighting equipment people obviously always want more space: the ship design people always want to use up less space for that particular function. The whole process is a compromise in determining, based on the operation requirement, the relative use of various systems such as fuel, fighting equipment, the hull design itself and propulsion. The design evolution is a constant series of compromises to arrive at the optimum operational requirements in any ship design and this was the process that was carried out in the hydrofoil. You cannot enter at any point in its development and say we started here with this space and demanded that this equipment was put in. It evolves.

Mr. Crouse: Mr. Chairman, we were informed by Captain Ross that some of the necessary electronic equipment was rented which was the course that I had suggested at our last meeting should have been followed. However, we were also told that the radar, for example, could not be rented since the one in use must have a capability of picking up surface objects as well as helicopters. Now do we not at present have this type of radar on our surface ships which are carrying helicopters?

• 1030

Captain Ross: Mr. Chairman, I think if you were to look at any of our destroyers you would find not one radar antenna but a number. Basically radar design is also a compromise, a compromise with the function. In a normal destroyer, we usually provide a long range search radar for protection of the target; to provide sufficient time to do something about it. We include a high definition close range radar for navigation and safety purposes. We usually include a surface search radar which is of lower accuracy, but longer in range for detection of surface targets. We also require for any particular weapon control system a very precise, high definition radar for fire control purposes, for actually controlling the weapon. So if you were to take a look at any of our destroyers, you would see the compromise that we arrived at for our ships in the time scale that it was developed.

In the case of the hydrofoil we had the particular requirement of size and space, as well as the requirement not just to detect helicopters, sir, but to be able to control them as an extension of the fighting capability of the ship. This demanded a special radar that came as close as possible to meeting the compromises required for the two functions.

A very thorough study determined that in the allied navies there were only two such radars. One proved to be better than the other and it was the one selected. We used the transmitter, the receiver and the antenna from that system. The display is integrated with our over-all command and control systems. The modifications that are required to bring this about would preclude any company as a viable business proposition—I thought of DDP here—of renting such equipment. I believe that was the point I was attempting to make in the presentation.

Mr. Crouse: Captain Ross has told us then that on our existing surface ships we have four radars, each one doing a specific job. How many radars are installed on the hydrofoil; what is the name of the manufacturer of these radars and what is their surface range?

The Chairman: Captain Ross, how many, the manufacturer and their surface range. Please be as brief as you can with the answer.

Captain Ross: Yes, Mr. Chairman. I am afraid I do not have the exact pattern number, but it is a Philips radar. I do not have the range figures with me. I am not sure of the security classification of that, it is a military equipment. I shall check into it, Mr. Chairman, and provide the answer in detail if it is unclassified.

The Chairman: I think one part of the question was how many?

Captain Ross: I am sorry. There is only one radar set on the hydrofoil.

Mr. Crouse: One radar Mr. Chairman, which cost the Canadian taxpayer $143,251. Is this correct? That is quite a price for a radar, Mr. Chairman, regardless of its high degree of sophistication.

The Chairman: The question to be answered is: Is there one on the hydrofoil and did it cost $143,251? The answer should be "yes" or "no".

Captain Ross: The answer is no, Mr. Chairman. Could I explain?

The Chairman: Yes.

Captain Ross: We are talking about a radar system consisting of 17 items which are contracted from various contractors. It also includes, of course, the integration of these items as a complete system, the modification of the radar and the bits and pieces that are necessary to make up the total system.

The Chairman: I take it there is one radar system, but it has 17 various component parts and the price is $143,251 as on this sheet.

Mr. Leblanc (Laurier): Is this the actual cost?

The Chairman: This is the actual cost.

Mr. Crouse: We show an action information system at $2,140,352. Was there no existing action information system either on our ships or on ships of our NATO allies which either could have been utilized or borrowed without this enormous experimental cost? The question that comes to my mind is: are our existing action information systems so outdated that it was necessary for one experimental ship to have expended on it an amount of $2,140,352. If so, then I submit that the action systems on our existing surface craft must be very antiquated indeed. Is this a correct assumption?

Captain Ross: Mr. Chairman, yes, I think in very general terms that is a safe assumption.

Mr. Crouse: There were no other action systems you could have borrowed?

Captain Ross: There was no action information system capable of being borrowed that would fit into a ship of this size and perform the function required. There were a number of components of that system which most certainly came from various sources. We attempted to borrow and as I quoted from the Treasury Board submission, our intention was to borrow as much of this equipment as possible. As it turned out, the degree of modification and the availability of such equipment for borrowing, reduced our desires to being able only to rent a commercial computer for the functions that were required for its performance.

The Chairman: Captain Ross, could I just throw in a question here? Can this action information system of some $2 million be incorporated or tied in with our present action information system on the east coast, or will this have to be work in itself?

Captain Ross: Sir, the system I am referring to was scheduled for the hydrofoil. Now, during the period in which the hydrofoil does not require it, it is installed in the Maritime Warfare School in Halifax and is being used not for operational purposes but for training evaluation and development tactics.

The Chairman: In other words, it cannot be used on other ships at sea. So you might say that it is pretty definite the whole amount was used for the hydrofoil, except for the use in the training school?

Captain Ross: No, sir, it is also being used to train our programming people to do subprogramming for the action information system for the DDH 280. I should mention that part of this cost, of course, is the length of time it takes to develop an operational program. Some three years of programming activity has to go into this.

The Chairman: Excuse me, Mr. Crouse, for interrupting.

Mr. Crouse: That is quite all right, Mr. Chairman, it is all relevant.

May I return for a moment to my first question which dealt with blueprints. I am looking now at the amount expended for navigation and I presume this particular item covers DECCA, which we were informed was under rental. Could the witness tell this Committee if DECCA is now installed on this experimental ship, the date on which it was installed and the amount we have expended to date on rentals?

The Chairman: That might be rather difficult to arrive at, however, Captain Ross, you may be able to answer it.

Captain Ross: I would first like to make the point, Mr. Chairman, that the DECCA rental we talk about is a rental of equipment for all of the Canadian Navy ships in the Atlantic Command. We do not procure it. It is only viable in the East Coast area and in the United Kingdom so for ships that are proceeding to areas where DECCA is applicable, we install the equipment. On their return it goes back to the manufacturer, then at the next requirement it comes out and goes into our ships. This is the situation in the hydrofoil. The exact date of the installation was late 1968. We cannot provide it any closer than that at this time, but we can provide you with that information at a later date, sir.

Mr. Crouse: Well then, Mr. Chairman, the figure which we have here for navigation at $311,209 covers what items? This obviously does not apply to DECCA because it was rented in late 1968, we are told. This, of course, was unnecessary, because the ship is not yet

• 1040

operational. If the ship had been properly blueprinted the DECCA navigator system could have been installed tomorrow and rentals could have started tomorrow. They need not have started in 1968. I raise this point because our government at the present time has found it necessary, in order to raise the money to pay for this sort of thing, to make income taxes payable on a widow's interest which is only $10 in the bank.

The Chairman: I rule that out of order.

Mr. Armstrong: Might I say that the ship actually was put in the water in July, 1968.

Mr. Leblanc (Laurier): You are trying to make politics.

Mr. Crouse: No, I am not trying to make politics, you are.

The Chairman: Gentlemen, you are being partisan and do not try it again.

Mr. Armstrong: I just want to make it clear that the ship went into the water in the summer of 1968 for the trials in Halifax on the foils. The other trials in the nonfoil-borne mode had been carried out. The trials we are talking about starting in March will be when the ship goes on the foil-borne mode and it has been in the ocean since the summer of 1968.

Mr. Crouse: Then could you explain this expenditure of $311,209? What does that figure cover?

Mr. Armstrong: Captain Ross will explain that.

Captain Ross: Yes, sir. When we talk of the navigation equipment we are again talking about a system. We are talking about gyros, the DECCA group, depth sounders, the Pelorus group, the electro magnetic log and LORAN. These systems again break down into a very large number of subsystems. You are looking at the budgetary figures for a navigation system because this is the way that we classify a group of subsystems.

Mr. Crouse: Is the LORAN purchased or on rental?

Captain Ross: That particular LORAN was purchased, Mr. Chairman. The housing container was too large for our configuration and we had to rehouse it into our combined command control system.

Mr. Crouse: Have you the cost there?

Captain Ross: No, I am sorry, I do not.

The Chairman: They will provide it later, if you wish.

Mr. Crouse: It would be interesting to know, Mr. Chairman. I have one other question and then I will pass. There is an item listed of $500,000 with regard to sonar and we were told this morning, as I understood it, the transducer naturally could not be placed on the bottom of the ship because the bottom of the ship will be out of the water when it is operational. You found it necessary to do considerable experimental work, I presume, on getting an operational sonar.

Did the problems with sonar arise because the cable could not be kept under water at high speeds, or just what did happen when you tried to put the transducer on a cable behind this ship?

Captain Ross: The basic problem, sir, is one of speed. The forces that act on the cable and the drag. If you cannot get a small enough cable with a sufficiently low drag coefficient then the whole operation takes tremendous power and makes it nonviable in an operational situation. You can always put enough power in to drag something along, but it is a matter of being able to get up to the speeds we need. We are speaking of the 50 knot area and there had been no work done in that area at the time we started the hydrofoil. This required considerable study and investigation into what the cable requirements and the hydrodynamics of the body would be in order to develop a viable system.

Mr. Crouse: Did other countries that are working on hydrofoils surmount this problem?

Captain Ross: I do not believe so, sir.

Mr. Armstrong: I think perhaps I could answer that. The evidence given earlier indicated that the parallel hydrofoil in the United States is not being developed as an ASW ship, if you will recall the evidence of Mr. Eames.

The Chairman: Mr. Lefebvre.

Mr. Lefebvre: Thank you, Mr. Chairman. I would like to continue the line of questioning regarding patents that I had begun at the last meeting.

The Chairman: I will ask Mr. R. O. McGee to come to the table. He is the Director of Patents Administration, Department of National Defence. Welcome to our committee, sir.

Now, Mr. Lefebvre, will you direct your questions to Mr. McGee, please.

Mr. Lefebvre: Mr. Chairman, we have been studying the hydrofoil for the last two or three meetings and we have heard a lot of testimony from different experts in the departments concerned and one of these was, I believe, a Mr. Eames, who was in charge of the research. We were of the opinion—all the members of this Committee—that we had in this craft a very sophisticated ship, something that was out of this world. Other members and myself having learned this, wanted to know if patents had been granted to Canada to protect this ship or parts of it, especially as Captain Ross, I believe it was, stated this morning that their pride and joy was the action information equipment, so we were surprised to learn that no patents or copyrights had been taken out on this ship or on any parts of it.

Now, my first question is this. Does this mean that the evidence given that this was an extraordinary craft into which a great deal of Canadian research had gone, was erroneous or misinformed and we do not have the craft that we were led to believe we had, or were there other reasons why no patents were granted? My second question is, were patents applied for and if so, why were they refused? My third question is, who does own the patents regarding the hydrofoil and its sophisticated equipment?

Mr. Armstrong: Might I just interject for one moment?

The Chairman: Mr. Armstrong.

Mr. Armstrong: You do appreciate that the Department–the government–owns all the design rights to the hydrofoil. We are talking to Mr. McGee about patents–

Mr. Lefebvre: Right.

Mr. Armstrong: –but the government owns the design rights.

Mr. Lefebvre: Could I just ask Captain–

The Chairman: All right, Mr. Lefebvre.

Mr. Lefebvre: Could I just ask Captain–I mean Mr. Armstrong–something. I get mixed up between captains, admirals and deputy ministers. I would like to know, if you have a design right, does that not include patents because if you have a design right you must have patented something to go into this design, or am I wrong?

Mr. Armstrong: No, that is not necessarily so. We own the design of the ship and if anyone wants to use that design they have to get it from us or design one of their own. They would have to do one or the other.

Mr. Lefebvre: It would be too expensive for them.

Mr. Armstrong: I would think so.

The Chairman: All right. Mr. McGee.

Mr. R. O. McGee (Director, Patents Administration. Dept. of National Defence): Mr. Chairman, you expect me to answer this question, but I hope you will not give me all day to answer it.

The Chairman: I will put it this way. You can talk as long as you like, but we have to leave here at 11 o'clock.

Mr. McGee: I will not attempt to try to explain fully your fourth question, the question of design and patents, except to try to amplify what Mr. Armstrong has already said that the design rights apply to the design and the construction of the particular article. It may or may not be patentable. It may or may not meet the standards of invention required by the Patent Act. That is about all I can say now. If you could give me three hours I could give you a lecture on it. I am sorry, but that is sort of a statement of fact in law.

Going back to your first question, I do not think it is pertinent for me to answer the first part of your question. I cannot comment on whether it is a good ship or not–that is for the naval experts–if you will forgive me.

The Chairman: You are a wise witness.

Mr. Lefebvre: Sir, your Department decides whether or not a patent is allowed. Is that correct?

Mr. McGee: No, my responsibility is to protect the taxpayer by getting patent and other propriety rights protection on anything done by DND both in-house–in our own laboratories–and outside on a R & D contract of this type on production.

• 1050

The granting of the patent is done by the Patent Office and we are on the same status there as the man on the street or an outside company. We have to prepare our application; we have to file it and we have to convince the Patent Office that this is a patentable invention. In that line we are filing between 50 to 100 applications a year on work which the taxpayers pay for and, I might just say in passing, we have established quite an enviable record. We are probably the only people in Canada who have made a million dollars in royalties from their own inventions. I am not saying that to soften you up.

Mr. Lefebvre: No.

Mr. McGee: We would have to make $50 million a year.

The Chairman: Mr. McGee, you will find out that it takes a lot to soften up the members of this Committee.

Mr. Lefebvre: But to go back to my second question, sir. Do you receive the patent applications?

Mr. McGee: May I just continue. I think I can answer all your questions in sort of a long story. We have filed no patent applications on this craft.

Mr. Lefebvre: None?

Mr. McGee: No, but the very fact that you gentlemen have been asking nasty questions during the last couple of days on the cost of this brings me to my next point. About this time of year in 1963 when it was estimated and it looked as if it were going to cost, say, $X million, I said to myself, some day the Public Accounts Committee is going to ask if there were any inventions in this. I made a very thorough study and I found that there was nothing at that time in the fundamental design and what was proposed to be used in the mechanical side–I am divorcing from that the fire control systems, the navigation systems and so on–but because I thought you people would be asking this

type of question and you would not want to rely just on my humble opinion, I went to an outside firm of patent lawyers and we spent three days at de Havilland looking it all over, talking to the de Havilland engineers, looking at the drawings, considering all the prior patent work and literature that had gone on in this hydrofoil field and they confirmed my opinion. So we filed no patent applications on what you might call the basic concept–the structure approach. That may seem ridiculous for the expenditure of such a large sum of money, but one only has to look at, say, a new aircraft like the 747 that has just flown, or the Concord where there are probably no basic patents. There is no patent protection covering the over-all equipment but there may be detail patents, a new wheel bearing, a new brakes system or something like that.

Our standard drill is to look at these things early and then we have a review when it has been completed because there have been changes. We look for detail. Yesterday morning I spent two hours with a naval officer on the–we talked about it a minute ago–

Mr. Lefebvre: Action information centre.

Mr. McGee: –action information centre, this computing system. We have done some important work there and we are trying to see what we can protect. It is a current program. Have I answered all your questions?

Mr. Lefebvre: No, not completely, but I guess I will have to ask somebody else.

The Chairman: Before you proceed–

Mr. Lefebvre: I just want to know who owns the patents regarding the equipment on the hydrofoil? If we spent $3.5 million on research and we do not own any patents on it except the design, who does own the patents on the equipment or other–

Mr. McGee: May I answer?

The Chairman: Yes, Mr. McGee.

Mr. McGee: If there is nothing patentable, Mr. Lefebvre, in an item, regardless of how much you spent in designing and developing it, then nobody owns the patent. I would say this, sir, that outside of proprietary items that we may have bought-in or–I had better not say this in public–stolen–because one firm has already accused us of stealing something and using it–that–

• 1055

Mr. Lefebvre: Did we get that part free?

Mr. McGee: I am trying to make a deal with them and prove that their patent is invalid. There are many, many patentable features or what you might say, proprietary items–bought-in items–that go into a piece of equipment like this. This particular case involved a filter mechanism for taking the sea water out of the air so it will not get into the jet engines. We did not know it was patented until an English firm came along and said, "Look, we want X thousand pounds, you are using it." There are things like that, but there are no patents on the over-all system. You may think that I am dodging the answer by saying we spent millions of dollars to design something and there is nothing patentable, but when you consider that some of the early work in hydrofoils was done 50 or 60 years ago, the people obtained patents on those ideas then and all we have done is taken those old ideas out of the prior arts and refined them, maybe just a slight curvature of the foil itself. I know that the Defence Research Establishment Atlantic in Halifax had quite a long program just to find the exact curve of this foil, which was old in the art, to make it more perfect. The early experimenters were not concerned with this refinement. Alexander Graham Bell on the Bras d'Or lakes from which this ship was named, conducted experiments, but he was not interested in the refinements of performance that we have to get. He just wanted to see whether it worked.

Mr. Lefebvre: Would it be safe to say, Mr. Chairman, that the $3.5 million spent on research was to refine designs and patents that had already been made 60 years ago?

The Chairman: I guess that is a fair assumption.

Mr. McGee: I think it is a fair assumption, but do not read into that a belittling approach. If I may just give an example, the modern automobile. There are practically no patents on the modern automobile except for little gadgets such as a cigarette lighter or something like that, but the car of today is an infinitely better car than the car of 50 years ago or 30 years ago or 10 years ago. It is a refinement. It has been made lighter, stronger and faster.

Mr. Lefebvre: Thank you.

The Chairman: In this regard, when we were talking about the sonar system this morning, I think Captain Ross said that we had a Crown right. How does that tie in with what Mr. McGee has just said?

Mr. McGee: May I answer that?

The Chairman: Yes, Mr. McGee.

Mr. McGee: The Defence Research Establishment at Halifax, starting in the early fifties, did some work on

variable depth sonar in which the sonar could go up and down. In the same manner we reviewed that carefully and I think—I am just going on memory—we filed some six or eight patent applications on that. We got the basic patent and have been trying to sell them to other users, but we have not had too many buyers.

Mr. Crouse: Mr. Chairman, may I ask just one question?

The Chairman: Yes, Mr. Crouse.

Mr. Crouse: Has the Defence Research Establishment perfected this sonar? Since the over-all purpose of this entire operation is to secure a ship which will be suitable for detecting and chasing submarines, have we now perfected the sonar so that it is usable?

The Chairman: Will we be able to get a patent on it?

An hon. Member: You are asking the wrong man.

Mr. Crouse: Mr. Chairman, I am asking the Chairman.

The Chairman: Captain Ross?

Captain Ross: No, sir, we have not perfected it. The problem, as I outlined, is to determine what performance we can get at 50 knots. We need a vessel to tow it at that speed before we can determine how it will operate.

Mr. Crouse: You have not had a vessel available that could tow this sonar in order to prove it before this time?

Captain Ross: Yes, sir, the hydrofoil, at 50 knots.

Mr. Crouse: But you have no other vessel that could tow it?

Captain Ross: Not at 50 knots, sir.

The Chairman: Mr. McCutcheon and then we will adjourn.

Mr. McCutcheon: Thank you. A supplementary just by way of explanation for me. We have four radar systems on a destroyer according to the witness this morning. Now we have a new ship with a potential capability of 60 to 70 knots, which up to the present time is not proven, of course. How do

• 1100

we operate this vessel and have an effective and precise system when you say we only have the one unit on this ship and we need four on a destroyer? Could you clarify that for me?

The Chairman: Captain Ross make it as brief as you can. Our time has run out.

Captain Ross: Yes, sir. The short answer is in the total weapon suit that is going in the vehicle. In a destroyer, we have in our DDH, for example, missile systems, gun system and other systems that are not directly applicable to the type of equipment that is going into the hydrofoil. The radar for the hydrofoil is designed to be suitable for the operational requirements for the total weapon suit that we are fitting.

The Chairman: Gentlemen the report on the fire on the hydrofoil is ready, in French and English. If it is your wish, Mr. Armstrong has no objections to giving it to the members now to read over so that when they come to the meeting on Tuesday they will be able to ask questions. Would you like it distributed now? The Clerk says he will send it to your offices.

Gentlemen, I will not be here next Tuesday, Mr. Lefebvre will be your Chairman, you are going to talk about the fire so do not make it too hot for him.

HOUSE OF COMMONS

First Session—Twenty-eighth Parliament
1968-69

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: Mr. A. D. HALES

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 23

TUESDAY, MARCH 11, 1969

Public Accounts, Volumes I, II and III (1966 and 1967)
Reports of the Auditor General to the House of Commons (1966 and 1967)

WITNESSES:

(*See Minutes of Proceedings*)

THE QUEEN'S PRINTER, OTTAWA, 1969

29927-1

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. A. D. Hales

Vice-Chairman: Mr. T. Lefebvre

and Messrs.

Bigg,	Forget,	McCutcheon,
Burton,	Gervais,	Noël
Cafik,	[1]Harding,	Rodrigue,
Crouse,	Leblanc (*Laurier*),	Roy (*Timmins*),
Cullen,	Major,	Tétrault,
Flemming,	Mazankowski,	Thomas (*Maisonneuve*)—(20)

(Quorum 11)

Edouard Thomas,
Clerk of the Committee.

Pursuant to Standing Order 65(4)(b).
[1]Mr. Harding replaced Mr. Winch on March 10, 1969.

ORDER OF REFERENCE

Monday, March 10, 1969.

Ordered,—That the Standing Committee on Public Accounts be authorized to adjourn from place to place within Canada and that the Clerk of the Committee and the necessary supporting staff accompany the members.

ATTEST

ALISTAIR FRASER,
The Clerk of the House of Commons.

29927–1½

MINUTES OF PROCEEDINGS

Tuesday, March 11, 1969.
(25)

The Standing Committee on Public Accounts met this day at 9.37 a.m., the Vice-Chairman, Mr. T. Lefebvre, presiding.

Members present: Messrs. Bigg, Burton, Crouse, Cullen, Leblanc (*Laurier*), Lefebvre, Major, Mazankowski, Noël, Roy (*Timmins*), Rodrigue, Thomas (*Maisonneuve*) (12).

Also present: Mr. Saltsman.

Witnesses: Mr. A. M. Henderson, Auditor General of Canada; Mr. E. B. Armstrong, Deputy Minister, Department of National Defence; Mr. G. W. Hunter, Deputy Minister, Department of Defence Production; Capt. C. W. Ross, Director of Maritime Combat Systems; Capt. T. S. Allan, Hydrofoil Project Manager.

The Committee questioned the witnesses on the hydrofoil, in particular (a) the electronic equipment; (b) the report of the circumstances surrounding the fire.

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

Edouard Thomas,
Clerk of the Committee.

EVIDENCE

(Recorded by Electronic Apparatus)

Tuesday, March 11, 1969.

• 0938

The Vice-Chairman: Order, please. In the absence of Mr. Hales, I am pleased to have this opportunity of chairing this important Committee meeting.

This morning we will be discussing the the Report of the circumstances relating to the hydrofoil fire. Before we get into this I would like to call on Captain Ross who has an answer to a question from Mr. Crouse, with regard to radar and the cost of the LORAN.

Mr. Burton: On a point of order, Mr. Chairman.

The Vice-Chairman: Yes, Mr. Burton?

Mr. Burton: I was wondering if we could have a report on the arrangements with respect to the trip that is to be taken in the last week of March, or that is being planned for the last week in March?

The Vice-Chairman: I do not believe the trip has been finalized yet and there is no further information available. Probably by Thursday we will have the arrangements ready.

Mr. Burton: Thank you.

The Vice-Chairman: Captain Ross, would you answer the question for Mr. Crouse.

Capt. C. W. Ross (Director of Maritime Combat Systems): Yes, Mr. Chairman, the question was in respect of the radar. First of all, there is one radar for the hydrofoil. It is an X-band surveillance navigation radar. Type 8GR300-03A. The performance has an industrial classification of "confidential". There is no military reason for classifying the performance and if you desire we will ask the company for permission to pass the performance information on to the Committee.

The cost of a basic unmodified radar from NV Hollandse Signaallpparaten Hengelo, (O) Netherlands was $82,000.

The second question, Mr. Chairman, was the cost of the LORAN suit and that is $12,200.

The Vice-Chairman: Does this answer your question, Mr. Crouse?

Mr. Crouse: Yes, Mr. Chairman, and it prompts one further supplementary question. As the witness is aware, the American government already has operational a hydrofoil type of craft called the *Plain-*

• 0940

view and I wonder if the witness could tell us whether it is equipped with similar radar?

Captain Ross: Mr. Chairman, I am unable to answer that question about exactly what radar is on that vessel. I am not aware of the details of it.

Mr. Crouse: In other words then, Mr. Chairman, we are more or less pioneering in radar on this particular ship. We obviously have not consulted with our counterpart in the United States to determine whether the equipment which they have used on the *Plainview* is acceptable. We have not tried to ascertain whether it would be acceptable to us as Canadians. Is this a correct assumption?

Captain Ross: No, Mr. Chairman, it is not a correct assumption. In the early days when we started the program we certainly investigated all the American radars. We started out with a large number of investigations which narrowed down to two possibilities that met our requirements. We are not pioneering in the radar sense whatsoever. It was merely for those systems in our ship which we wished to evaluate, to have a radar that met the requirements. There is no basic radar development in the hydrofoil program.

Mr. Crouse: Mr. Chairman, I wonder if it would be appropriate at this time, if Captain Ross or Mr. Armstrong could tell the Committee the exact difference in the duties that will be performed by the American ship, *Plainview*, as compared with the duties of our experimental ship, the *Bras d'Or*.

The Vice-Chairman: Captain Ross could you give us a short description in answer to Mr. Crouse's question?

Captain Ross: Yes, Mr. Chairman, I will attempt to.

It is my understanding that the American hydrofoil is a research ship designed to do research work in the area of hydrofoil propulsion. In our case, Mr. Chairman, when we refer to the fighting equipment we are attempting to carry out a detailed evaluation of the performance of those systems which we would envisage as an operational requirement for our own maritime forces. For that reason, I find very little relationship between the American hydrofoil program and our own with respect to fighting equipment.

Mr. Crouse: I am not sure I follow the answer given, Mr. Chairman. Does this imply that the American ship *Plainview* does not have any fighting equipment; that it is strictly a research ship. Is this correct?

Captain Ross: I believe, Mr. Chairman, that the American ship was not designed with any degree of fighting equipment on board. I understand there are some torpedo tubes on board but that is the extent of the weapons suit for that ship.

Mr. Crouse: In effect then, Mr. Chairman, what the Americans have perfected is a high speed hydrofoil ship of destruction or a high speed torpedo boat, if you will, while we are trying to perfect a high speed detection and destruction ship. Is this correct? Is that the difference between the American development, the ship called the *Plainview*, which is already functional and operating, and our own?

• 0945

Captain Ross: Mr. Chairman, the American vessel is basically a hydrofoil research vessel and to my knowledge they have not gone into any in depth work with respect to fighting equipment suit. So it is not fair to label it as a torpedo ship, as a missile ship, or any other form of fighting vessel. I find it extremely difficult to compare their concept in respect of fighting equipment with our concept of an evaluation ship to determine how suitable a hydrofoil is for Canadian fighting forces.

Mr. Crouse: Was there any consultation by our people with their American counterparts as the research ship Bras d'Or was being developed, or did we proceed entirely on our own without utilizing the knowledge the Americans had already put to use in the development of their ship?

Captain Ross: There was full consultation, Mr. Crouse.

Mr. E. B. Armstrong (Deputy Minister of National Defence): I think one point, Mr. Crouse, that has not been brought out is that the hydrofoil systems on the two ships are different. I am sorry I cannot explain this, perhaps, adequately but I think Mr. Eames mentioned it when he was here. The foils on the Canadian hydrofoil ship are called surface-piercing fixed foils. In the American one there is a submerged foil that is somewhat more complicated, I believe, to control. Both systems are being tested and there has been an interchange of information. I happened to be able to turn up a note from the Defence Research Board that, perhaps, bears on the subject in which they said that we must recognize that there is close interrelation between the Canadian and U.S. hydrofoil programs involving a mutual agreement to investigate separately the two fundamentally different design approaches. So the design approaches that are being used on the two hydrofoil systems are different.

The Vice-Chairman: I wonder, Mr. Crouse, if we could leave this for a while and go to the fire report. Then we will come back to your general questions.

Mr. Crouse: Thank you, Mr. Chairman. Yes, indeed, I think that would be a good procedure to follow.

The Vice-Chairman: Captain Allan, would you read the report that has been submitted to the Committee so that it will be part of the record? The members then will be able to question the witness.

Incidentally, I notice on the first page—the cover page—the notation, "Tabled at the Public Accounts Committee Meeting 6 March 1969". I think we had better change that for the record to March 11, 1969, because I do not think we received it in time for our meeting last week. Captain Allan?

Captain T. S. Allan (Hydrofoil Project Manager, Department of National Defence): Mr. Chairman, the purpose of the report was to give you an introduction into the circumstances which prevailed prior to the fire. This is covered basically in paragraphs 1 to 3. Paragraphs 4 to 11 describe the fire itself in reasonable detail, we believe, and paragraphs 12 to 18 cover the environment which we constructed after the fire. I think you are all aware that the fire was a very serious setback to the program. However, it was a turning point in the sense that we took stock of the complete situation and we feel we came out a little bit better off as a result of it. We improved some of the design features of the vessel; we set up a working environment with the contractor which was much more effective and we believe we can demonstrate that it has been effective.

The purpose of this report is to provide the members of the Public Accounts Committee with: an outline of the circumstances prevailing prior to the

fire; an account of the fire itself; an account of the investigations which followed the fire; a list of recommendations which stemmed from these investigations; a summary of action taken to implement the individual recommendations; and an outline of other decisions, taken as a result of the fire, prior to resuming the project under revised terms and conditions.

• 0950

The position at the time of the fire was that de Havilland of Canada, Limited, were operating under a contract, which they had been awarded, for the *design, construction and testing of a developmental Hydrofoil Ship*, with Marine Industries Ltd. of Sorel, P.Q. as their sub-contractor for hull assembly and construction, and various other companies as their sub-contractors for propulsion and other equipment. The hull had been assembled indoors and, after installation of the majority of systems, had been transferred outdoors to a position adjacent to the pier from which the ship was later to be transferred to a barge for passage down the St. Lawrence River to a deep-water port for launching. Shore-testing of the installed systems had started and had been going on for several weeks but, as indicated above, not all of the equipments and systems had been installed by 5 November, 1966. In the back of the report, Figure 1 gives you a typical view of the installation as it stood at that particular day. It is slightly misleading in the fact that it was taken some weeks prior to the fire, but nevertheless it gives you an indication of the complexity in the fire area itself and that was close to the seat of the hottest portion of the fire.

The Vice-Chairman: Sir, where would this actually be in the ship?

Captain Allan: The port forward corner of the engine room. You are looking forward and slightly to port.

The Vice-Chairman: Thank you.

Captain Allan: Approved DND funding for the entire project (ship, fighting equipment and provision for post-launch modifications) had earlier been established at $43.9 million, and against this sum contracts were in effect between the Crown and de Havilland, Canadian Westinghouse, Fleet Manufacturing, Marsland Engineering and others. The contract between the Crown and de Havilland, for the design, construction and testing of the ship, was of the target-incentive type. The target was $24.5 million and the ceiling $30 million with any cost above $24.5 million but below $30 million being borne partly by the contractor and partly by the government in accordance with a pre-determined formula. Costs, if any, above $30 million were to have been borne entirely by the contractor. However, in addition to reimbursement under the above formulae, provision was made in the contract for de Havilland to earn certain time, cost and performance bonuses having a total value, depending upon results, of between nil and $1,725,000. As a corollary of these potential bonuses, and the incentive-type contract, de Havilland accepted full responsibility for the design and production of a satisfactory ship and were, in turn, given the latitude needed by them to achieve their objectives. This meant that the Company was not required to submit detailed working drawings and specifications for DND approval prior to implementation of work, and that the customary inspection by naval overseers of the ship construction and installation work was not made a requirement. The contractor was, however, required to develop his own inspection plan and to provide the principal naval overseer at Sorel with copies of all inspection records. These inspection records were being routinely audited by the staff of the principal naval overseer, Sorel, as a check on the adequacy of the company's inspection plan. The de Havilland inspection plan had the basic objectives of developing and maintaining inspection procedures throughout the procurement, manufacturing and testing phases, which would be adequate to assure fulfillment of their engineering requirements and contractual responsibilities.

On November 5, 1966, de Havilland personnel were conducting electrical generator trials which involved the operation of an auxiliary gas turbine driving the gear box which drove the generators and hydraulic pumps. The latter were incidental to the test being conducted, but were required to be on load to ensure adequate loading of the gear box. The fire broke out at 3.15 p.m. and Marine Industries' firemen arrived on the scene at approximately 3.20 p.m. As the fire was intense, the municipal fire department was called at 3.25 p.m. The combined efforts extinguished the fire by 4.00 p.m. The ship suffered extensive structural and systems damage, particularly in the vicinity of the engine room. In addition, smoke damage occurred in varying degrees

• 0955

throughout the ship. As a result of this damage the majority of the equipment, piping and electrical systems had to be removed and returned to vendors for cleaning and necessary repair. Large portions of the piping and electrical systems required replacement and the majority of the ship's structure in the vicinity of the engine room had to be rebuilt.

There was one eye witness, a de Havilland employee, who was stationed in the engine room. He saw a stream of hydraulic fluid which struck him in the face before he could raise his hands in protection. The fluid ignited almost immediately; both his face and hands were burned.

The exhaust trunking of the auxiliary gas turbine reaches approximately 1000° F. when the engine is operating. Although it was insulated, small areas of metal surfaces were exposed at the joints. The hot section of the engine casing reaches approximately 400° F., not enough to ignite hydraulic fluid.

The hydraulic leak was closely followed by a flash fire along the deck head of the engine room. This was followed by an intense secondary fire near the deck head in the vicinity of the auxiliary gear box located in the port forward section of the engine room. See Figures 2 and 3. These photographs of the fire relate to Figure 1. They do not cover the complete area, but it gives you an idea of the damage suffered. Located in this area is a large portion of the return hydraulic system, including the reservoir. After the fire, this system was found to have been destroyed in several places and was undoubtedly the source of fuel for the intense secondary fire.

Investigations were conducted by the government (Department of Defence Production and Department of National Defence) and de Havilland also carried out an investigation of their own. All investigations were consistent in their conclusions regarding the most probable cause of the fire. The government's investigations involved interviewing numerous contractor and government personnel. This report does not contain any quotes from these witnesses, but all material facts are contained herein. The following possible sources of the fire were investigated by the government: hydraulic system failure; pneumatic system failure; failures of systems associated with the auxiliary gas turbine; the inadvertent introduction of combustible gases into the ship or systems via the compressed air bottle; external hot air heaters and battery gases.

It was concluded that the most probable cause of the fire was a hydraulic fluid leak which impinged on an exposed portion of the auxiliary gas turbine duct and thus ignited. Further conclusions were that: the accident was not caused by negligence on the part of the crew carrying out the test; the fire-fighting provisions and organization were inadequate to cope with a fire of this magnitude; the inspection records did not afford proof that the hydraulic system in use had been fully inspected; documentary evidence of quality assurance was incomplete and thus inadequate and that National Defence personnel had not been advised that this particular test was planned for Saturday, November 5.

Because of the extensive fire damage the exact sequence of events could not be reconstructed, but the prime suspect was the type of hose and clamp connection depicted in Figure 4. Figure 4 obviously is a virgin photograph. It is not one taken from the fire. This device had been used in a large number of the connections in the low pressure side of the hydraulic system. There was evidence to indicate that some of these connections had not been properly installed and there was no record to indicate that certain of these connections had been inspected by the Company inspectors.

Following the investigations, certain recommendations were made. These were:

(a) That the fire-fighting provisions and organization be improved.

(b) That improved fire-proof fluid couplings be utilized in lieu of the hose and clamp connections in those systems where a risk of fire would occur if a leak developed.

(c) That flammable fluid be isolated where practicable from potential ignition sources.

(d) That the Department of National Defence representatives be informed in writing in advance of any testing.

(e) That investigation continue to determine other areas of design which were potentially dangerous or inadequate for the intended purpose.

• 1000

(f) That the quality assurance requirements be made more stringent and explicit.

It was subsequently decided by the Department of National Defence that efforts to pin-point the exact location of the hydraulic leak suspected of starting the fire would be fruitless, in view of the extensive damage and in view of the DDP legal opinion that in accordance with the terms of the contract the contractor was under no liability to reimburse the Crown for loss incurred as a result of the fire. However, the investigations were continued for several months in an effort to locate and eliminate any other design features which might be unsatisfactory from a safety point of view or inadequate from an engineering point of view.

During the period November 1966 to March 1967, the Minister of National Defence had withheld the decision to proceed pending completion of the above investigations and formulation of new procedures to be followed if the program continued. On April 13, 1967, a submission to proceed was approved by Treasury Board at a funding ceiling of $50,006,000.

The DND/DDP decision to proceed was taken on the understanding that the following precautions would be observed to prevent a recurrence of the circumstances which led to the fire:

(a) Government inspection would be introduced to supplement contractor inspection and appropriate DND inspection standards would be written into the new contract.

(b) Improved engineering, production and quality control procedures would be introduced by de Havilland and there would be increased government participation and surveillance in these matters.

(c) Improved arrangements for integrating contractor management procedures with government management procedures would be introduced.

(d) Improved safety and fire precautions would be introduced and followed.

The contract was renegotiated on a new pricing basis in April, 1967, and duly received Treasury Board approval. Briefly, the contract sub-divided the project into three elements which at that time were:

Element 1–Covering the period 1963 to the date of the fire and including a fixed fee based upon a settlement in lieu of the performance bonus which the best available performance estimate suggested would have been achieved, were the ship completed. Cost penalties, which the government demonstrated would have existed had the fire not occurred and the ship had been delivered during early Summer 1967, were deducted. The net result was to provide the company with a fixed fee of $180,000 based on approximately $27,150,000 worth of work.

Element 2–Covering the repair of fire damage and completion of the ship construction up to delivery, which was estimated at $7.5 million the contractor to receive a fixed fee of $281,000. I just caution you, these were the estimates at that time.

Element 3–Covering all work carried out subsequent to delivery. It had previously been negotiated on a fixed time rate basis and this continued unchanged, since the fire had no bearing upon this portion of the work.

The new working relationships between the government project staffs and the de Havilland project staffs have worked well, are still working well and are very effective. However, to be absolutely certain of smooth operation, a Joint Management Review Board was also established early in 1967 comprising the President and three Vice-Presidents of de Havilland and senior representatives of the Departments of Defence Production and National Defence. This group met approximately every 6 to 8 weeks while the ship was at Sorel and now meets with about the same frequency at Halifax, where the ship is based.

Under these improved relationships the fire damage was repaired at Sorel and the ship taken to Halifax for launch in mid-1968. Initial hullborne trials were subsequently carried out satisfactorily off Halifax in the autumn of 1968, and the ship has since been docked for installation of the foilborne transmission system and final docking of all equipment associated with the foilborne operation. This phase is virtually complete and the ship should be undocked in mid-March 1969, to begin initial foilborne trials. It has, in fact, been launched. It was launched on Friday.

• 1005

Determination of the ship's potential seaworthiness and sea-keeping qualities will probably be made during 1969 and within the ceiling cost of $50,006,000.

The Vice-Chairman: Thank you, Captain Allan. I wonder if the Committee would bear with me as I have a question I would like to ask. I am not accustomed to being in the Chair, so I hope you will be patient with me. Captain, I hope we can get answers to questions that will prove me wrong but it seems to me that the federal government is always the fall guy in these contracts. On the first page, down towards the middle of the third paragraph, it says:

> ... As a corollary of these potential bonuses, and the incentive-type contract, de Havilland accepted full responsibility for the design and production of a satisfactory ship and were, in turn, given the latitude needed by them to achieve their objectives.

This latitude, while not directly responsible for the fire certainly had something to do with it but the federal government is the fellow who had to pay the bills. The contractor was paid $180,000 according to page 4 of your report for part of the damage and then $281,000 which covered the repair of fire damage and completion of ship construction up to delivery. It seems to me, and I am speaking strictly as a layman, that they had nothing to lose and we–the federal government–had everything to lose. Could you explain to the Committee just what type of previous experience had been used in drawing up such a contract with a company such as this?

Mr. G. W. Hunter (Deputy Minister, Department of Defence Production): Mr. Chairman, perhaps I should answer that or attempt to do so. This was certainly a most unusual type of contract in that the details probably had to be worked out under conditions almost new to us. We were quite familiar with incentive-type contracts, but the very fact that this fire happened at the point in the development that it did, necessitated us working out many details for which there just were no precedent. We felt, in

order to get the job done, that this was the fairest type of contract we could work out at that point.

The Vice-Chairman: There was no precedent, but it seems that the de Havilland people were smart enough to get this type of contract, although they had not had the precedent either. What I am coming to is that we were left wide open; no matter what happened the de Havilland Company had nothing to lose; it was a negotiated contract with all these built-in bonuses and protection if anything happened. The fire occurred while they were supervising, but we picked up the tab. It seems to me that anybody would like to get a contract of this kind.

Mr. Hunter: Are we talking about the contract worked out immediately after the fire?

The Vice-Chairman: Before and after because they had nothing to lose in either case.

Mr. Hunter: Well, sir, . . .

Mr. Major: Mr. Chairman, why do you not ask Mr. Hunter why the contractor was not required to carry fire insurance?

The Vice-Chairman: You could ask that as a supplementary after Mr. Hunter has answered my question, if you wish, Mr. Major.

Mr. Hunter: The contract immediately before the fire was one based on multiple incentive features and actually, as I mentioned some days ago, it worked out that the company on all the work done before the fire received a fee of only two-thirds of 1 per cent—$180,000 on $27,150,000 worth of work. This project actually had tied up most of their senior engineering people for a period of at least two years

• 1010

and this was, I would think, a very, very modest return in the way of a fee for handling $27 million worth of work. As you know, all their top people certainly had to be involved to get this job done.

The Vice-Chairman: Excuse me a second, is this a contract in which de Havilland will be making approximately 1.65 per cent?

Mr. Hunter: Our estimate is that they will make 1.65 per cent of $39 million worth of work because, as the Captain pointed out, we broke down the contract after the fire into three parts, work before the fire, work after the fire and then trials, publications, etcetera.

The Vice-Chairman: I do not want to hold up the Committee, but I would like to ask you one more question, Mr. Hunter. As a result of this fire and the experience gained from this particular contract, has there been a change in policy regarding this type of contract? Was this part of the recommendation?

Mr. Hunter: As far as fire insurance would be concerned?

The Vice-Chairman: Yes, and some kind of protection so that the federal government is not the only one involved in paying the bills in this type of occurrence in the future.

Mr. Hunter: Sir, if you are speaking of fire insurance, I can deal with that if you would like me to run through the whole government policy of . . .

The Vice-Chairman: I think Mr. Major will have a specific question on this point, but what I am getting at is, are we protected in the future against similar happenings?

Mr. Hunter: I would say, once again, we have learned a lot from a development contract of this kind. If we ever have one similar to it, we would, perhaps in looking back, be able to improve on it. I think there were a number of most unfortunate occurrences that really led to this contract costing more money. There were failures in several of the major sub-contract components; in the fire itself there were three distinct areas that could not have been foreseen and I am not sure we could do anything about them should it occur again. We just hope it will not happen again and do whatever we can, based on our experience, to see that it does not.

The Vice-Chairman: Thank you, Mr. Hunter. Mr. Major.

Mr. Major: Mr. Chairman, we were involved in a fire on the *Bonaventure* of major importance and then there was a fire on the hydrofoil of major importance, also, and from the way the contract was drawn up giving de Havilland, Marine Industries and the sub-contractors almost total responsibility for this project, I would suspect that the normal procedure would have been to insist that these companies carry fire insurance to protect the government's interests and to protect their own interests. I would suspect that they would have learned this and I am surprised there has been no mention of this anywhere.

Mr. Hunter: Mr. Chairman, should I review to goverment policy of self-insurance? This actually dates back to 1881 when the government of the day decided that in view of the large amount, varied character and widely separated positions of property in the Dominion belonging to the Crown, it was wise economy for the government to underwrite its own

risks on all movable or immovable properties. That was in 1881.

From that time for the next 50 or so years there were very few exceptions made. There was an exception made for the Supreme Court Library because of the very high value of books therein so there was authority given to insure steam boilers because this gave automatic inspection by the insurance companies. There was the exception for External Affairs to provide third-party liability in foreign countries where, presumably, to have handled the arrangements any other way would have been difficult. Another exception was for National Revenue on outgoing shipments of stamps.

In 1952 when the Department of Defence Production was formed, we were about to write standard forms of contracts, so we referred to Treasury Board to have them confirm or change for future use, the policy of self-insurance. The Treasury Board directed us to put into all standard contracts on plant equipment, machinery, jigs, fixtures, dyes and

• 1015

tools of all kinds that no insurance be carried. They also directed that we have no insurance on any parts, equipment, government-furnished property, raw materials, work in process, finished goods or anything that the Crown owned except in the case where it was impossible through a co-mingling of Crown and contractors—civilian production requirements—to determine what was Crown owned and what was not and in that case they directed us to allow the contractor to carry insurance.

One of those cases happened to be in the shipbuilding business, the repairs and refits, which are normally of short duration. I understand in such cases they are in the yard for a month or two and there might be a civilian ship in the yard as well, so we were told by Treasury Board that in all repairs and refits the contractor should carry liability insurance known as Marine Builders Risk Insurance. This is the reason the *Bonaventure* was insured at the time there was this small fire that has just been mentioned. I was wrong the other day when I informed the committee that I thought the *Bonaventure* had been insured because of the hydrofoil fire. This was not so because normally it would have been covered anyway.

The other two types of ship construction were reviewed at the same time in 1952. In those days the contracts were mostly of the cost reimbursable type, so we were told by Treasury Board not to ensure them, that the policy of the Crown being its own insurer would continue there. This was the case and these were the regulations we were operating under at the time the contract for the hydrofoil came along. We were under direction not to insure, but the contractor would come to us and say, "I must feel if I do not insure that I will be indemnified." So we, the Crown, would give him, in that case, an indemnification which gave the same protection to the contractor as he would have had if he had a Marine Builder's Risk Insurance policy. This is the reason when we had the fire on the hydrofoil our legal people, after discussing it with the Department of Justice and anyone who was concerned, came to the conclusion that the indemnification we had given the contractor was the same as under this builder's risk policy and made the Crown completely liable for any damage. This indemnification took the place, really, of an insurance policy. That is the second type of ship construction—cost-reimbursable.

In the case of firm price new construction which now has become our policy, we are looking at these cases with the Department of National Defence to see if we should insure those. I mentioned the other day that with the current large ship construction program—the DDH 280—we have had second thoughts on whether we should take out insurance or not and, in fact, we have called for proposals from insurance companies to get some idea of what it might cost to cover these ships. We then will discuss it with the Department of National Defence and decide whether we should go to Treasury Board to ask for a change in the policy.

The Vice-Chairman: Does that answer your question, Mr. Major?

Mr. Major: Partly, yes, but I just have one observation. I can understand the government not carrying insurance on the finished product, this makes sense. However, in this particular instance it was a special project and I am sure if the contractor suffered any losses with regard to this ship he must have been covered by contingent insurance, I am positive of that.

Mr. Hunter: Sir, he would be covered for any losses by our indemnification. We told him not to insure, so we put ourselves in the place of the insurance company, vis-a-vis the contractor, but at the same time, Mr. Chairman, if I just might continue, the fire losses we have experienced since we put this policy into effect in the Department of Defence Production has totaled for 13 years some $5.7 million including about $3.25 million for the hydrofoil, which is a very substantial part of the total losses in 13 years. These, I might say, are just the actual loss of government property and not the loss that would result to the program. However, the total losses in 13 years were only about $5.5 million. If we had insured these projects—this is a very rough estimate—it would have cost us about $1 million a year at a pretty reasonable rate for the total we had under construction, whereas it has cost us $400,000

a year in fire losses, which the Crown has absorbed. So I think we might take the view that we have saved possibly at least $500,000 to $600,000 per year by being our own insurer over 13 years, or about $8 million.

Mr. Burton: May I ask a supplementary question?

The Vice-Chairman: Yes, a supplementary, Mr. Burton.

Mr. Burton: When you refer to your experience in this regard, are you referring to property which is Crown property and which is under the full control of the Crown?

Mr. Hunter: That is right, anything that is under construction as well as a contractor under a DDP contract on behalf of the Department of National Defence.

Mr. Burton: Oh, so it includes Crown property which is under the control of the contractor or on which the contractor is doing work, as well, at that time?

Mr. Hunter: You are quite right.

Mr. Burton: It seems to me that some differentiation should be made here in this regard because I can quite understand the principle of self-insurance, particularly, when you are dealing with property and assets which are under the full control of the Crown and of government authorities. But I do think some

• 1020

differentiation should be made when you are dealing with property where, in fact, you do not have full control because it is being worked on by a contractor.

Mr. Hunter: Sir, it was a case of us permitting the contractor to either take out insurance which would be one alternative, or to indemnify him as though he were insured, because, as I mentioned, the saving really was effected by the fact that we did not let him take out insurance. We estimate that had insurance been taken out on this 13 year's work it would have cost the Department, or at least, the Department of National Defence—they would be their contracts—about $1 million a year but the losses have been roughly only half a million dollars a year. Therefore, by not insuring and by putting the contractor in an insured position, but with the Crown taking the risk, we saved roughly half a million dollars a year.

Mr. Burton: Did you say half a million dollars?

Mr. Hunter: Half a million dollars per year which, over 13 years, would be $7.5 or $8 million.

Mr. Burton: For assets which are under the control of the contractor? I am sorry, I did not quite hear your last answer.

Mr. Hunter: Yes, sir, for assets to which the Crown has title in control of the contractor. We do not insure his whole shipyard. We just insure the part of the work that is under his control, but title is passed to us.

Mr. Burton: I just wanted to make the point that the cost would be considerably less than $1 million if you were dealing with those portions of Crown property which are, as you say, under the control of the contractor because of the work that he is doing on them.

Mr. Hunter: I do not understand, sir.

Mr. Burton: This total of $1 million a year refers to all of the property which is owned by the Crown regardless of whether it is under complete control of Crown authorities or under the control of the contractor because of work that he is doing on it. Is that what you mean?

Mr. Hunter: I am sorry; I did not explain it properly, then. This is the work that is under a contractor's control and which he could insure if we permitted him to, but which we have said he cannot. It is work in process with the contractor to which title is passed to the Crown. In other words, on any kind of a contract with progress payments the title passes on payment of the progress, so when you are building a ship whatever degree of the ship is completed is, in fact, Crown property.

Mr. Burton: It is this type of situation to which you refer the $1 million figure?

Mr. Hunter: That is right.

The Vice-Chairman: Mr. Henderson, as Auditor General, would you have some comments on this particular phase of the report?

Mr. A. M. Henderson (Auditor General of Canada): I think it would interest the members to know, Mr. Chairman, that possibly three to four years ago—this is in direct relation to Mr. Major's question—this Committee did, in fact, go into the question of self-insurance. Mr. Hunter's recital of the circumstances brings back to mind the evidence that was taken at that time when this committee suggested to the House that there be a statement put in the public accounts detailing the amount of losses incurred as a result of accidental destruction of, or damage to, assets which normally would be covered by insurance had such insurance existed. Each year since there has been a statement in the public accounts showing by department all of the losses which have occurred in the

government. Unfortunately, however, I should bring to Mr. Hunter's attention that we are unable to find any record of the hydrofoil fire in the public accounts in that statement and I am curious to know why. Perhaps we could follow that up later.

The Vice-Chairman: Are you in a position to answer that or would you like to defer it until the next meeting?

Mr. Hunter: Mr. Chairman, I will get the source of these loss figures that have been given to me and come back to the next meeting with an answer.

The Vice-Chairman: Fine. Are you finished, Mr. Major?

Mr. Major: I have just one question for Mr. Henderson. Is it not a contractor's normal procedure

• 1025

to insure a building until the time it is delivered to the government or the owner? Is there any government control over this?

Mr. Henderson: I would want to refer to our records on the Department of Public Works to refresh my memory on that, Mr. Major, but generally speaking, it is the contract which governs the responsibility.

Mr. Major: A contractor is not excluded from covering himself?

Mr. Henderson: No, not at all, and moreover, most of them carry some—in my experience—form of floater policy which keeps them protected against large claims which perhaps could come along and even bankrupt them. That is a normal item of overhead as far as the contractor is concerned.

Mr. Major: Exactly.

Mr. Henderson: I think the Government of Canada's approach to this is perfectly understandable. More and more big operators today like governments and even big companies are serving as self-insurers, but I think, as I believe you implied by your question, that it is the point of responsibility. When you have a damage claim like this just because you are a self-insurer does not necessarily mean that you have to pick up the tab. It may be that something should be forthcoming from the contractor; maybe the fire or the damage was his responsibility and, therefore, if he was a prudent man he would have carried coverage and you could collect from him.

The Vice-Chairman: Thank you, Mr. Henderson. We have Messrs Crouse, Nöel, Burton and Cullen.

Mr. Crouse: Mr. Chairman, I wonder if the witness could tell the Committee the exact cost to the Canadian taxpayers from this particular fire. What is the over-all estimated loss to the taxpayers from this fire?

Captain Allan: The fire repair itself was about $3.2 million, but attendant costs, that is, design changes and programs stretch-out, raised the total to about $6.5 million.

Mr. Crouse: The total was $6.5 million? Information provided to the Committee this morning showed on Figure 4 a view of a typical joint and it states that the failure of this type of joint probably caused the fire. Were these couplings specified by the Department of National Defence or by the Department of Defence Production?

Captain Allan: Neither, they were selected by the contractor. This is one of the areas, as explained in the report, where detailed drawings and specifications were not required to be approved by the Department of National Defence.

Mr. Crouse: In view of the fact, Mr. Chairman, that this was not the first ship that had been built by the Department of National Defence and the Department of Defence Production, why did the Department of National Defence or the Department of Defence Production not specify flexible hose in areas of severe vibration in the ship? Surely they had previous shipbuilding experience. From my own experience, Mr. Chairman, when we build a fishing dragger in Nova Scotia we know that there are certain areas of vibration in the ship which will cause us problems if we put fixed piping to that particular engine or tank and I am wondering why you did not specify flexible hosing in areas of severe vibration?

Captain Allan: Well I will attempt to answer it. Really this type of hose and clamp coupling is an aircraft practice, it is not a shipbuilding practice. I think this goes back to the environment prior to the fire. We were in a high-bred vessel; in effect one which had to rely heavily on aircraft design techniques in order to make it practicable. For this reason, the contractor was given a relatively free hand in order to develop the design. The detail design was left to his discretion.

Mr. Crouse: We are led to believe that the people who should be knowledgeable about ship construction in both the Department of National Defence and the Department of Defence Production adopted a hands-off attitude on parts of this ship which dealt entirely with marine knowledge and marine construction. Is this what you did?

Captain Allan: Yes, in general terms. There were check points in the design, but they were check points

in general terms; for example, the preliminary design specification was reviewed, but these were general specifications as opposed to this type of thing which would be a detailed specification.

Mr. Crouse: Mr. Chairman, in view of the known heat generated by this particular type of engine installation, what company carried out the pressure tests on these couplings and is a certificate available showing the number of pounds pressure these couplings would stand or would carry?

Captain Allan: Yes, the Havilland of Canada, Limited did it. On this particular joint they had done pressure tests up to 300 pounds and the working pressure is nominally 60 pounds. There are certificates to substantiate this, but the point I was making in the report on the system in use on that particular day was that in all cases the inspection documents were not available to indicate that each and every joint had been inspected. I am not saying that it was not inspected, sir, I am saying that the documentation was not available to prove that it had been inspected.

Mr. Crouse: Well, Mr. Chairman, we are right back where we started from then. The report that has been laid before this Committee this morning indicates extreme carelessness, laxity on the part of the men who are before us this morning and who are and should have been responsible. This is really not the first ship you gentlemen had a hand in constructing and yet we are told that only after the fire, Mr. Chairman, was it decided by the Department of National Defence and the Department of Defence Production that government inspection would be introduced to supplement contractor inspection.

You have been like a ship without a rudder, gentlemen. You have been wandering all over the ocean and you wait until you strike a reef before you decide to check your electronic equipment and your navigational aids. You have spent some $53 million of the Canadian taxpayers' money without proper supervision. Now, is there no way the Canadian taxpayer can be made aware of your indiscretions and your lack of proper supervison? Are they going to continue operating in this manner, Mr. Chairman?

Mr. Armstrong: Well, I think this is a matter of opinion on your part, Mr. Crouse.

Mr. Crouse: That is correct, but it is substantiated by the report before this Committee.

Mr. Armstrong: The Committee has been informed of all the arrangements in connection with this ship. We have explained in the report that has just been read to you, and it can be explained in the details of the contract, that the arrangements were made in the expectation of making this particular type of development as economical as it was possible to do so.

• 1035

You read the provisions shown in paragraph 3 with respect to the incentives that were given to the contractor for development of the ship. The general specifications were laid out in terms of the operational requirements. There were a number of check points between the contractor and the project officers of the department, but the detailed specifications were not laid out. It was considered that the ship would be built more economically under this kind of an arrangement than if we attempted to detail all of the requirements for the ship in advance, in the normal way we would if we were building a destroyer, where we know exactly what we want in terms of all the ingredients that go into it.

In the case you must remember we are developing a ship, we are going into unknowns, we do not know. We are working with the contractor in an unknown field. It was considered that this was the best way to do it in terms of producing what we were seeking at the lowest cost.

Mr. Crouse: Mr. Chairman, this is just the point I made. You were not working with the contractor, you were letting him go ahead and do it in his own way. Consequently, he did not fire-proof one of the exhaust systems adequately and when the hydraulic fluid escaped from a coupling which obviously was not built to carry the test because it was of aircraft design, this fluid struck an uncovered coupling which you neglected to inspect because you did not put any inspectors on the job. You relied entirely on the shipyard to do this, consequently, your decision was not the correct one and as a result of your laxity the ship caught fire. Is this not correct? This is the information I read from the material provided to this Committee, Mr. Chairman.

Mr. Armstrong: It is your opinion that the ship caught fire because of this.

Mr. Crouse: Predicated by your report.

Mr. Armstrong: Well for one thing it was explained to you that these particular connections, as I recollect the explanation, were designed to carry 300 pounds.

Mr. Crouse: But not tested. You have not the test certificates to show this Committee that they were all tested.

Mr. Armstrong: That is right. That is stated here, yes. We did not have proof.

Mr. Crouse: So you were lax.

Mr. Armstrong: We were not lax, no.

Mr. Crouse: No? Mr. Chairman, he is giving us a snow job. That is what he is trying to do.

Mr. Armstrong: I am not endeavouring to give you a snow job.

Mr. Crouse: You are trying to cover up your own inefficiencies.

Mr. Armstrong: Mr. Crouse, I am not endeavouring to cover anything up. I am giving you all the facts that are related to this.

Mr. Crouse: It is a sorry tale.

Mr. Armstrong: It is up to you to form your opinions on them. We, after all, have to judge this from the beginning. We have a development project. We determine the best way of getting the job done. We believed this was the best way to get it done when we started. That is why we did it this way.

Mr. Crouse: Well, it is almost useless to pursue a line of questioning because you believed it was the best way to get it done and I suppose you acted in good faith. However, the obvious results of what you were doing show such colossal blundering that it is beyond my understanding. You did not even follow the normal type of shipbuilding practice that we, in private industry, have followed for years. I can only recommend, Mr. Chairman, that the men who are before this Committee and who are responsible for ship construction should visit the East Coast and learn a little from shipbuilders who must be practical and who do not have the Canadian taxpayers to pay the bills for their misjudgment.

Mr. Armstrong: Mr. Crouse, as far as shipbuilders are concerned I am sure we have in the Canadian services men with as much experience and as capable as you will find anywhere in the country. I do not think there is any question about this.

Mr. Crouse: Would you please show it to us then?

Mr. Armstrong: We were not building the kind of ship you are talking about. We build many ships that way, of course we do. We have fixed-price contracts for the *Provider* ships that are down in your East Saint John dry-dock. We have fixed prices for the DDH 280's that are being built now at Marine Industries Ltd. This is not what we are talking about. This was a development. This is exploring a new field and an unknown field. It is an entirely different proposition, Mr. Crouse.

Mr. Crouse: Mr. Chairman, all of this is accepted. We realize that it is a new field but it is not an unknown field. The principle of the hydrofoil, for example, was developed 60 years ago on the Bras d'Or Lake. You have the American development to go by.

• 1040

Let us not cover up the area, what we are talking about is a fire and we are talking about the report which was submitted. What we are basically dealing with now is the cause of this fire. We are told—I am quoting the words of the report submitted to us this morning:

> . . . the fire-fighting provisions and organization were inadequate to cope with a fire of this magnitude;

Are you trying to tell this Committee that this was the first time a fire was anticipated on a ship and the first time that it was necessary to provide adequate fire-fighting equipment? The first thing we do when we build a ship in any of our Nova Scotia yards is to make certain that adequate and proper fire-fighting equipment is readily at hand in case of a flash fire.

You are telling us in this report about your own inadequacies and you are telling us that you decided only after the fire that government inspection would be introduced to supplement contractor inspection. Obviously the contractor did not have proper inspection. Obviously you people were not interested enough in your prize baby, this research ship, to put a man there to see that things were being carried out according to the limited specifications you were able to give. This lack of interest can only be due to the fact that you did not have to pay the bills or find the money to pay them.

Mr. Armstrong: Well who was paying them?

Mr. Crouse: The Canadian taxpayer was paying the bills and you kept ladling it onto him until you got it up to $53 million.

The Vice-Chairman: I am not too sure whether this is a question and answer period or statements from both sides. However, I do not think we are getting anywhere at the present time, Mr. Crouse. I think it would be best if I recognize Mr. Noël.

Mr. Crouse: I will pass to someone else.

[*Interpretation*]

Mr. Noël: Mr. Chairman, I have followed with great attention the questions and answers given in this respect.

In the Auditor General's Report for 1966, at page 48, it is stated:

[*English*]

> The concept of a hydrofoil craft was developed by the Naval Research Establishment after several years of experimentation with hydrofoils. In March 1961 a contract was entered . . .

and so on, and in March 1963 a final cost of $517,000 and further costs of $287,000. Then, at the last session it was revealed that $3.5 million altogether were spent on research.

[*Interpretation*]

I think that the problem which is now before us is a problem of pure research. As stated by the Deputy Minister, I think that they started from scratch. They were trying to build a craft to hunt down submarines, and at the same time for protection against submarine attacks.

Now, in Mr. Henderson's report, it is stated:

[*English*]

> . . . as not only have we insufficient information from the Company but there is a complete lack of historical cost data both in Canada and in the U.S.A. . . .

[*Interpretation*]

My first question will be the following. Has there not been an agreement between Canada and the United States for the Department of National Defence and the Department of Defence Production to share the task with their American couterpart. We have just heard the Deputy Minister say that the United States had a ship developed specially for research, and the one which we intended to build here was a special craft for submarine detection and submarine pursuit.

What I would like to know, is whether there has been an agreement between the two governments in this respect. That is my first question.

[*English*]

Mr. Armstrong: There has not been agreement between the two governments in a formal sense but between the research organizations of the two governments who are concerned in this field. The understanding was that Canadian development and research would be directed to developing a 200-ton hydrofoil with the particular type of foils that were designed in Canada. This is what I call the surface-piercing foil. The Americans undertook to develop a 100-ton hydrofoil and a 300-ton, and they use a different type of foil, it is called a submersible foil I think, which is a different design type. There was

• 1045

agreement that the experience on these projects would be interchanged between the two countries and that agreement has proceeded along that line.

[*Interpretation*]

Mr. Noël: I am satisfied with this answer for the moment. Now, it is understood that we are now dealing with research. Now, research, as you know, is an exercise in trials and errors, and I am wondering if Canada has not undertaken a task which was beyond its financial means, beyond the range of its experience in such research, and which at the same time was beyond its means of control. It has been proven here; Mr. Crouse mentioned this.

There is one point which surprises me very much: in figure no. 4, there is a type of joint which I usually use for my garden hose.

I am wondering if Mr. Crouse is not right in placing some doubt on the soundness of this experience, and the competence with which it has been directed.

What bothers me is that since the end of the war, the government of Canada has entered into numerous excessively expensive types of experiments. The report of the Auditor General is there to prove it.

[*English*]

"Inexperience of the contractor . . .", "Underestimates of sub-contracts . . ." and so on and so on.

[*Interpretation*]

The facts are there. We started off with a survey of over $9,100,000 which have increased to over $53 million, and the end is not in sight yet.

We are in the dark and will continue to be so for a long time, wondering if this ship is going to work and if it is going to be useful for the purpose we have in mind.

I think we should draw a lesson from this experience. Are we always to give priority to the Department of National Defence, without exercising control except after the event, when the Auditor General examines the situation? This Department has experts who sell ideas to the Treasury and the latter follows them up and spends.

Let us consider what went on before 1961, and since 1961, and what is still going on at the present time.

I am wondering if we should not give priority to true research, in the field of production and manufacturing instruments which can produce consumer goods instead of tools for destruction. We do not even know where we are going. We have research programs that are geared for destruction pure and simple, which are frightfully expensive, and which favor only a small,

• 1050

specific group. We could, on the contrary, encourage research in the field of consumer goods and production instruments which would give more work to our fellow citizens and would be less expensive for the country.

This is what comes to my mind after hearing all the testimonies which are certainly honest and sincere, based on facts, but again, I repeat.

[*English*]

It is an exercise in trials and errors and I think we are fed up with that. Thank you.

[*Interpretation*]

The Vice-Chairman: Is that a question or are you just stating your opinion, Mr. Noël?

Mr. Noël: This is my question: Should the Public Accounts Committee not express a recommendation to review the whole policy of priorities in the field of research. You have the National Research Council. Its accomplishments are fine of course, but are they used in practice? This is my question. I know it will remain unanswered, but I am asking someone to direct it to those who can answer it.

The Vice-Chairman: On a point of order, Mr. Noël. I think that our work is to check Public Accounts, with the Auditor general, and not to approve or disapprove of government policy in the field of research or in any other field.

Mr. Noël: But my question is on the Minutes.

The Vice-Chairman: Yes.

[*English*]

Mr. Crouse: Mr. Chairman, I have one brief supplementary, if I may. Is it not true, Mr. Armstrong, that the *Plainview*, the largest hydrofoil ever built which displaces 300 tons and was build by the Americans is intended to perform the duties of a destroyer? Is this not correct?

Mr. Armstrong: I suppose this depends on the type of destroyer. Destroyers perform a variety of duties. My understanding is that they are not designing it for an ASW role, which is one function of a destroyer. I understand that it is a research vessel and at the moment they are thinking of it in terms of a gun platform principally; however, I may be wrong about this. So when you ask whether it substitutes for a destroyer, I suppose that it could in some functions because destroyers, as you know, perform a variety of functions.

Mr. Crouse: I am a little amazed at the answer in view of the fact that we were told earlier that there had been co-operation between our departments and the Americans on this type of research development. I am amazed at the lack of knowledge of our witness about the development that has taken place in the United States.

Mr. Armstrong: I am sorry, Mr. Crouse, it may seem that I do have a lack of knowledge on it. I would have preferred if you had asked these questions of the technical experts when they were up here. I could get you the answer if you wish me to.

[*Interpretation*]

The Vice-Chairman: Mr. Rodrigue, do you have a supplementary question?

Mr. Rodrigue: Could we get detailed plans in this Committee, to see if the security standards have been complied with in each dangerous spot, if anti-explosion protection that is fireproof has been installed in required places. This does not come under research. Today, these standards are complied with everywhere in buildings. I do not think there is any research necessary in this respect. The specifications should have been prepared before construction.

I wonder if we could not have these plans to see if these standards have been respected.

[*English*]

The Vice-Chairman: Captain Allan, could you answer this question please?

Captain Allan: No, there were no detailed specifications regarding fire-fighting and explosive preventions. We do have now, largely as a result of the fire, explosive detection systems, carbon monoxide detection systems and generally improved fire-fighting provisions throughout the ship. However these details in which Department of National Defence participated came about as a result of the fire and were not included as a DND specific requirement prior to the fire.

The Vice-Chairman: Captain Allan, we really do not know then if the minimum safety requirements were met by the company in these couplings, is that correct? We do not have any detailed drawings of any kind?

• 1055

Captain Allan: We do now. At the time of the fire we did not, but in fairness to the company they had conducted in-house tests to determine to their satisfaction that that type of joint was satisfactory for the system for which it was intended. On the low pressure hydraulic system for example they conducted tests approaching the 300 pounds per square inch level, whereas the system is designed for 60 pound pressure and it relieves at 68 pounds. So they did have an adequate margin of safety and it was . . .

The Vice-Chairman: Did this include tests of the heat factor as well, or just pounds per square inch?

Captain Allan: Just pounds per square inch, a pressure test.

The Vice-Chairman: But there was a heat factor involved here, was there not?

Captain Allan: That is correct.

The Vice-Chairman: This is where they failed?

Captain Allan: That is right. Some of the couplings burned through as the photographs indicate, but our feeling was that the probable cause was mechanical failure first which allowed the fluid to leak and ignite and then burn through the remaining couplings which caused the intense secondary fire.

The Vice-Chairman: As a result of the fire have the connections and hoses that were used been abolished and is a more effective type of coupling being used? Are they tested not only for pounds per square inch but also the heat and fire possibilities?

Captain Allan: That is correct. In all areas where there would be a risk of fire were there a fluid leak we have done away with this type of joint, particularly fuel systems, hydraulic systems, where there would be a risk of fire if a leak occurred.

The Vice-Chairman: Well, we will have to go into this further. I find it very odd that a company like de Havilland would be so lax as to have this type of connection in this type of craft.

Mr. Burton I think we have a few minutes and you are next on the list if you have a couple of quick questions.

Mr. Burton: Mr. Chairman, I do not think I can finish all of my remarks, but first of all I would just like to comment that I think there is a very real danger that this enquiry could get off the track in terms of a couple of the points that were made. I think it has to be recognized that as long as there is a political decision that defence programs are necessary there is a role for research and development. As long as there is research and development you are dealing with imponderables and we have to recognize the implications of that.

I think what we are trying to examine here and to ensure is that there is the best possible management and control over the projects that are carried on all the way from the government, to Cabinet and Treasury Board—I think there are some serious questions might be asked in this area as well—to the management that is provided through the officials in the actual operations that are carried on either by government or public personnel and by the contractor and the arrangements that are made with contractors.

Mr. Chairman, I must join with others and say that in the first place I am simply amazed that we have a contract which was given to de Havilland, where de Havilland, as stated in the report,

> . . . accepted full responsibility for the design and production of a satisfactory ship . . .

They were to develop their own inspection plan. There was only routine inspection carried out by the Department of National Defence. As I understand it de Havilland were to provide for their own fire protection and there were no specifications set out for this. Then we find the situation where the Department of Defence Production were given a legal opinion, or gave a legal opinion that in accordance with the terms of the contract, the contractor was under no liability to reimburse the Crown for loss incurred as a result of the fire. It seems to me that this is really quite a strange type of situation.

The Vice-Chairman: Mr. Burton, I think you had better put your question, because you are only going to get an answer on Thursday. We have to leave at 11 o'clock.

Mr. Burton: If I could just conclude my comment, Mr. Chairman, I was going to turn to one other item that I was going to ask the leave of the Committee to proceed with.

Finally, I was going to note that these deficiencies were admitted by subsequent decisions where it was decided, as pointed out on page 4 of the report, that:

> Government inspection would be introduced to supplement contractor inspection, and appropriate DND inspection standards would be written into the new contract.

Then second, that:

> Improved engineering, production and quality control procedures would be introduced by de Havilland and there would be increased Government participation and surveillance in these matters.

This, it seems to me, is an admission of gross negligence and a failure to have adequate management and control over this project.

• 1100

Now, Mr. Chairman, what I did want to turn to next before proceeding with some questions was that a . . .

The Vice-Chairman: I do not think you are going to have a chance to put any questions.

Mr. Burton: Yes, I understand that.

The Vice-Chairman: The other Committee's members are already in the room and if you want to put a question very briefly, we will have an answer . . .

Mr. Burton: I will leave it until the next meeting, Mr. Chairman, because I wanted to ask the leave of the Committee to read into the record the letter that was left by Mr. Harold Winch prior to his departure with the External Affairs and Defence Committee.

The Vice-Chairman: Right, you will be first on the list at the next meeting. This meeting is adjourned.

HOUSE OF COMMONS

First Session—Twenty-eighth Parliament

1968-69

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: Mr. A. D. HALES

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 24

THURSDAY, MARCH 13, 1969

Public Accounts, Volumes I, II and III (1966 and 1967)
Reports of the Auditor General to the House of Commons (1966 and 1967)

WITNESSES:

(See Minutes of Proceedings)

THE QUEEN'S PRINTER, OTTAWA, 1969

HOUSE OF COMMONS

First Session—Twenty-eighth Parliament

1968-69

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: Mr. A. D. HALES

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 24

THURSDAY, MARCH 13, 1969

Public Accounts, Volumes I, II and III (1966 and 1967)
Reports of the Auditor General to the House of Commons (1966 and 1967)

WITNESSES:

(See Minutes of Proceedings)

THE QUEEN'S PRINTER, OTTAWA, 1969

29929—1

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. A. D. Hales

Vice-Chairman: Mr. T. Lefebvre

and Messrs.

Bigg,	Forget,	McCutcheon,
Burton,	Gervais,	Noël,
Cafik,	Harding,	Rodrigue,
Crouse,	Leblanc (*Laurier*),	Roy (*Timmins*),
Cullen,	Major,	Tétrault,
Flemming,	Mazankowski,	Thomas (*Maisonneuve*)—(20).

(Quorum 11)

Edouard Thomas,
Clerk of the Committee.

MINUTES OF PROCEEDINGS

THURSDAY, March 13, 1969.
(26)

The Standing Committee on Public Accounts met this day at 9.40 a.m., the Chairman, Mr. A. D. Hales, presiding.

Members present: Messrs. Bigg, Burton, Crouse, Cullen, Flemming, Hales, Harding, Lefebvre, Mazankowski, Rodrigue, Thomas (*Maisonneuve*)—(11).

Also present: Mr. Pilon.

Witnesses: Mr. A. M. Henderson, Auditor General of Canada; Mr. E. B. Armstrong, Deputy Minister, Department of National Defence; Mr. G. W. Hunter, Deputy Minister, Department of Defence Production; Capt. T. S. Allan, Hydrofoil Project Manager, Department of National Defence.

The Vice-Chairman took the Chair in the absence of the Chairman.

The Vice-Chairman tabled an editorial which appeared in the Montreal *Gazette* on March 10, 1969 and the draft reply of the Chairman of the Committee thereto.

Mr. Burton tabled a copy of a letter from Mr. Winch dated March 7, 1969 concerning the fire on the hydrofoil.

The Committee questioned the witnesses concerning the hydrofoil.

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

Edouard Thomas,
Clerk of the Committee.

29929—1½

EVIDENCE

(Recorded by Electronic Apparatus)

Thursday, March 13, 1969

• 0941

The Chairman: Gentlemen, shall we proceed. I would like to ask you to approve my turning the gavel over to the Vice-Chairman this morning because I would like to go across the hall and sit in on the Miscellaneous Estimates Committee, which is handling the amendments to the Financial Administration Act.

This is the Act on which our Committee operates more or less in many respects and there are many proposed amendments in here that have reference to our Committee, and there are some places in it where the Committee has made recommendations to the House, and I would like to be there to have the Committee's interests brought to the attention of that committee as they study this bill. So, Mr. Lefebvre, if you will take over I will go across the hall.

The Vice-Chairman: Gentlemen, with the Committee's permission I would like to read into the record an editorial that appeared in the Montreal *Gazette* on March 10, 1969, which to me is the best example of poor Parliamentary reporting that I have seen in the three years I have been a member of this House. It is completely erroneous and it is an example of reporting that is not based on fact. It reads:

> The Commons Public Accounts Committee is getting a great deal of attention in its current investigation of the costs of an experimental hydrofoil being developed for Canada's naval forces. Last month, it got almost as good mileage out of an inquiry into the costs of refitting the Canadian aircraft carrier Bonaventure.
>
> There is no question that the two cases need investigation. Their records indicate extreme cases of faulty estimates. The cost of the hydrofoil, for instance, was estimated at $9 million in 1963; $49 million has been spent on it and another $4 million will be needed to complete it.
>
> While the Public Accounts Committee is presenting a vigorous public image in its conduct of these two inquiries, its record on less glamorous but equally important subjects is much less impressive.
>
> During a visit here two weeks ago, Auditor General Henderson deplored the fact that although the present Parliament had been sitting for 126 days, the committee had not met once.
>
> "A tremendous backlog of work awaits its deliberations," said Mr. Henderson. This was understating it. There are still recommendations of his, waiting for debate, which were included in his 1964 and 1965 reports.
>
> Specifically, 53 of these recommendations were listed by Mr. Henderson last

• 0945

> fall. Of these, he said, 16 have got as far as cabinet, which has disagreed with them, but there has been "little or no action" on the remaining 37. One of them dates back to 1960, the year Mr. Henderson was appointed.
>
> Mr. Henderson's next report will show that the total of 53 neglected recommendations has been reduced. But all of the recommendations were intended to bring Government accounting methods up to date, to increase efficiency and to reduce costs. And if there is anything the Federal Government and its Public Accounts Committee should occupy themselves with, it is the reduction of costs.
>
> The committee is making a brave show of its naval spending inquiries. How many millions have been lost by its neglect of the Henderson recommendations during the last several years?

I called Mr. Hales about this and I believe he has composed a letter in reply. There are just

a couple of points I wish to bring to the attention of the Committee.

This editorial was written on March 10 and it made reference to a visit by Mr. Henderson to Montreal two weeks prior, which by my calculations would make it February 24. Now up until February 24, as any reporter could have found out with the least bit of research, this Committee had met 20 times. He says we have not met once. And up to February 24 we had had 99 sitting days in this Parliament, not 126 as claimed here. Very, very elementary research would have revealed this within two minutes.

Then in the last sentence he says:

> How many millions have been lost by its neglect of the Henderson recommendations during the last several years?

I do not think the Committee has ever neglected the recommendations brought to our attention by Mr. Henderson. If there is neglect it could be the government's neglect or some department's neglect, but certainly not the Committee. When I brought this to the attention of Mr. Hales he explained that he would not be here this morning. However, he did write a letter in reply and, if you wish, I will read Mr. Hale's reply.

> Letter to the Editor-in-Chief, Montreal *Gazette*
> Dear Sir:
>
> I am sure you would appreciate having brought to your attention the inaccuracies that occurred in your Editorial under date of March 10th entitled "Unspectacular Waste".
>
> The Public Accounts Committee, of which it is my privilege to be Chairman, appreciates your kind observations with regard to the conduct of our enquiries into the faulty estimating by the Department of National Defence in the refit of the Bonaventure and the development of the Hydrofoil. I personally feel the Committee have been very faithful and have accepted their responsibilities as good Members of Parliament.
>
> The Committee must, however, take exception to your remarks, "its record on less glamorous but equally important subjects is much less impressive", and your reference to the Auditor General's speech in Montreal two weeks ago is completely inaccurate. Mr. Henderson was not referring to this Parliament but was quoting from page 2 of his 1967 report " .. on May 19th, 1966, my '66 report was again referred to the Committee. The members were named on the same day but the committee was not called by the Government for organization until 126 sitting days of the 1966 Parliament had passed, not 126 days of the present Parliament.
>
> I am pleased to say that the Government of the 28th Parliament has acted with great speed calling the Public Accounts Committee for organization on October 22nd, just 28 days after the House opened, referred our work to us 7 days later on October 29th, and our first meeting was held on November 7th. We have been meeting regularly every Tuesday and Thursday since then, a total of 26 meetings to date.
>
> Your statement that "although the present Parliament had been sitting for 126 days, the committee had not met once" is entirely incorrect.
>
> Under our present schedule we will have completed our studies of the 1966 and 1967 Auditor General's Reports and will be ready to start on the 1968 report shortly after it is tabled. We are not neglecting the Henderson recommendations.

So, with your permission, Mr. Hales will be sending this letter out to the Montreal *Gazette*. Is there any further comment on this particular subject?

• 0950

Mr. Flemming: My comment is only that in view of the fact that the Montreal *Gazette* saw fit to publish an inaccurate editorial, it seems to me that it is hardly doing justice to the Committee just to write a letter setting them straight. They should be asked to give the same publicity to the contents of the letter as they gave to their inaccurate editorial.

The Vice-Chairman: I could make your observation known to Mr. Hales and ask him to add this to his letter, if you wish.

Mr. Flemming: That is fine, thank you.

The Vice-Chairman: Now we will continue. I believe Mr. Burton was number one on the list for this morning.

Mr. Burton: Mr. Chairman, first of all, as I indicated at the conclusion of yesterday's meeting, I was going to ask leave today to read into the record a copy of a letter from Mr. Harold Winch to the Chairman of the Committee, to yourself as Vice-Chairman and

to myself giving his observations on the report of the fire on the hydrofoil. Copies have been distributed by the Clerk to those members present, but I would ask leave to read this letter into the record if I may.

The Vice-Chairman: Are there any objections to Mr. Burton reading this letter? If not, could you proceed.

Mr. Burton: It is addressed to the three gentlemen indicated previously by myself:

Dear Sir:

At a previous meeting of the Public Accounts Committee when there was a discussion on the cost of producing a prototype Hydrofoil ship for the Canadian Navy, I raised questions as to what had happened to cause a fire resulting in three and a half million dollars damage and loss of time and replacements bringing it to a total of six million dollars.

At this meeting we were advised by Mr. Armstrong, the Deputy Minister of National Defence, that there had been a Board of Inquiry, but same was considered to be a privileged document. I stated at this meeting that I had received private but what I considered to be authoritative information to the effect that the fire was due to gross negligence. Mr. Armstrong agreed to take the matter under advisement, and I presume that he met with his Minister, and know that he did meet with the Chairman and Vice-Chairman of our Committee to discuss the matter.

As a result the Members of the Public Accounts Committee have been supplied with "Report of the Circumstances Surrounding the Hydrofoil Fire which occurred at Sorel, Quebec, 5th of November, 1966." This document was tabled at the Public Accounts Committee meeting on March 6th of this year.

I regret exceedingly that it is not possible for me to be with the Committee on Tuesday, March 11th when this Report will be considered owing to the fact that I will be outside of Canada as a Member of the External Affairs and Defence Committee. However, as I originally raised this particular phase I would appreciate my opinions being known as I have had the opportunity of reading the Report filed by Mr. Armstrong.

I would draw the attention of the Members of the Committee to Page (2), but in particular to Page (3). The third line from the top of the page reads as follows:

"The fire-fighting provisions and organization were inadequate to cope with a fire of this magnitude: the inspection records did not afford proof that the hydraulic system in use had been fully inspected; documentary evidence of quality assurance was incomplete and thus inadequate; and that National Defence Personnel had not been advised that this particular test was planned for Saturday, 5 November."

I now draw your attention to paragraph 10 and ask your attention to the underlined sentences:

"Because of the extensive fire damage the exact sequence of events could not be reconstructed, but the prime suspect was the type of hose and clamp connection depicted in Figure 4. This device had been used in a large number of the connections in the low pressure side of the hydraulic system. There was evidence to indicate that some of these connections had not been properly installed and there was no record to indicate that certain of these connections had been inspected by the Company Inspectors."

You will then know that following the investigations certain recommendations were made. You have them before you in the Report, but I want to include them in my letter. They are as follows:

(a) That fire-fighting provisions and organizations be improved.

(b) Improved fire-proof fluid couplings be utilized in lieu of the hose and clamp connections in those systems where a risk of fire would occur if a leak developed.

• 0955

(c) That flammable fluids be isolated where practicable from potential ignition sources.

(d) That the Department of National Defence representatives be informed in writing in advance of any testing.

(e) That investigation continue to determine other areas of design which were

potentially dangerous or inadequate for the intended purpose.

(f) That the quality assurance requirements be made more stringent and explicit."

It is obvious from all the foregoing that somewhere there was gross inefficiency. I particularly want to draw your attention to the fact disclosed in paragraph 10, that important connections had not been properly installed and there was no record of inspection; also to clause (c) of the recommendations, "that flammable fluids be isolated where practicable from potential ignition sources."

I draw this to the attention of the Committee because it conforms with the private views given me that there was faulty installation, improper inspection, and that flammable fluids were adjacent to engines or generators at the time of testing.

May I further add that the Inquiry Report confirms my information that the National Defence personnel had not been advised that tests were to take place.

From all of the foregoing I am sure that the Committee will understand the reasons why I was emphatic in raising certain questions at a previous meeting. May I in conclusion express my appreciation to Mr. Armstrong for having made the pertinent information of the Inquiry Board available to the Public Accounts Committee and commend the six recommendations that were submitted in the hope of preventing a recurrence in the future.

Sincerely yours,
Harold E. Winch, M.P.

The Vice-Chairman: Thank you, Mr. Burton. Before you continue—I imagine you have some questions—Mr. Hales mentioned to me and other members this morning that it might be a good idea if we attempted to finish our questioning on the hydrofoil this morning, if possible, and then go on to some other items while we still have Mr. Armstrong and other Department officials with us, because we have a lot of items yet to cover. So I bring this to the attention of the Committee and request that you attempt to confine your questions to specific items. In this way we will try and complete our questioning on the hydrofoil this morning.

Will you proceed, Mr. Burton.

Mr. Burton: On page 1 of the Report of the summary on the hydrofoil fire, the sixth and seventh lines from the bottom, the statement is contained there that:

> The contractor was, however, required to develop his own inspection plan and to provide the Principal Naval Overseer at Sorel with copies of all inspection records.

Was the adequacy of the inspection plan approved by the Department of National Defence or was it reviewed with the contractor?

Captain T. S. Allan (Hydrofoil Project Manager): Yes, it was approved by the Department of National Defence and it was under what we call audit on a continuous basis throughout the building of the ship in Sorel.

Mr. Burton: A routine type of audit, as I would read the report.

Captain Allan: Yes. Basically, we were looking at his records to satisfy ourselves they were accurate as an inspection document. There was not the degree of physical examination which we normally do in shipbuilding practise. What I am trying to point out here is that although we could look at the records, and determine that they were accurate, he did not do the extent of physical examination to make sure that the records were up to date and concurrent with the production status on a particular day.

Mr. Burton: I take it that this factor was not fully appreciated until after the fire had taken place?

Captain Allan: In fairness I would have to say it was appreciated, but the extent of the gap was not realized.

Mr. Burton: Well, the fact that recommendations were made as a result of this inquiry for improvements in the inspection system I think itself indicates that deficiencies were recognized at least at that time.

Captain Allan: That is correct.

Mr. Burton: At the bottom of page 3 it is stated that:

> ...the DDP legal opinion that in accordance with the terms of the contract the Contractor was under no liability to reimburse the Crown for loss incurred as a result of the fire.

On what basis was this conclusion drawn?

• 1000

Mr. G. W. Hunter (Deputy Minister, Department of Defence Production): Mr. Chairman, as I mentioned on Tuesday, this was based on the policy of the government being its own insurer and this was in effect on cost-reimbursable type construction. In these cases we indemnify the contractor as though he had been insured under Marine Builder's Risk Insurance. So that he had an indemnification from the crown that put him in a position that he would have been if he had carried insurance himself. I would guess in this case his insurance, if he had been insured, would have covered this fire, and since we have put ourselves in the position of being insurer we, by the same terms of the contract we had with him, took the place of the company and were responsible for any fire loss.

Mr. Burton: On page 4 of the report reference is made to the fixed fee received by the contractor and the amount of work that was carried out in return for that contract or the cost of the work carried out. As I understood an answer to a question I asked at a previous meeting, the calculation of costs would include all aspects of costs involved in production, which would include depreciation of equipment, and interest on capital. Is that not correct?

Mr. Hunter: Yes, that is correct, sir.

Mr. Burton: So that the fixed fee received by the contractor is above any calculation of cost under any concept of costing, is it not?

Mr. Hunter: Yes, that is right. It is a cost according to our costing memorandum plus a fee to be determined which is based on the three or four factors I mentioned, one of which was performance and, as you know, we recognized that his performance had not been all that good, and you will notice his fee on all work before the fire was two-thirds of 1 per cent.

Mr. Burton: What was the arrangement with respect to subcontracts? Were these entirely the responsibility of the contractor?

Mr. Hunter: Sir, any of the subcontracts that the prime contractor arranged were his responsibility. Any of the other contracts, such as the contract with Westinghouse for the fire-fighting equipment, when arranged by us were our responsibility.

Mr. Burton: I see. The contractor would arrange for a subcontract and the cost of that subcontract would be included in the costs in the prime contract?

Mr. Hunter: That is right.

Mr. Burton: Thank you.

Mr. Hunter: Sir, I am reminded by my officials that each subcontract over $25,000 is subject to our approval as well as the contractor placing it himself.

Mr. Burton: The nature of my question was to ask if there is any government control over subcontracts and what is the extent of that control?

Mr. Hunter: We would be expected to let contracts on the best basis he could arrange and, as I say, subject to our approval. I can recall two contracts where it was most difficult to guarantee performance. One was the transmission of power down to the propellors and the other was a hydraulic subcontract. I am told both of them had major failures. I

• 1005

was just checking to see the basis of the contracts, sir. I am told the General Electric contract was on the basis of cost reimbursable.

Mr. Burton: The same type of contract in the case of the prime contract.

Mr. Hunter: That is right.

Mr. Burton: I see. How large was the contract and how large was the fee that was involved?

Mr. Hunter: I will have to check on those details, sir. I will have them for you in a minute.

Mr. Burton: How many subcontracts were there and what was the total value of the subcontracts as well?

Mr. Hunter: I would have to get that information for you, sir.

Mr. Burton: But you can get it, though?

Mr. Hunter: Yes.

Mr. Burton: Do I understand correctly that many of the subcontracts were also the cost reimbursable type of contracts?

Mr. Hunter: By and large they would be, sir. This again was a development contract where it was impossible to say exactly what you wanted as an end result. You would set down a performance spec for something that had never been built before but with the best performance specifications you could give them.

Mr. Burton: What sort of control was kept over the programs of the subcontractors, as well as the programs of the contractors as they proceeded, in view of the type of contracts that are involved?

Mr. Hunter: Sir, these contracts would be on conditions that were not more favourable, in any case, than we had given the main contractor and subject to audit by the audit division of the Department of Finance. They are the people who do our auditing.

Mr. Burton: The audit would only determine whether the expenditures had been made. Is that not correct? Whether the costs were actually incurred?

Mr. Hunter: That is right.

Mr. Burton: It would not deal with the question of judgments on whether these expenditures should have been incurred or whether in fact good judgment was being used in developing the program.

Mr. Hunter: As I mentioned, any contract over $25,000 was subject to the approval of the officers of the Department of Defence Production and National Defence, and in this way there would be the greatest degree of control that we could see in reviewing the subcontracts before they were placed.

Mr. Burton: Were these subcontracts continuously being reviewed, or the work of the contractors and subcontractors continuously being reviewed as the work was progressing? I do not mean only from an audit standpoint, I mean from a program standpoint.

Mr. Hunter: I am told by my officials, sir, that they were very vigorously supervised, because the two of which I have spoken were key subcontracts and it was most urgent that they be carried out as expeditiously as possible.

Mr. Burton: So there was inspection and control all during phases of the work?

Captain Allan: Over the major subcontractors, such as de Havilland, where there was a critical item, General Electric, Avex Industries in Montreal and North American. De Havilland had resident inspectors and, on occasion, resident engineers who were specifically assigned to act as liaison between the major subcontractors to de Havilland.

Mr. Burton: There were government personnel involved?

Captain Allan: Not government, although on occasion government people visited. The major surveillance was executed by de Havilland.

Mr. Burton: The major part of the program was being carried on where there was really no form of government surveillance.

Captain Allan: This is not strictly true. We have an arrangement with the American forces that if we have a contract in one of the American plants where we elect to have government surveillance, they will do it for us. This, in fact, occurred in the North American as well as the de Havilland situation. In the case of General Electric we elected not to do it, but to have our own de Havilland inspectors there full-time as well as our own technical people making frequent visits to the General Electric plant to review progress and, more importantly, to review the technical decisions that were being made by GE.

• 1010

Mr. Burton: This is my observation—and a layman's observation—but I think nevertheless a valid one. I am somewhat disturbed at the lack of adequate control exercised by the government during the course of the development of this ship in view of the type of contract that we have. I would like to ask one further question. Were any of the subcontracts let to companies which were subsidiaries of or in which de Havilland had an interest?

Mr. Hunter: I am told there was a small subcontract with Orenda, which is related through Hawker Siddleley to the de Havilland Company, both of them being subsidiaries of Hawker Siddeley, but I do not believe there were any major contracts. We can check on that.

Mr. Burton: I would appreciate it if you would check on that, please.

Mr. Hunter: We will do that.

The Vice-Chairman: Have you finished?

Mr. Burton: Yes.

The Vice-Chairman: I believe Mr. Cullen has also been waiting since last week, and then we have Mr. Crouse and Mr. Bigg. Mr. Cullen.

Mr. Cullen: Thank you, Mr. Chairman, I have a few questions on the fire. First of all, however, I understand that we are trying to finish up today and I have a few comments that I hope will prove constructive in so far as the witnesses are concerned, and I would direct these comments not only to Mr. Armstrong and Mr. Hunter but to any departments that have made Mr. Henderson's best seller list here. As a member of this Committee, frankly, I had hoped that Mr. Hunter and Mr. Armstrong would counterattack. I am not suggesting they should counterattack the members of this Committee, I am suggesting they counterattack Mr. Henderson's report.

Mr. Crouse has quite properly drawn on his experience as a shipowner and a shipbuilder, and I think it is incumbent upon me to draw on some little experience that I have as a lawyer. The procedure we have here is somewhat of an enigma to me because in a court of law—in a civil action, for example—the aggrieved person sets forth in a document that is called a statement of claim what he says is wrong or what he says has occurred. He says this is what he sees and this is what has happened and this is what has occurred. Then the other party to the action, the defendant, puts up a statement of defence and, more importantly, a counterclaim. With the greatest of respect to Mr. Henderson, I think he has been eminently fair. He indicated that before his Report is printed he sends copies of this document to each department. They can then pass their comments and Mr. Henderson makes a decision on the way that he is going to put his views of the situation as he sees them into the book. Quite frankly, although Mr. Henderson is being eminently fair, I suggest with the greatest respect that all we really have is the plaintiff's statement of claim and for the life of me I cannot figure out why departments knowing that this book exists—and certainly this one has been in existence for almost two years—would not avail themselves of an opportunity to counteract the report. I think the members of the Committee would benefit from having this kind of information from any department, because we would then have Mr. Henderson's view and the department's view and surely we would be in a much better position to hopefully ask some intelligent questions, because sooner or later we have to make a decision on this.

The other day I was frankly happy that I was not reached in the questioning because I was getting more angry all the time while reading this Report and hearing Mr. Crouse and the splendid cross-examination he conducted. The departments must realize that when I am mad 70,000 people are angry, and around this table this involves hundreds of thousands of people who are angry, and all we have is one side of the picture. This is the only thing we have to go on. I look at this book and as far as I am concerned it is a taxpayer's nightmare. You pick up the book and you see a program that started at $9 million and it is now up to $50 million and you read expressions like "inexperience", "underestimated by all parties", "fire damage" and "subsequent design changes". It seems to me the only word that is missing is "gamble". We will put $9 million in the pot and try this out and if it does not work—well, there is more where that came from. I am here to tell you as a taxpayer there is simply no more to be had, so let us get some control on this.

My attitude is that unless the procedure I am suggesting is adopted that the officials should take it upon themselves, and I suggest they should write to the Auditor General and make statements available to all members of this Committee. I would like them to say to the Auditor General—with the greatest of respect, Mr. Auditor General—that he is away off base and tell him why and where, he is off base. If he is not off base, then find out who goofed and why, and take appropriate action and report back to us. Do not wait two years for us to come here and ask a series of questions. Otherwise the men around this table, quite frankly, are all going to have to assume that everything that the Auditor General sets forth in this Report is correct, and we have to examine and cross-examine on the basis of this.

Mr. Armstrong about three weeks ago—and I think quite rightly—got a little testy because one of the witnesses was asking a question and he felt he had already answered it. I would suggest with the greatest of respect to Mr. Armstrong that it is not only one

individual who is asking questions here, it is possibly 70,000, and in some areas here 100,000 people are represented. If we do not understand the answer the first time it is incumbent upon us to ask it as many times as we can. We are only laymen in this field and we are trying to get at the facts. I think it would be to the benefit of the department—I certainly think it would be to my benefit—to have the other side for a change, which would at least give us some grounds to go on.

The Vice-Chairman: Mr. Cullen, if I may interrupt...

• 1015

Mr. Cullen: I have finished with my harangue, but I just had to get it off my chest.

The Vice-Chairman: I think you have brought out some very, very good points. Mr. Henderson, perhaps you could clear this up for us. These items are brought to the attention of the various departments prior to publication and tabling of your book in the House. You invite each department to write back to you and sometimes they do not, I think you mentioned. Could these comments be made available to the Committee in conjunction with your tabling this document so that we may have something like Mr. Cullen has been exposing this morning? I think this is a very, very good point. It might save a lot of questioning and we could dig right into the matter. Do you have any comments on that, sir?

Mr. Henderson (Auditor General): Mr. Chairman, the short answer to that question is there is not always a Committee, so who do I give it to if there is not a Committee when I am preparing my report? Do I hold my report up?

The Vice-Chairman: No; when the Committee is instituted and on the first day we sit, would it be possible to have the replies given to you in answer to your comments on these items?

Mr. Henderson: Most certainly it would. I would hope that the departments would make their positions very clear. It is up to them. My business is to deal in facts.

Mr. Cullen: That is the point...

Mr. Henderson: I present these facts and, having put them together, I submit the text before the type is locked to the departments scrupulously to ask them if the facts are correct. If I have made a comment on those facts, that comment is my responsibility. If they care to come back at me and take issue, they are always welcome to do so and many of them do, if they should perhaps be of the opinion that I am being unfair or unreasonable.

I am only too pleased to enter into a dialogue with the deputy ministers and I do that with a great many of them. But the basic question, Mr. Cullen, has to be: Are the facts right? We work from working papers, from our examination of files and we have no wish whatever, of course, to disclose anything that is in any way against the national interest. My officers are sworn to secrecy in the same way as the departmental people. I prefer that their answers, naturally, be put in writing, because in this Committee we did have an incident that I think Mr. Hunter explained in connection with one of the criticisms where actually we have been in the habit of taking it verbally. I think it would be better in future always to take them in writing. This year, almost without exception, they are in fact in writing.

The replies I get are generally rather short. I would be very happy to give them to the Committee, but if the department, says that it does not agree with the comments I made, well, that is their privilege to say that. If they were to write a very long letter it would be informative to you, but what could be

• 1020

better than that they themselves would in every case be invited to defend why they took the action they did? They agree with the correctness of the facts. You read out the points here on the Hydrofoil. Each one of them is borne out by evidence that we have seen and concurred in by the department. They do not deny that. I think Mr. Armstrong would tell you that he does not deny that.

Mr. Cullen: Mr. Henderson, I think perhaps the Chairman has put my comments a bit off base. I think in my wording I said that I felt you were being eminently fair, that you did submit this report. I do not feel that it is up to the Auditor General to present the accusations or the facts and then to refute them, or to put in the answers. I do believe it is the responsibility of the department.

I tell you that if I were heading up a department and I read something like this I would

say: "This Committee has been meeting now for almost a month on this particular subject, and prior to that we knew we were going to be meeting on it. Why did we not have something?" I would have presented it. If it is not wrong, if the facts are correct, then all we can believe is someone has really goofed here.

Let us have an explanation, and the only way we can get the explanation now is to start with a chip on our shoulder and want to know what the hell is going on. We have gone from $9 million to $50 million and these gentlemen get angry with us, but this is the only thing that we have to go on. To me, as I said, like a lawyer it is like reading a statement of claim or only hearing the Crown's case and making a decision and then we start asking our questions.

Mr. Chairman, with the greatest respect, I am not being critical of the Auditor General. I think the department owes us an explanation. We are going to be examining paragraphs 98, 99, 103, 105, 106, 109 and 113 all in connection with this department. From what I have read of these I just get angry and I have to close the book every once in a while because as a lawyer I have been paying a lot of taxes lately and if it is being spent on this kind of thing I am going to retire.

I am sorry, I should not harangue him. I am just letting off steam.

Mr. E. B. Armstrong (Deputy Minister, Department of National Defence): Mr. Chairman, may I just say a word here?

The Vice-Chairman: Yes, I wish you would.

Mr. Armstrong: We have been endeavouring to present the departmental case. Perhaps we have not done it successfully.

Mr. Cullen: In answer to questions, Mr. Armstrong...

Mr. Armstrong: We have shown you exactly where the increases took place. We have explained that the $9 million figure was not initially developed on the basis of a completed design study and we expected it to change. You have seen the stages at which this was reviewed and decisions made as to whether to proceed or not. This is a development project, you know. We may find that it produces something very valuable for the maritime effort of the Canadian Navy. Our technical officers have explained why this may be possible.

Now it may turn out that it will not be valuable—it is development—and it is conceivable that having spent $50 million we will not produce a hydrofoil ship. However, we have believed from examination of the various facts that have been presented by our research and technical experts that this is a possibility we should endeavour to prove. That is what we are doing and it is costing us $50 million.

I think I said in my evidence that in development projects as a rule, unless you carry it to a very late stage before you make an estimate, it is impossible really to forecast what the cost will be at the beginning, because there are so many unknowns. One really has to do this on the basis of some rule of thumb, as far as I am concerned, where you say we will multiply this by two or three as being the probable outcome.

Now, this depends in part on the nature of the job and how far you can go before you make the final estimate of cost, but it is very rare that the kind of cost that you associate with the estimate of $9 million turns out to be a valid one in the development project. We have never claimed that it is.

I think the thing that we have had difficulty in putting across to you and others in the Committee is that this is development. It is not building something that is known, where you can specify precisely what you want before you build it. You are exploring the unknown and you are advancing the state of

• 1025

the art. This means that inevitably you come up against situations that add to the cost and you have to judge—as was done in this case on each of these points that the Auditor General mentions—whether it is worth while proceeding with the project or not.

There is a consideration and a very careful one at each point: Do we go on, or do we cancel this? The decision in this case has been to go on. The ship is now being tested in Halifax, as you know. The decision to go on is not accidental. It is a very carefully considered proposition. It is considered at the various levels of the Defence Department that review development projects and eventually by the Defence Council in the Defence Department, and then eventually we have to submit it to the Treasury Board and have it considered by them.

Therefore, when you see the cost going up and a decision point, you can be certain that it has been considered by a considerable group of people that have looked at it very carefully and made a conscious decision that it still makes sense to go ahead with the project in the light of the possible benefits that might be achieved. It is not accidental and I think you sort of gave the impression that there is not any consideration given to it. There has been very careful consideration right through the piece.

Mr. Cullen: Mr. Armstrong, my suggestion is that something like that...

Mr. Burton: May I ask a short supplementary? Mr. Armstrong, you made reference to the fact that you have to take into account that in a research and development project of this type it is very possible that the costs will be beyond the initial estimates, and you suggested a possible factor of between two and three times. Was the extent of this escalation presented in the initial presentation to the Treasury Board?

Mr. Armstrong: No, it was not in this case. I think we gave you the wording of the submission to the Treasury Board. The $9 million was not submitted as a basis for completing the project but we did, not quite frankly, say you should assume that this will cost three or four times that, either.

Mr. Burton: Thank you.

The Vice-Chairman: Mr. Cullen?

Mr. Cullen: I think you are proving my point, Mr. Armstrong, that this is the kind of information that we would have liked to have had in advance. I do not know whether it is because Mr. Burton and I have been sitting on two similar Committees, but my question was basically that.

Mr. Armstrong: All I was really proving, if I may say so, is that this is what we have been saying all along. I have not really said anything new in what I have said this morning.

Mr. Cullen: But you have been saying it, Mr. Armstrong, in answer to questions. My point is that had we had all this information in advance perhaps we could have asked more intelligent and perhaps less belligerent questions. I recognize that this is a development project—even lawyers know about that—but it seems to me when someone goes to the city and says, we are going to undertake a public works program, he has some kind of five-year plan. We are going to spend $9 million in 1963, but by the time this project is finished, we can imagine that it will be somewhere around the $40 or the $50 million figure.

How can anyone make an intelligent decision when you come and say: We have awarded a contract at an estimated cost of $9.1 million, without also telling them that this is only phase one of our development and next year we will be back for another $10 million and so on for the next five years? We think this is right. We have to get into this development field; it is a wise move. Eventually we are going to save $50 million because we can cut down on destroyers.

Mr. Armstrong: I think perhaps one of your problems in this Committee, if I might suggest it, is that what you tend to get through the Auditor General—and this is quite proper, because of his function—is the ones that are possibly causing difficulty. You do not have presented to you the development projects that are really successful which have produced some real business for the country.

• 1030

I think the estimates of export business in the defence field and the spinoff from it, the kind of business that is developed in the civil export area, run fairly close to $1 billion a year. This is a very substantial figure and in order to do this, if you are going to be competitive in these fields, you do have to have some development. You have to spend money on development to do it.

Now, when you spend money on development you are going to have successes and failures. There is no question about that. Sometimes they are good and sometimes they are bad, and you have to judge whether in the long run the whole program is a sensible one.

Mr. Cullen: I appreciate that. I waited through about four meetings without asking questions and sat listening so perhaps I may be permitted to ask a few questions, but I felt this representation should be made when all the members were here. I promise to be brief.

Mr. Hunter, first of all we have heard that the government or the Crown has put itself in the position of the insured. Now, an insurance company putting itself in the position of the insured sets down certain guidelines. There

must be "no smoking" signs; there must be rules and regulations before any test work is undertaken; there must be no smoking within 12 feet of a gasoline pump. What did the government do when it put itself in this position? An insurance company just does not say: "Well, we are going to gamble here." What did we do as an insurance company to protect ourselves? Did we set down rules and regulations in the contract or anywhere?

Mr. Hunter: I am told these rules, sir, would be the same as would apply under an insurance policy.

Mr. Cullen: Where was this set out, in a contract with them?

Mr. Hunter: I believe I have a copy.

Mr. Cullen: It looks like we could use some fine print in our insurance policy here. While you are looking that up, sir, maybe you could answer my second question, which is easier. Did we have any consultation with people who are experts in the insurance field, any executives from insurance companies, anybody engaged in this field, for some direction, or do you have someone in your Department who is well qualified to set forth the regulations? Where did we get the rules under which this company had to act if we were going to act as their insurers?

Mr. Hunter: Sir, we have an official in our Department who spent some 20 years with Lloyd's of London in marine-type insurance, which covered marine builder's risk and marine fire loss and we have written into our various standard forms, the same terms and conditions as Lloyd's would have given the contractor and held him to under whatever restrictions there were, as if he had insured himself.

Mr. Cullen: You say you have written them into the forms, now maybe you are going to find that, but is it in the contract? Is this the stipulation that no work shall be done, or that no experimental work shall be done unless we are called, unless there is adequate fire insurance and fire protection available? Is all of this part of the contract?

Mr. Hunter: Yes, sir, it is and I will get these forms. I am having a little trouble laying my hands on them, but I will get them for the next meeting.

Mr. Cullen: I have one final question, and I thank the Committee for its indulgence. Here we have decided not to take any action, we are going to pay, the Crown is going to pay this claim and the insurance company has no claim because these individuals or the de Havilland firm was protected; who made that decision? Was that a legal decision? Did you take all of that information to a lawyer and say, "Now, here are the facts, the fire started, it looks like it started here, it was a faulty coupling; the government or the department were not called in, although we are the insurance company we were not called in to look at this matter. We were not called in when an experiment was being undertaken and the fire started when we were not present." Did somebody put all this together and say, "You would not have a prayer in a court"? Has somebody done that for you?

Mr. Hunter: Sir, this was done by the group who investigated the fire. Our insurance man, our legal people and I believe representatives of the Judge Advocate General were on the committee. However, it was the decision of the legal branch of the Department of Defence Production that we would have no claim against a contractor in respect to this fire.

Mr. Cullen: Now, is that report in the way of confidential information? Is it given as, for example, "We do not have a claim against this company because of A, B, C, and D"?

• 1035

Mr. Hunter: Sir, I do not actually have them here but this would be in our records.

Mr. Cullen: Well, frankly, I should just like to know why we did not have an action. On the face of this it looks to me as though we do, but as I have said, I have only got the plaintiff's side of the picture. I would like to hear your side and if that information is available I would like to have it. Thank you, Mr. Chairman.

Mr. Hunter: I will get it, Mr. Cullen.

The Vice-Chairman: Thank you. Before we go to Mr. Crouse I believe, Mr. Hunter, you were to give the Committee a reason why the cost of the fire was not shown in the Public Accounts for 1966-67 or 1967-68. I think this was a question put to you towards the end of the last meeting and you said you would bring information on that.

Mr. Hunter: Sir, I believe I was asked the source of the information I was using, the losses by years for 13 years. Those are the

reports that we make to the Dominion Fire Commissioner which he incorporates into the Report of Fire Losses in Government of Canada Properties by the Dominion Fire Commissioner's Office. The figures I gave you were from the report of our Department in respect of all work that was under contract by Defence Production in that one year.

The Vice-Chairman: Would you like to comment on that, Mr. Henderson?

Mr. Henderson: I think when the point was touched on, I said that we had been unable to find where this fire was included in the Public Accounts in either of those years, and you did say that you would investigate that aspect of it. I realized that your figures had their source in ones you had prepared for the Dominion Fire Commissioner. However, there is a statement in the Public Accounts of Canada, which this Committee was responsible for creating, which sets down the cost of fires with which the government as the self-insurer has suffered in order that the cost over the years can be noted in relation to what the premium might have been. It is actually quite a constructive schedule, but we are unable to find where the cost of the *Bonaventure* fire ever appeared in either of the two years.

Mr. Hunter: The cost of the *Bonaventure* fire?

Mr. Henderson: Oh, I beg your pardon, the hydrofoil fire.

Mr. Hunter: Well, sir, I am looking at the detail reported to the Dominion Fire Commissioner—I have the actual breakdown of the fires—for the two that appeared in 1966. On November 2, 1966, there was a fire on the *Bonaventure* and the repairs done at the contractor's expense amounted to $35,000.

The Chairman: That is all we need.

Mr. Hunter: On November 5, 1966, the hydrofoil fire shows the repair at $3,200,000. This was an estimate because at that time they did not know the exact figure.

Mr. Henderson: Do you not agree that should have been included in the schedule of Public Accounts under the Department of National Defence or the Department of Defence Production column? There is a column for each department.

Mr. Hunter: I was told that it was, sir. I do not have the actual report to the Dominion Fire Commissioner though.

Mr. Henderson: This is not the report to the Dominion Fire Commissioner, this is the schedule in the Public Accounts that is prepared, I think by the treasury officers based on information you furnish to them. They apparently did not get it because it is not in the figures. If it is not in, it is not in, Mr. Chairman, that is all.

The Vice-Chairman: It has never been put into Public Accounts as far as we can ascertain, Mr. Hunter. The question put to you was, why was it not? If you would like to come back at the next meeting, to save the time of the Committee, with an explanation . . .

Mr. Hunter: Yes.

The Vice-Chairman: Perhaps you did not understand our question last time, but we still have not been answered.

Mr. Hunter: Sir, I did not understand last time; I thought you wanted to know the source of the figures that I was using. As I say, they were from the reports which I understood had been made to the Dominion Fire Commissioner. Mr. Armstrong and I can check now to see where this was and which department this was recorded with.

Mr. Henderson: I think, Mr. Chairman, it is actually a question for the Department of National Defence. The requirement is for losses of $1,000 or more due to accidental destruction of, or damage to, assets which would normally be covered by insurance, had such coverage existed. It appears at about page 45 in Public Accounts and that should, presumably, have included the fire losses.

The Vice-Chairman: Mr. Armstrong, would you make a note of that and give us a reason at the next meeting on why it was never included?

Mr. Armstrong: Yes.

The Vice-Chairman: If Mr. Crouse will bear with me, did you say that the fire on the *Bonaventure* cost about $2 million?

Mr. Hunter: No, $35,000, sir, but I men-

• 1040

tioned the other day that...

The Vice-Chairman: I was just going to say, is this to be added on to the $13.5 million that we have spent on the refit.

Mr. Hunter: As I mentioned the other day—may I finish?

The Vice-Chairman: Yes.

Mr. Hunter: This was paid by the contractor because on repairs and refits they do carry a marine builder's risk policy. As I explained the other day, that is the only case in which the they do. This was paid by the contractor and presumably recovered from his marine fire policy.

The Vice-Chairman: Mr. Crouse?

Mr. Crouse: Thank you, Mr. Chairman. I listened with interest to Mr. Cullen's remarks and I would commend them to the witnesses for study. We are gathered together to try and determine the cause of this particular fire on the hydrofoil and after rereading the report, it seems to me that the Department of National Defence or the Department of Defence Production started out on a voyage without posting a watch, which is simply good Maritime practice.

Now, at the risk of being repetitious, I would like to read from the report, Mr. Chairman. I am reading paragraph 3, of page 1 which states:

> As a corollary of these potential bonuses, and the incentive-type contract, de Havilland...

I emphasize the name.

> ...accepted full responsibility for the design and production of a satisfactory ship and were, in turn, given the latitude needed by them to achieve their objectives. This meant that the Company was not required to submit detailed working drawings and specifications for DND approval prior to implementation of work, and that the customary inspection by Naval Overseers of the ship construction and installation work was not made a requirement. The contractor...

Here we are referring to de Havilland.

> ...was, however, required to develop his own inspection plan and to provide the Principal Naval Overseer at Sorel with copies of all inspection records. These inspection records were being routinely audited by the staff of the Principal Naval Overseer, Sorel, as a check on the adequacy of the company's inspection plan. The de Havilland...

I emphasize this again.

> ...inspection plan had the basic objectives of developing and maintaining inspection procedures throughout the procurement, manufacturing and testing phases, which would be adequate to assure fulfillment of their engineering requirements and contractual responsibilities.

We read at paragraph 4:

> On November 5, 1966, de Havilland personnel...

I emphasize that, Mr. Chairman.

> ...were conducting electrical generator trials which involved the operation of an auxiliary gas turbine driving the gear box which drove the generators and hydraulic pumps. The latter were incidental to the test being conducted but were required to be on load to ensure adequate loading of the gear box. The fire broke out at 3:15 p.m. and Marine Industries' firemen arrived on the scene at approximately 3:20 p.m.

We go on to paragraph 5:

> There was one eye witness, a de Havilland employee, who was stationed in the engine room. He saw a stream of hydraulic fluid which struck him in the face before he could raise his hands in protection. The fluid ignited almost immediately...

Then it says:

> The exhaust trunking of the auxiliary gas turbine reaches approximately 1000° F. when the engine is operating. Although it was insulated,

Here, I emphasize this:

> ...small areas of metal surfaces were exposed at the joints.

In other words, we can put one question temporarily at this point. With 1,000 degrees of heat Fahrenheit, why were all the joints not insulated?

Now, I will go on. We were told on page 3 that "the accident was not caused by negligence on the part of the crew carrying out the test"; so they are exonerated. However, the report goes on:

> ...the inspection records did not afford proof that the hydraulic system in use had been fully inspected; documentary evidence of quality assurance was incomplete and thus inadequate; and that National Defence personnel had not been advised that this particular test was planned for Saturday, 5 November.

Now that is the report and that raises a second question. Why were National Defence personnel not advised of this test? At the bottom of page 3, paragraph 12 the report states:

> It was subsequently decided by the Department of National Defence that efforts to pin-point the exact location of the hydraulic leak suspected of starting the fire would be fruitless, in view of the extensive damage and in view of the DDP legal opinion that in accordance with the terms of the contract the Contractor was under no liability to reimburse the Crown for loss incurred as a result of the fire.

• 1045

This is the key, in my opinion Mr. Chairman. What were the terms of the contract? We were told on page 1 that de Havilland accepted full responsibility. When I had ships operating and said to the captain, "You are fully responsible", that meant fully responsible for the design, for the production, of a satisfactory ship and he was given full latitude. Therefore, it was their responsibility, not, in my view, the witnesses before us this morning, but the responsibility of de Havilland either to have insurance on this ship because it was their production responsibility or if they decided not to carry the insurance then in light of the fire they should have been required to reimburse the Crown. Why was the contractor, Mr. Chairman, under no liability to reimburse the Crown for loss incurred as a result of this fire?

The Vice-Chairman: Mr. Armstrong.

Mr. Armstrong: I think this was explained at the last meeting. The contract was drawn in such a way that the Crown, in fact, was the insurer. I think Mr. Hunter has the exact terms of the contract.

The Vice-Chairman: Mr. Hunter, would you care to comment?

Mr. Hunter: In our general conditions there is a Section 12, Care of Crown Property, which reads as follows:

> Except as otherwise provided in the contract, no insurance shall be carried by the Contractor on any property, title to which is vested in Her Majesty, including any machinery, equipment and production tooling which is the property of Her Majesty. The Contractor shall take reasonable and proper care of all property, title to which is vested in Her Majesty, while the same is in on or about the plant and premises of the Contractor or otherwise in his possession or subject to his control and shall be responsible for any loss or damage resulting from his failure to do so other than loss or damage caused by fire or by ordinary wear and tear.

In other words, he must take reasonable precaution of all Crown property and this clause:

> ... other than loss or damage caused by fire...

is in the contract because he is insured by the fact that the government is its own insurer. I would deem it to be the same in any insurance policy, unless he willfully caused any fire to occur, he is covered.

Mr. Crouse: Mr. Chairman, would the witness not agree then that we are dealing here with certain known factors. For example, on page 2, Item 6 we are told that:

> The exhaust trunking of the auxiliary gas turbine reaches approximately 1000° F. ...

We are also told that:

> ... the hot sections of the engine casing reaches approximately 400° F. ...

These are known factors. I am not a lawyer and I sometimes wish I had the knowledge and the legal training of Mr. Cullen. It seems to me that we are dealing here in known factors and yet the contractor, de Havilland, charged with full responsibility did not insulate with proper insulating material these hot joints which in effect caused the loss.

We are dealing, I realize, with a fine point of law, but by all that is reasonable it would appear that the contractor in this instance would be fully responsible. I cannot imagine on what grounds the Department assumed the responsibility in place of de Havilland. This explanation still does not satisfy me, Mr. Chairman.

The Vice-Chairman: I should point out, Mr. Crouse, in paragraph 6 on page 2, it says:

> ... the hot section of the engine casing reaches approximately 400° F., hot enough to ignite hydraulic fluid.

I assume there were other places which reach 1000 degrees and which were not protected.

Mr. Armstrong: That should be "not", Mr. Chairman.

Mr. Henderson: It should read "hot", Mr. Chairman. It is a typographical error. It is unfortunate it should be at that particular spot.

The Vice-Chairman: Yes. There are sections, though, which reach 1000 degrees which were not protected.

Mr. Crouse: Mr. Chairman, of course it is obvious that the word "not" might as well remain "hot" because it was the hydraulic fluid that ignited when it hit the hot exposed exhaust manifolds that caused fire.

• 1050

I know and it is obvious we would like to get finished with this, but I think the Committee should have a chance to look at these inspection records. Are the inspection records available that were submitted by de Havilland to Sorel, the records which obviously you examined in order to justify your stand that you would pay this claim to de Havilland? Are these inspection records available?

Captain Allan: Yes, they are available. The reason I put in the 400 degrees and corrected it is because 500 degrees is the change-over point—above 500 degrees the hydraulic fluid will ignite.

Mr. Crouse: Mr. Chairman, what the witness is telling us now is that if you cross the street you might be right, but if a car hits you you are dead right.

Captain Allan: No, I was trying to correct the—

Mr. Crouse: This fire was caused regardless of whether 400 degrees or 500 degrees of heat will ignite the fluid. The fluid was ignited by this exposed system which should have been protected.

Captain Allan: The point I was trying to make, was that anything below 500 degrees does not need to be insulated, such as the engine casing, but the exhaust trunking does.

Mr. Crouse: Could the inspection records be made available, Mr. Chairman, to this Committee for examination, if not now at some future time?

The Vice-Chairman: Could these be made available to the Committee?

Captain Allan: Yes, we can show them to the Committee when you come to Halifax. They are in Halifax.

The Vice-Chairman: In Halifax?

Captain Allan: In Halifax.

The Vice-Chairman: Mr. Bigg, do you have a supplementary question?

Mr. Bigg: Yes, my question is directly connected with this same point. As matter of fact, it has been asked many times, but it seems to me that the main question here is that because the de Havilland company did not call in the Department of National Defence; the Department of National Defence was not able to prevent the fire even had they so wished. Whether or not they were delinquent in their equipment, the temperatures, the baffle plates, the protection and so on, the Department of National Defence had their own reasons for wishing to be present during these tests. One of them, perhaps the over-riding one, being security. This is a war vessel whether we like it or not and the Department of National Defence more than for insurance against fire demage have to protect this vessel from sabotage in this very uncertain age in which we live. They have the right to decide whether the proper precautions are being taken or not and, in fact, the taxpayer of Canada picks up the final tab. We may be locking the door to the stable after the horse has been stolen.

The Vice-Chairman: Are you questioning, Mr. Bigg, whether this accident was caused by sabotage or was it...

Mr. Bigg: No, I am not. I am certainly questioning the legal opinion because I do not think the legal opinion was based on the important point and that was the negligence on the part of the company in not calling in the Department of National Defence to be present at the test in the first place. It is not a question of whether they were responsible for the safety on the spot. We have no opportunity of deciding whether the proper precautions were taken or whether the hoses for putting out the fire and minimizing the damage were adequate. This fire might have caused only a few thousand dollars, if it had ever gotten underway at all, if the proper fire fighting equipment had been there.

I suggest that as a Committee we might be able to lock the door now and make sure that these contracts are rewritten so that the company will have no doubt whatsoever that when they fail to call in the Department of National Defence in future they will pick up the whole tab for any loss to Her Majesty's

equipment. It then will not be necessary for the law officers to be charitable because I do not think we, as a Committee feel charitable.

The Vice-Chairman: I do not think we have any right to be.

Mr. Bigg: No.

The Vice-Chairman: I wonder if Mr. Crouse would permit me to ask a question. Did the de Havilland company carry any insurance of its own on its own equipment? When this fire occurred they must have lost some of their own equipment. Did they carry insurance on their own tools and other equipment that they would be using during the life of this contract?

Mr. Hunter: This would be up to the contractor, sir, but anything that became part of the work in progress and, therefore, the title vested in the Crown would not be insured. I would expect they probably had their own.

The Vice-Chairman: There was no claim on their part for loss of equipment, tools or anything like this?

Mr. Hunter: No, sir.

The Vice-Chairman: You have no knowledge whether or not they saw fit to protect their own equipment?

Mr. Hunter: I am not sure who would have insurance on that equipment. It was being done in the yards of Marine Industries Ltd. who, I presume, would have been using their equipment because they were acting as a subcontractor at this point with most of their tools and buildings involved.

The Vice-Chairman: But to your knowledge, Mr. Hunter, during the inquiry after the fire, nobody thought of asking them if

• 1055

their own equipment had been protected, even though ours was not.

Mr. Hunter: I am told, sir, that there was really no significant loss of tools, other than in the ship itself.

The Vice-Chairman: To your knowledge de Havilland did not carry any insurance of any kind?

Mr. Hunter: I do not know that, sir, but I would think Marine Industries Ltd. and/or de Havilland would probably have whatever of their own equipment to which title had not passed to the Crown or never would, covered by insurance.

The Vice-Chairman: As far as the reports that you are asking for, Mr. Crouse, did you say, Captain Allan, that we could not get them before we went to Halifax?

Captain Allan: I did not imply that. I said they would be available in Halifax. They are there now and we can have them taken out and made available for inspection.

The Vice-Chairman: Mr. Crouse, do you have a supplementary?

Mr. Crouse: I have one other question.

The Vice-Chairman: Mr. Crouse has one more question.

Mr. Crouse: It is obvious despite the fact de Havilland were fully responsible for the ship and they carried out a test without informing the Department of National Defence that we, for some reason unknown, assumed a loss and put the load on the taxpayers rather than put in on the back of the contractor where it rightfully belonged.

I have just one other comment. The witness, Mr. Armstrong, said that there were so many unknowns in this but this statement has been superseded, I believe, by the fact that the *Plainview* in the United States is a larger and more sophisticated ship, if that is the right word, than the one we have been developing. Therefore, I would like to ask the witness is it not true today that a fixed satellite would be a better listening device over the North Atlantic for submarine detection than any listening device you might perfect fastened to a high speed hydrofoil?

Mr. Armstrong: Did you say a satellite?

Mr. Crouse: I said a fixed satellite over the North Atlantic. I know it sounds a bit like science fiction.

Mr. Armstrong: A satellite in space?

Mr. Crouse: Yes, a satellite in space to listen. For example, a Canadian submarine could send out a blip, blip, blip, while those of other nations could send out a different type, of course. Is it not true that they could detect submarines over a vast area from a satellite and then transmit this information in time of war to a high-speed hydrofoil with the result that this could and might end up as a high-speed destruction ship only—a high-speed

torpedo boat, if you will—because you told us at the last meeting that the sonar has not, as yet, been perfected as a listening device.

Mr. Armstrong: Let me ask some of our naval experts. I was not aware that the satellite offered attractions of this kind, but I might not be up to date on it. Have you any...

Captain Allan: I understand that you cannot fix a satellite over the North Atlantic. It tends to be more in the equatorial area where this can be done. I do not believe even if this could be done that you could have a detection system that would penetrate the surface of the water. I admit that I do not know, but I know of nothing that would satisfy your desire right now.

Mr. Crouse: But you are not certain of that, Captain Allan?

Captain Allan: No, that is correct. I am not certain, but I know of none.

Mr. Crouse: I think it would be of great interest to the Committee if we could be brought up to date on the methods that have been recently perfected. I raise this, Mr. Chairman, because one scientific development sometimes is superseded by another and this is what we are talking about—research and development. This goes back to a question raised by one witness just recently, that it might be advisable for all these research projects to be a little more closely studied before too much money is spent on them.

Mr. Armstrong: I wonder if I could suggest, Mr. Chairman, if the Committee so desires, we could have a briefing on this subject prepared for you when you are in Halifax. We may have a little difficulty on the classified side, but I think we could give you a very good briefing.

The Vice-Chairman: It would be very worthwhile. Gentlemen, it is 11 o'clock. I had Mr. Bigg and Mr. Mazankowski on the list as well as Mr. Harding for a supplementary, but we will have to leave it.

Mr. Cullen: I have a point of order, Mr. Chairman, I want it clarified when I will get an answer to my questions. Firstly, what did we do when we were standing in the position

• 1100

of the insurance company? Secondly, what was the legal opinion based on? Thirdly, if we set fire regulations were these regulations met by the company? I understand we are to get...

The Vice-Chairman: Would the witnesses be prepared to answer this at the beginning on the next meeting?

The Witness: I will.

Mr. Bigg: Could I ask if we had any Department of National Defence fire fighting equipment at Sorel which could have helped had it been called?

Mr. Armstrong: No, we did not.

Mr. Bigg: We did not have any?

Mr. Armstrong: No.

Mr. Bigg: Then, might I suggest that the agreement with de Havilland must have been a bit inadequate to suggest that we could protect a ship when we did not have the firefighting equipment ready to give the fire protection necessary.

The Vice-Chairman: Mr. Bigg, you will be first on the list for our next meeting.

Mr. Armstrong: I have one question. As you know Captain Allan is the project officer and the ship is just beginning its trials to get into a foil-borne mode. I am very anxious, and he is very anxious, that he get back to Halifax. Is it conceivable that his presence will not be necessary?

The Vice-Chairman: Yes, we thought we could have finished this today, but it looks as if we will have two or three other questioners, on the same subject next week. I think we can get along without Captain Allan. We can finish our questions in Halifax if there is something left over.

Mr. Armstrong: Thank you very much, sir.

HOUSE OF COMMONS

First Session—Twenty-eighth Parliament
1968-69

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: Mr. A. D. HALES

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 25

TUESDAY, MARCH 18, 1969

Public Accounts, Volumes I, II and III (1966 and 1967)
Reports of the Auditor General to the House of Commons (1966 and 1967)

WITNESSES:

(See Minutes of Proceedings)

THE QUEEN'S PRINTER, OTTAWA, 1969

HOUSE OF COMMONS

First Session—Twenty-eighth Parliament
1968-69

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: Mr. A. D. HALES

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 25

TUESDAY, MARCH 18, 1969

Public Accounts, Volumes I, II and III (1966 and 1967)
Reports of the Auditor General to the House of Commons (1966 and 1967)

WITNESSES:

(*See Minutes of Proceedings*)

THE QUEEN'S PRINTER, OTTAWA, 1969

20053—1

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. A. D. Hales

Vice-Chairman: Mr. T. Lefebvre

and Messrs.

Bigg,	Forget,	McCutcheon,
Burton,	Gervais,	Noël,
Cafik,	Harding,	Rodrigue,
Crouse,	Leblanc (*Laurier*),	Roy (*Timmins*),
Cullen,	Major,	Tétrault,
Flemming,	Mazankowski,	Thomas (*Maisonneuve*)—(20)

(Quorum 11)

Edouard Thomas,
Clerk of the Committee.

MINUTES OF PROCEEDINGS

TUESDAY, March 18, 1969.
(27)

The Standing Committee on Public Accounts met this day at 9.40 a.m., the Chairman, Mr. A. D. Hales, presiding.

Members present: Messrs. Bigg, Cullen, Hales, Harding, Leblanc (*Laurier*), Lefebvre, Noël, Rodrigue, Thomas (*Maisonneuve*) (9).

Witnesses: Mr. A. M. Henderson, Auditor General of Canada; Mr. E. B. Armstrong, Deputy Minister, Department of National Defence; Mr. G. W. Hunter, Deputy Minister, Department of Defence Production; Cmdre A. G. Bridgman, Director General Maritime Systems, Department of National Defence.

The Deputy Minister of the Department of Defence Production tabled information concerning the hydrofoil fire. (*See Appendix F for the legal opinion relating thereto.*)

The Committee questioned the witnesses on the 1967 Auditor General's Report, in particular,

(*a*) Paragraph 98—Expenditure on an aircraft simulator;
(*b*) Paragraph 99—The *Cosmopolitan* aircraft.

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

Edouard Thomas,
Clerk of the Committee.

20053—1½

EVIDENCE

(Recorded by Electronic Apparatus)

Tuesday, March 18, 1969

• 0940

The Chairman: Gentlemen, may we proceed. We have two reports to be given by Mr. Hunter and Mr. Armstrong. We will hear those first and then we will proceed with the order of questioning. If I get off the track this morning and try to cover some things that you have already discussed, please bring me back on track because I have been absent for the last two meetings.

Mr. Lefebvre, I will expect you to keep me in line.

Mr. Hunter, I believe you have an answer to Mr. Cullen's question regarding the insurance contract, Mr. Hunter.

Mr. G. W. Hunter (Deputy Minister of Defence Production): Mr. Chairman, this is a brief which I believe covers two of Mr. Cullen's questions.

HMCS BRAS D'OR
PUBLIC ACCOUNTS COMMITTEE
FIRE LOSS LIABILITY

1. The purpose of this statement is to give the members of this committee an explanation of why the contractor was not liable for the losses caused by the fire onboard the Hydrofoil on Nov. 5, 1966.

2. The answer lies, as I mentioned the other day, in the standard conditions of the contract covering progress payments, care of Crown property and Marine Builders' Risk Insurance.

3. Under the contract, title to work-in-progress passed to the Crown as progress payments were made. This provision is written into our contracts to protect the government against a loss should any bankruptcy occur.

4. Coincident with the transfer of title, the contractor was obligated to take reasonable and proper care of Crown property. He was liable for any loss or damage resulting from failure to do so other than loss or damage caused by fire or ordinary wear and tear. The contract also stated that no insurance shall be carried on Crown property reflecting the long-standing government policy of self-insurance which I described in some detail last week.

5. To indemnify the contractor against fire and other losses the contract included the Departments' Standard Form of Builders' Risk Policy. This is a policy that covers the contractor for all perils including fire. In addition, it protects him against losses that might be incurred through errors in judgment and negligence by any person in his employ or by latent defects in machinery.

6. The terms of this insurance policy are comparable in all respects to the normal shipbuilders' risk policy which would be issued by a commercial underwriter such as Lloyd's of London.

7. The fire-fighting provisions and standards in effect at Marine Industries Limited at the time of the fire were equivalent to those which would be required by a commercial insurer such as Lloyds of London. As with a commercial underwriter, government representatives carried out routine checks to ensure that the yard's fire-fighting organization and equipment complied with these standards. It should *also* be noted that shipyard fire-fighting facilities were being similarly inspected by the insurers who were underwriting their commercial work.

I have a statement here, Mr. Chairman, of the steps taken to set up the fire prevention plan which was developed by The de Havilland Aircraft of Canada, Limited, the prime contractor, in conjunction with the main subcontractor, Marine Industries Limited, the Principal Naval Overseer and DDP representatives.

FIRE PREVENTION

Daily Inspections by de Havilland Inspection Staff. Special emphasis being placed on all aspects of fire prevention, housekeeping, etc.

Weekly Inspections by MIL Fire Department—All fire extinguishment equipment checked, CO_2 Extinguishers weighed.

Weekly Inspections by Principal Naval Overseer's Staff, from National Defence their recommendations being implemented by both DHC and MIL Fire Departments.

Periodical Inspection by DDP Industrial Security Branch Field Consultant.

Patrolling of the work: A 24-hour surveillance by MIL Security and Fire Departments.

A Datex Clocking System with two keys on board—one located at the Stern, one For'rd, punched at two-hourly intervals before midnight, and hourly from 2400 hours to 0800 hours.

Arrangements with Municipal Fire Departments and Law Enforcement Agencies.

Close liaison is maintained between MIL, Tracy and Sorel Fire Departments. Excellent co-operation is said to exist in the report that I have, and assistance obtained within 10 to 15 minutes of being alerted. Excellent co-operation exists between MIL Security Dept. and RCMP (St. Hyacinthe), Prov. Police (Quebec), and Municipal Police (Sorel and Tracy).

The Chairman: Before you go on to equipment, Mr. Hunter would you explain to the Committee what you have just read.

Mr. Hunter: This was a report by our Director of Industrial Security Branch in reply to the question: what conditions were imposed in respect of the government taking

• 0945

the place of the insurer in so for as fire was concerned? And the headings I read were the steps taken by de Havilland and Marine Industries, in agreement with the Principal Naval Overseer and DDP.

The Chairman: Were these steps taken or was this the program laid down that was to be followed?

Mr. Hunter: This is the program laid down and I can confirm that these steps were followed by a report which was specifically checked on what was being done prior to the fire.

EQUIPMENT

MIL has a specially equipped truck carrying 1,200 feet of 2½" hose and 1,000 feet of 1½" hose, mechanical foam nozzles, fog nozzles, axes, gas masks, CO_2, foamite and soda acid extinguishers, and one trailer pump.

6 CO_2 and 2 water pressurized extinguishers were located on board the FHE 400 which is the name of the ship, and used in extinguishing the fire, *In addition to integral CO_2 systems installed in FHE400.*

In addition to telephone located at ship's gangway with special Fire Dept. numbers clearly indicated, Walkie Talkie units with direct contact with Gate House and Patrol Truck are also in service.

WELDING OPERATIONS

All welding operations on board the FHE 400 checked and supervised by DHC Foreman.

SMOKING

The Regulation "No Smoking Aboard" was rigorously observed.

HOUSEKEEPING

Strict Cleanliness of Ship maintained to the complete satisfaction of PNO.

ACCESS TO FHE 400.

Access to FHE 400 strictly controlled. Apart from regular employees no one allowed on board without written permission from Mr. R. A. Cooper, DHC Shipyard Administration.

The Chairman: Just one question, then we will come to Mr. Cullen.

All these arrangements were made after the fire?

Mr. Hunter: No, sir. This was the plan that was in effect soon after the work commenced, because one of our conditions is that they will work out a plan which will be, as I said to Mr. Cullen, equivalent to the conditions laid down by Lloyd's of London or any other commercial insuring firm.

The Chairman: Now Mr. Cullen and then Mr. Bigg. The reason we are coming to Mr. Cullen is that he was questioning along these lines the other day. Then Mr. Bigg.

Mr. Harding: Just one question before we start. Are copies of this report available to members?

Mr. Hunter: No, sir, they are not. This is a report I had prepared for myself over the week-end. But there is no reason why I could not make it available.

The Chairman: It will be in the minutes, Mr. Harding.

Mr. Harding: There is just one thing more on this, Mr. Chairman. I notice that we have not had any recent minutes. For anyone who wants to read up on what has happened the last two or three times, you just do not have the detail at your fingertips.

The Chairman: Yes, this is one of the problems we are having, of getting the evidence of all committee meetings. I know the Committees Branch are having a problem getting these out, but maybe the Clerk has some more news on this. We are two issues behind and we keep pressing them to keep our Committee at the top of the list and to receive our evidence as quickly as possible. Everybody is fighting for the same spot. There are about fourteen committees meeting today, so it creates a physical problem. Now Mr. Cullen.

Mr. Cullen: Thank you, Mr. Chairman. I pretty well monopolized the last meeting, so I only have one area that I would like to pursue. It seems that by standing in the place of the insurance aompany we did not do what I thought we seemed to be doing last time, that is just gambling. There seems to have been a fair amount of equipment and a lot of care taken. But since the last meeting it has come to my attention that built into this hydrofoil is a fire system that can either be manually or automatically controlled, and it is my information that this system is required to be turned on before any tests are made. Was this system turned on, and if it was turned on why did it not operate to put the fire out?

• 0950

The Chairman: Could we direct that question to Mr. Armstrong?

Mr. E. B. Armstrong (Deputy Minister, Department of National Defence): I am afraid I will have to check. I do not know whether or not the system was functioning at the time. These tests were done, as you know, before the ship was completed. I will check it for you.

Mr. Cullen: I am asking, because I get the impression that it is the same type of system that stores have, where, if certain intense heat reaches the equipment, it automatically comes on. I understand this was installed and was functional, but no one turned it on?

Mr. Armstrong: I will check it.

Mr. Cullen: That is the information I have.

Mr. Armstrong: I have not come across that particular thing myself, but I will check it for you, Mr. Cullen.

Mr. Cullen: One other question I asked at the last meeting, Mr. Chairman, dealt with whether or not a written legal opinion, or a written answer, was given on why we did not have a cause of action. We have heard that neither naval personnel not anyone else was called in when this test was being made, and that the Department was not notified. That struck me as being a form of negligence, Mr. Chairman. Was there a report to rule that out?

The Chairman: Mr. Armstrong? Mr. Hunter?

Mr. Hunter: Yes, sir. We have a written report from Mr. R. H. Evans, who was the legal officer of my department attached to the Shipbuilding Branch. I could read the opinion, if you wish. It is not too long.

Mr. Cullen: May I ask one further question? Does that indicate that he had consultation with any counsel, someone who does nothing but court work, or is this his own opinion, or does it say?

Mr. Hunter: I have checked on that, sir, I am told it was discussed with the Director of our Legal Branch and the Department of Defence Production. I am also told that at the meeting of the project group, on which National Defence would be represented, there was a representative of the Judge Advocate General's Branch, although, because it was our responsibility, the opinion was written by our officers attached to the Shipbuilding Branch.

The Chairman: Mr. Bigg?

Mr. Cullen: May I have that report either tabled or made part of the Minutes of today's proceedings? I do not think you should take the time to read it today, but I would like to have it.

Mr. Hunter: May I have it tabled?

The Chairman: Yes, table the report, if you will. Mr. Armstrong, you are going to answer that other question later?

Mr. Armstrong: We are looking to see if we can find an answer to that.

Mr. Bigg: Where did this fire occur? Was it in the shipyard, or was it somewhere out in the open water?

Mr. Armstrong: It occurrred in the shipyard. The ship was not in the water at the time.

Mr. Bigg: It was in the building yard?

Mr. Armstrong: At the wharf; it was on a jetty.

Mr. Bigg: Were any National Defence personnel present at the time of the test?

Mr. Armstrong: No, there were none. We indicated that in the report we made to you.

Mr. Bigg: Yes; I was just checking; because it seems to me that our legal men made a decision without taking into account the fact that our people had no chance whatever to reduce the risk. That is the whole point, as far as I am concerned, in protecting the Crown—that had our departmental officials been there they might have seen that the equipment was turned on and that there was adequate fire protection, and so on. It was a plain duty, in my opinion. I am not an experienced jurist, but, nevertheless, it seems plain to me that reasonable care should have been exercised by de Havilland to make sure that DND officials—and the very best of them—were at least notified that this test was going on so that the fire risk, with which they had nothing to do, according to our legal men, would be looked after by those whose duty it was to do so.

• 0955

Mr. Armstrong: Let me make this clear. It was not the duty of the Department of National Defence to look after this. It was the responsibility of the de Havilland people. It was their responsibility to see that the fire equipment and fire prevention measures were functioning. This was part of their responsibility.

I am right in that, am I not, Mr. Hunter?

Mr. Hunter: That is right.

Mr. Bigg: I understand the contract provided that if the ship burned up they had no responsibility for fire. This surely puts a greater onus on our officers to make sure that there is no fire.

Mr. Armstrong: I think that has been explained, Mr. Bigg. The government provided them with an insurance policy. That is, in effect, what they did; and the measures taken by the Crown were at least the equivalent of the measures that would have been taken by a commercial company who issued a similar policy. This is what has been said this morning.

Mr. Bigg: Yes; but I am told that the Crown did not know that the test was going on. This does not quite click with me.

Mr. Armstrong: That is true; the Crown was not informed that the test was going to take place on the Saturday morning when the fire took place. But under the contract I do not believe that there was any legal obligation to inform the Crown. The responsibility was de Havilland's. It was their test.

The Chairman: There was a moral obligation, I would think.

Mr. Armstrong: Yes; they normally did tell us, and we normally had people present; but under the contract I do not believe there was any legal requirement that they tell us.

The Chairman: We will have an opportunity to come back to this after we visit the hydrofoil, so the matter is not closed.

I think Mr. Armstrong has a report to make to the Committee, but before he starts I will take a question, Mr. Harding.

Mr. Harding: Yes, I had my name down the other day. You were going on to another topic, were you?

The Chairman: No; proceed.

Mr. Harding: I have two or three questions I would like to ask. Again, I would have liked very much to have had a copy of this fire protection report before I proceeded. Before I start I would like to clear up one point on page 2 of the "Report of Circumstances Relating to Hydrofoil Fire Which Occurred Saturday, 5 November 1966, at Sorel". In paragraph 6 there is apparently a misprint. The word "not" should be in there, I think, and part of the last line should read: "... not hot enough to ignite".

Mr. Armstrong: Yes; that is right.

Mr. Harding: I have listened with a great deal of interest to this report. We find that the industrial security branch apparently had a number of fire inspections carried out. I was not able to note the different groups that carried out these inspections, but I would like to ask a question or two, if they have not been asked before, Mr. Chairman.

Did the design call for full insulation of all metal surfaces?

Commodore A. G. Bridgman (Director General, Maritime Systems, Department of National Defence): I am quite sure the design did not call for full insulation of metal surfaces. The hull itself is metal and you cannot insulate that entirely.

Mr. Harding: I was thinking of the engine room.

Commodore Bridgman: The design, as was explained at a previous meeting, was a de Havilland design. There was no specification which called up this sort of thing. It was de Havilland who were designing the ship and were to demonstrate eventually to the Crown that it would work and meet all the performance characteristics which had been spelled out, but this sort of thing was not spelled out in a detailed specification. It was not that type of a contract.

Mr. Harding: Let me read paragraph 6 again: It says:

> The exhaust trunking of the auxiliary gas turbine reaches approximately 1000° F. when the engine is operating. Although it was insulated, small areas of metal surfaces were exposed at the joints. The hot section of the engine casing reaches approximately 400°F., not hot enough to ignite hydraulic fluid.

I am presuming that there must be small areas of joints which, to reach this temperature of 1000°F., were not insulated. Is that a fact?

• 1000

Commodore Bridgman: I think that is a fact. It has to be remembered, of course, that the ship was not finished. She was not a completed ship; she was still under construction and I am not sure that this is the exact situation in that ship but normally when you insulate trunking or pipes of any kind, the flanges are left bare until the very end because you cannot tell whether they are leaking or not until you have carried out some tests with the insulation off, and usually insulation is put around the flanges or the joints after you have carried out hot tests.

Mr. Harding: Normally, with the finished design, these would have been insulated.

Commodore Bridgman: They certainly would if for no other reason than habitability. It would be too hot in an engine room if they were not insulated.

Mr. Harding: Had this job been inspected and had reports been made by any of the Industrial Security Branch groups that this constituted a danger when the engine was operating?

Commodore Bridgman: I would not have thought that the DDP Industrial Security Branch would be checking the design of the ship, and I think your question relates to the design rather than to normal fire-fighting precautions.

Mr. Harding: No, I think maybe you missed the point. Here we have Industrial Security Branch people going over the hydrofoil, I presume to check on fire safety. Was there a report by any of the Industrial Security people that if the engine were operating this might constitute a hazard?

Commodore Bridgman: I do not know, sir. I will ask Mr. Hunter, perhaps, to comment. But I might just say that the bare piping is not a hazard necessarily unless some flammable fluid hits it, which of course it accidentally did.

Mr. Harding: And this is the reason for insulation, is it not? To protect it against this type of hazard?

Commodore Bridgman: Insulation is not so much for protection against hazards as it is to keep heat down and to avoid having to put in air conditioning. It is a heat containing device rather than fire protection. Sometimes the insulation itself is not terribly good fire protection.

The Chairman: Now let us address your question to Mr. Hunter, Mr. Harding. I think, Mr. Hunter, you might explain to the Committee, in view of what you have read to us this morning about all the precautions that were taken, why this particular precaution was not taken that Mr. Harding is asking about.

Mr. Hunter: First there were daily inspections by the de Havilland Inspection Staff and there were no reports of this that I am aware of. Therefore, they must have felt that it was not a hazard that would not normally be expected in the carrying out of such work. There was weekly inspection by the Marime Fire Department, Industries Limited and as far as I am aware no reports were made by them. Therefore, they must have not considered this to be an undue hazard. There were weekly inspections by the Principal Naval

Overseer's Staff—and these are the people who are perhaps the most conversant with this type of thing and whether it would be a hazard—and I gathered from what Commodore Bridgman has said that there were no reports made by them.

There were periodical inspections by the DDP Industrial Security Branch Field Consultant, who really would be checking more for the fact that all of the equipment that was supposed to have been under these conditions of our contract was present, because these people are not by any means marine architects or have that background other than to check and see that the proper precautions were being taken and that the regular inspections were made. So that I would think, since there had been no reports by anyone, that it was not considered by anyone doing the inspecting that this was an undue hazard.

Mr. Harding: Just one more question, Mr. Chairman. Was this the first test that had been conducted on the electrical generators?

Commodore Bridgman: It may have been the first test on that particular machine, but it certainly was not the first test that had been conducted in the engine room. Tests had

• 1005

been going on for six to eight weeks, to my knowledge.

The Chairman: Mr. Hunter, of all these people who were fire-protection-conscious on your staff and on the marine staff, there was not one person who said, "Now, we had better not have this test with these couplings and joints not insulated because if we do and fluid escapes we will have a fire." Nobody thought of this?

Mr. Hunter: As far as I am aware no one did, sir.

Mr. Thomas (Maisonneuve): Mr. Chairman, my question is along the same line. I will ask it in French, if you do not mind, sir.

The Chairman: No, go ahead.

[*Interpretation*]

Mr. Thomas (Maisonneuve): Mr. Chairman, I have been in industry and I understand very well that a contractor would construct a building without any insulation. But I think that in this case there has been an error. If insulation is used and eventually a leak is noticed, and this may take some time, the same damage could result.

However I think an error was made by not checking the main conduit to see if the joints were leaking. At home, we have an industry that produces sugar foodstuffs. Therefore, we produce syrup. In order to check out conduits, we take water and we plug one up to see if there is a leak or not. Even if it is gas, which is what we are talking about, there should be a way of checking the joints and I think this would have avoided this unfortunate accident. I hope that we will think about it in the future because, although I am not an engineer and even though I come from small industry, to my mind, it is elementary. When we go to Halifax, and when we will see the hydrofoil, I will be very curious to check, with my own limited knowledge, if there are not competent people who have made a mistake. To my mind, a huge mistake was made when the lines were not checked with some sort of liquid, gas or something else.

[*English*]

The Chairman: Thank you, Mr. Thomas. The point is that the hydraulic system was not fully inspected before...

Mr. Thomas (Maisonneuve): They went right on with it, sir.

The Chairman: All right. Mr. Lefebvre, do you have a question?

Mr. Lefebvre: It is not exactly on the fire but it is concerning the hydrofoil. Is this all right, Mr. Chairman?

The Chairman: Yes.

Mr. Lefebvre: If the witnesses do not have the answer now, perhaps it could be given to us in a briefing when we visit the hydrofoil. In the testimony we have been receiving here, we find that the approximate total cost of this vessel will be in the neighbourhood of $53 million, $6 million of which is due to fire damage, etc., leaving a net cost of $47 million if we have not had this disastrous fire. We have heard testimony also that no patents were given out to Canada on the development of this hydrofoil except that we have design protection. I am not convinced as yet, Mr. Chairman, that this development has done anything new for Canada and I hope the witnesses will be able to convince this Committee that it has.

We have heard quite a bit about research and development so I did a little bit of research myself on the week-end, and I

would like to know specifically how much consultation took place among our research people and the Americans and other countries that have been developing hydrofoils, according to these articles that I have been able to acquire from the Parliamentary Library and other sources, especially having to do with the American ship *Denison*.

You can correct me if you wish, but I understand from this very basic knowledge that I have acquired all of a sudden on the hydrofoil that there are two types being developed: the surface-piercing foils, which are mostly in use in sheltered waters and not very useful in heavy seas, and the submerged foils, which operate completely beneath the water and are most practical in larger ships operating on the high seas. First of all, I would like to know if the *Bras d'Or*, which is the one being developed in Canada, is a submerged-foil ship to be used on the high seas, or has it the surface-piercing foils which are used on sheltered waters? Could somebody here tell us something about this?

Commodore Bridgman: I think I can perhaps answer your question, sir. The *Bras d'Or* certainly has the surface-piercing foils. The American ships have the fully submerged foils. The answer to the earlier part of your

• 1010

question about consultation—there was indeed consultation. It was with the full knowledge of the Americans that we went for the surface-piercing while they went for the submerged.

Mr. Lefebvre: You do not have to answer fully right now because I had a few other questions I wanted to ask you . . .

Commodore Bridgman: I see.

Mr. Lefebvre: . . . before I got finished.

Commodore Bridgman: Could I just add though that there are no ocean-going hydrofoils at the moment, no real ocean-going hydrofoils. This is what we are trying to see.

Mr. Lefebvre: So actually, sir, you do not agree with these statements that were printed in these American papers in 1962 that surface-piercing foils are only to be used on sheltered waters. You people do not agree with this theory. Is that correct?

Commodore Bridgman: I would certainly like, as you suggest, to take notice of the question and give you a more detailed answer later, but I think the partial answer is that we certainly feel that the surface-piercing foils have an application in ocean-going service, and they are less complicated to operate as well.

Mr. Lefebvre: So therefore right off, we do not agree with this article on that basic part. So this is why probably Canada went forward on surface-piercing foils to be used in heavy seas.

I understand that the *Denison*, this ship that is in the water now and that has had quite a bit of testing, was built for approximately $5 million, and the United States government had only to provide $1.5 million of this amount and private industry in the United States, because they were very interested in this same development, provided the balance.

Now, if I can get the right paragraph here...

The Chairman: I think you have made your point.

Mr. Lefebvre: Well, this is why I brought it up this morning. Perhaps the witnesses would like to reply fully to the Committee when we get there. I understand Mr. Eames and other people are quite close to this project. But apparently there have been untold numbers of hydrofoils in the water for years and years now, and what I would like to do is be convinced that what we have done is really something new, because according to these articles, I cannot see what we have done at the present time which is going to...

An hon. Member: Revolutionize.

Mr. Lefebvre: Well, maybe that is a good word...revolutionize the hydrofoil industry for $47 million, when apparently the *Denison* —the one I am speaking of—as it says here:

> The ninety-ton H.S. *Denison* was launched last spring by Grumman Aircraft for the Maritime Administration.

This refers to the spring of 1962.

> It is the first hydrofoil designed to test mid-ocean capabilities, flying at more than sixty knots on automatically controlled surface-piercing foils.

Now, further on they say that surface-piercing foils are not the best on high seas. You say they are. I am hoping that before we finish this testimony the Committee can be

convinced, because in turn if we are convinced, then perhaps we can help you to convince the Canadian people. Because right now I am sure they are not convinced, nor are members of the Committee.

I would just like to read this paragraph into the record.

> The Maritime Administration, in the meantime, kept its weather eye on the commercial possibilities of hydrofoils. In 1958 it funded an engineering feasibility study of hydrofoils; the results were good enough so that in 1960 it gave Grumman, which had been a strong advocate of hydrofoils, a contract to build the ninety-ton *Denison* at $1,500,000, a bargain price. More than sixty suppliers, from General Electric on down, furnished Grumman with materials at prices from $1 to cost. The true cost of the *Denison*, by the time of its successful test flight this summer, was more like $6 million.

So there we have a 90-ton craft in the water for $6 million, and I am wondering why the

• 1015

Canadian government could not get Canadian industries, who are going to benefit from these developments later on, if we have quite a few constructed, to do somewhat the same thing, to also participate in the research.

The Chairman: Mr. Lefebvre, the Committee appreciates your research work, I am sure. Now I think we will ask Mr. Armstrong or Commodore Bridgman to say why our hydrofoil cost $53 million and the Americans got one for about $6 million.

Mr. Armstrong: Well, I do not know that I can explain the difference between the Canadian and the American one off-hand. But we have given you some evidence earlier that following the *Denison*, which you refer to, the Americans decided to build a larger hydrofoil which is approximately 300 tons. The information we have as to the cost of that was that it is about $35 million. It does not have any fighting equipment in it. And I believe that one, as I understand it, was paid for by the U.S. government.

The Chairman: What is the tonnage of ours, by the way?

Mr. Armstrong: Two hundred, roughly. Now, in terms of reading scientific articles, I happened to be reading one myself over the weekend. If I had known that you were going to quote yours, I would have brought mine.

Mr. Lefebvre: We could have gotten together.

Mr. Armstrong: My particular article suggested that the surface-piercing hydrofoil was possibly the greatest step in sea-going transport since steam replaced the sail. So there are different viewpoints. And perhaps we can explore this more fully when you have the scientific people at Halifax available.

Mr. Lefebvre: Right! This is why I wanted to put it on record this morning so that these people could be forewarned and we perhaps could have a briefing. But I think it would be very important, sir, if you do not mind me underlining the fact that we want to know how much consultation took place before we were committed to spending these millions and millions of dollars.

Mr. Armstrong: Yes, well there was a great deal of consultation that took place and we can arrange this to be included in the briefing, if you like, in Halifax. That is perhaps the best arrangement.

Mr. Lefebvre: Fine.

The Chairman: Mr. Armstrong, I think at the last meeting you were going to inform the Committee with respect to the cost of the fire losses...

Mr. Armstrong: Oh yes.

The Chairman: . .and why they were not included in the Public Accounts list of fire losses and so on.

Mr. Armstrong: I wonder, Mr. Chairman if I could answer the question that Mr. Cullen asked earlier, whether the system included in the hydrofoil ship for fire protection was operational at the time of the fire. That system was installed but it was not automatic at the time of the fire. It had to be put into operation manually, and it was not put into operation in the confusion of the fire. It was not brought into operation when the fire took place.

The Chairman: Mr. Cullen, I am sure you will want to ask your question.

Mr. Cullen: Well, arising out of that, who had the responsibility for seeing that it was manually controlled? Would that be the contractor or naval personnel?

Mr. Armstrong: This would be contractor responsibility. They were conducting the tests and they were in charge of the ship.

Mr. Cullen: And they did not turn it on?

Mr. Armstrong: It was not turned on, no.

Mr. Cullen: I want to read that legal report carefully, Mr. Chairman.

The Chairman: It seems to be one more piece of evidence why the company should have been held responsible and liable for the damage in this fire. Just one more piece of evidence.

Mr. Cullen: Thank you, Mr. Armstrong.

Mr. Armstrong: The other question I was asked was why the amount of the fire loss was not included in the table in Section—I think it was 44 or 45—of Part II of the Public Accounts. In examining this I find that in

• 1020

that table, losses of warlike equipment are not included, losses of tanks or ships, and so on. And this I suppose makes some sense. However, it does seem to me, Mr. Chairman, that probably we should include them when it is property under contract as it was in this case. And if the Committee would like us to do so, we can arrange that in future when large property is in the hands of a contractor and we have a fire loss, the fire loss will be reported there. It is reported in the general returns of our own Fire Marshal to the Dominion Fire Commissioner and in turn reported by him in his reports to the government. In his return for that year he did have this fire at $3,200,000, but it is not included in this table for the reason I give. But if you would like that kind of a loss included there is no reason that it should not be.

The Chairman: At this point I would like to say that this is just one more example of where the recommendations of the Public Accounts Committee are not followed. We make recommendations to the House and we send to the departments our recommendations. In the 1966 Auditor General's Report on page 94, section 2, under the heading of "Statements requested by the Public Accounts Committee", it says:

> 2. Losses due to accidental destruction of, or damage to, assets which would normally be covered by insurance had such coverage existed—Page 47.3
>
> Inclusion of this information was suggested two years ago to the subcommittee of the Public Accounts Committee which reviewed the form and content of the Public Accounts.

They mean this blue book.

> The subcommittee endorsed the suggestion and the Public Accounts Committee recommended in its Ninth Report 1964-65, presented to the House on March 15, 1965, that "effective for the fiscal year 1964-65 a statement detailing the amount of losses incurred as a result of the accidental destruction of, or damage to, assets which would normally be covered by insurance had such coverage existed" be included. The Comptroller of the Treasury placed the first such statement in the 1965 Public Accounts.

I would take from that, Mr. Armstrong, that the Committee had recommended that such losses be in here.

Mr. Armstrong: Your Committee did recommend this and this was worked out. We worked it out with the Comptroller of the Treasury at the time and we decided that we should exclude from this particular report losses of warships, tanks and so on and so forth.

Unfortunately, I would agree that perhaps that was not the way to exclude it. We should have said that when a warship is in a contractor's plant under repair and the fire occurs then we should report this. But the exclusions were by the nature of the equipment, and I think it makes sense. You would not want us to report, I presume, all the equipment that is used for the defence of the country and so on that might be destroyed or burned. You are not really interested in that.

The Chairman: No, but we still did not exclude it in this report.

Mr. Armstrong: Well you say "normally insured", and I do not think you could insure this sort of equipment normally. I must admit that the exclusion by type of equipment, which was the way it was done, has probably turned out in this case to have been a little too comprehensive an exclusion. But when a ship is in a contractor's plant and the government is insuring it then I think it should probably be included.

The Chairman: Now you might look upon the *Bonaventure* as war equipment, but you could not look upon the hydrofoil as such.

• 1025

Mr. Armstrong: It is a piece of war equipment. It is an experimental piece, it is true, but the object of the exercise is war equipment. It is an ASW vessel.

The Chairman: The results are that neither of these fire losses are included in this amount.

Mr. Armstrong: They are not included in that table, no sir.

The Chairman: And you are telling the Committee that from here on they will be included?

Mr. Armstrong: Yes, I think so. I think you would want them included and I will see that they are.

The Chairman: I think we should have a comment from the Auditor General on this point.

Mr. A. M. Henderson (Auditor General of Canada, Auditor General's Office): Mr. Chairman, I think Mr. Armstrong's suggestion that these be included in future would be constructive, but I would like to take it one step further and invite your consideration on this. Why, if all of these things, including all damage to National Defence material, are reported in this report of the Dominion Fire Commissioner—and the hydrofoil fire is included in here—should there not be some attempt to relate this cost statement here in the Public Accounts to the information that he has gathered in this very comprehensive report—at least to the extent of making a reference as to what is excluded here so that you would know enough to read this.

Mr. Armstrong: I have no objection at all to the report that you have there being based on this one. If that is what you want, that suits me fine.

Mr. Henderson: Perhaps the Committee could consider this when it comes to making its report and make a recommendation along these lines, Mr. Chairman, so that it will avoid duplication but at the same time attain maximum disclosure. The whole purpose of this statement is to show you whether you are a good self insurer—whether in fact the damage cost that you are suffering is less than the cumulative premiums would be over a period of time. If you are not going to exercise that judgment from this statement then I would not waste time to prepare it. I think that is what is in the minds of the members.

The Chairman: Mr. Bigg.

Mr. Bigg: I would suggest though that unless we did make some distinction we might think that we are getting an insurance bargain when in fact some of the things are uninsurable. Perhaps it should be marked with an asterisk to show that it was a warship which perhaps we would not be able to insure under any circumstances. If we went to Lloyd's of London and tried to ensure a warship I am sure that it would be 50 per cent of the capital cost or close to it.

The Chairman: Gentlemen, if you are agreed, we will leave the hydrofoil and the *Bonaventure* until we visit the two ships and then we will reopen the matter on our return. In the meantime we will proceed with paragraphs 98 and 99.

Mr. Cullen: Mr. Chairman, I do not mean to hold the Committee up, but arising out of the answer that Mr. Armstrong gave to the effect that someone has said here there was a moral obligation that navy personnel or government personnel be required to be present, I think Mr. Armstrong's answer was that there was nothing in the contract requiring the contractor to have personnel present. Is that in fact correct?

Mr. Armstrong: That was my answer, that these were contractor trials and while the contractor normally informed the naval overseer of all trials that were taking place he was not legally obliged to do so.

In this particular case, as I recall the situation, there was doubt on the part of the contractor about carrying out this particular trial on Saturday morning, it was decided by the people on the spot to carry it out and they had not informed the naval people of this and they simply were not informed.

Mr. Cullen: So they were doing it more as a courtesy rather than an obligation. There was nothing in the contract requiring them to have navy personnel present?

Mr. Armstrong: No, that was not part of the contract.

The Chairman: Mr. Bigg.

Mr. Bigg: I gather that if they were doing a run out to sea it would be different. They would have naval personnel on board then, would they not?

Mr. Armstrong: Yes, they would have naval personnel.

Mr. Bigg: There would be a difference then.

Mr. Armstrong: Yes.

The Chairman: It would appear from the evidence we have heard that there is a very strong feeling, if I am judging correctly the comments that have been made, that the de Havilland company were liable for the damages caused by this fire, but the Department of Defence Production, from their legal advice felt that the company were not liable. That is the stage we are at.

• 1030

Maybe members of the Committee would want to consider having an official or officials of de Havilland before them so they could direct questions to them. If they can prove to us that they were not liable, then all to the good. I leave it to the Committee to decide whether or not they want to call one of the de Havilland people as a witness.

Mr. Hunter: Mr. Chairman, you personally answered the comment I was going to make. I was going to suggest, in tabling my legal opinion, that perhaps the Committee might like to have an independent legal opinion on the opinion we received. I just offer that as a suggestion.

The Chairman: Mr. Cullen, would you like to comment on that, from the legal standpoint.

Mr. Cullen: I am sorry I did not hear that.

The Chairman: Mr. Hunter has suggested that the Committee might like to have an outside legal opinion over and above the legal opinion of their Department on this matter.

Perhaps we can think that one through.

Mr. Cullen: I do not know how much information we could give to anybody, other than by reading these reports.

I am assuming that your people were right on the job. I think we could probably get the best legal opinion from the gentleman you mentioned this morning, if he had the consultation that you said. He had the facts at his fingertips. I would like to read it.

Things stand out to me as a lawyer: no naval personnel were present; now I find that the system that could have been turned on had to be turned on manually; and despite the fact that tests were going to be made it was not turned on. Perhaps in the legal opinion the answers are there or he might have said this was a form of negligence, but that it had to be gross, and this did not come within the meaning of "gross negligence." I do not think a legal opinion is going to help us a great deal.

Mr. Hunter: I happen to have the answer to that in my hand.

The Chairman: All right, Mr. Hunter.

Mr. Hunter: The question was why the manually-operated system was not set off. The answer, according to my officials, is that the de Havilland employee stationed in the engine room, who would normally have set off the system, was struck in the face by escaping fluid. The fluid ignited, seriously burning and incapacitating the man. A fellow-employee, upon entering the engine room, had the choice of saving the man's life or setting off the fire-extinguishing system. Naturally, he chose to save the other man's life.

The Chairman: Mr. Hunter, I do not think you would expect the Committee to accept that, because the manual fire system should have been turned on before the test even started.

Mr. Hunter: Not as I understand a manual system, sir. But I just offered that. It was just handed to me, and I was leaving it to you.

Commodore Bridgman: Perhaps I could clarify this. I think the system was capable of being operated either locally or remotely. Perhaps I used the word "automatic" previously, but it is "remote" as opposed to "automatic." On this particular day it was rigged for local operation only, which was in the vicinity of the fire.

Mr. Bigg: You had to reach over and turn on the emergency switch, then?

Commodore Bridgman: It should be stated that the ship was by no means complete at this point. Not all of the systems were completely operating and functioning. They do start trials before a ship is fully completed. This would be the reason that all the other supplementary firefighting arrangements were made—that is, Marine Industries Limited's fire-extinguishers, and so on, spread around the ship. We do not depend entirely on the ship's resources while it is still under construction.

Mr. Bigg: Has there been any change in the regulation? Have we learned anything from this fire? Could this type of accident happen again, or have we new precautions to cover this type of thing?

Commodore Bridgman: I certainly hope it could not happen again in the hydrofoil, sir. The system there, of course, is different from what we have in most of our other ships.

The Chairman: I was just thinking: "Well, now, here we are going to have a test today. All precautions must be taken. We must turn on all the valves, gears or switches, or what have you, so that the fire protection apparatus will be operating in case we have a fire"—but that was not done.

Commodore Bridgman: The point about turning on, sir, as I tried to explain, is that it could be operated manually. It is not turned

• 1035

on and discharging CO_2 the whole time; it is only turned on when there is a fire; and this is done manually, but remotely, from two different places in the ship. These remote stations were not in operation at this point, but the local manual station was in operation. It could have been operated manually, but, locally.

The Chairman: Then may we ask why we had the test before we had these precautionary fire apparatuses made automatic?

Commodore Bridgman: I am not the best expert to answer this, except, as I said earlier, that the ship was not complete, and I think some of the firefighting equipments were among the incomplete systems. However, there were supplementary systems and arrangements, as Mr. Hunter has explained; there were portable extinguishers around.

[*Interpretation*]

Mr. Noël: I have two questions on this subject. First a fact: when the government has its own insurance, it becomes its own insurer, and as you say in English, he is an underwriter.

When an underwriter takes a risk, he must demand, in the manufacture contract, that he be at least advised when we play with fire. Because when you are carrying out these tests, you are really playing with fire, and when you play with fire, you must take all precautions possible in order to prevent ahead of time what might happen. I think there has been complete negligence on the part of the project authorities, and you cannot legally charge the company with responsibility for that, because it was not indicated in the contract that every time you carry out a test, the company should be notified as underwriter. That is how I see it.

[*English*]

The Chairman: Thank you, Mr. Noël.

Gentlemen, we will turn to paragraph 98 on page 52 of the English copy of the Auditor General's 1967 Report. This relates to expenditure on an aircraft simulator.

Mr. Henderson, will you give a brief introduction to it?

Mr. Henderson: Gentlemen, you will see paragraph 98 in my 1967 Report at page 52. This has to do with costs on termination. As the first paragraph indicates, we had a contract here for about $3.1 million, and in January 1964 the contract was terminated because of a general lack of funds in the department, which, in their own wording, had been compelling them to adjust their general operational posture to the extent that they could no longer justify completion of the procurement. That expression, I remember at the time, fascinated me, as an extraordinary way to explain why you do not have any money. I should like to be able to employ it myself on certain occasions.

At all events, it was estimated that the costs on termination would amount to about $1.3 million. You will see further down in paragraph 2 that the final audited cost—that is, audited by the audit services branch—in April 1967, including estimated costs, amounted to $1,348,000. This indicated an overpayment of $47,000.

The contractor, however, disagreed with the audit findings. Then we explain that the amount paid reimbursed the contractor for his costs, and profit at 10 per cent, the rate used in negotiating the firm price contract.

We suggest it would have been appropriate for the Department of Defence Production to negotiate a reduction in the rate of profit in this case.

• 1040

This overpayment position of $47,000 was unchanged at that time. My 1967 Report was tabled one year ago, and the latest information I have is that the overpayment position remained unchanged as at the date I am speaking of, that is, last October 15, and that the contract settlements committee were hoping to deal with the subject in the near future.

Perhaps Mr. Hunter can update you and tell you whether it has, in fact, been dealt with yet. In the last paragraph it is explained how materials acquired for the contract which cost $490,000 and others valued at $115,000 with a mock-up fuselage manufactured for the trainer by someone else at the cost of $282,000, were declared surplus and sold for $3,100.

I think that pretty well sums up the paragraph, as you can see, Mr. Chairman.

The Chairman: It is not very often I have an opportunity to correct the Auditor General, but he has been talking in such big terms of millions of dollars with the hydrofoil and the *Bonaventure* that he said $47 million instead of $47,000.

Mr. Henderson: My apologies, gentlemen.

The Chairman: We will get you down to a lower level, Mr. Henderson.

Mr. Hunter would you like to make some observations before we have any questions?

Mr. Hunter: Mr. Chairman, I have no later information on any further action on this settlement other than the Auditor General has given. I believe it still stands as he reported it last year.

The Chairman: Are there any questions? Mr. Cullen?

Mr. Cullen: I see that this was a decision apparently taken by the Department which resulted in a saving of $1.9 million on the over-all contract. Was this a project that was undertaken but was not completed because there was no money or was it just something that was phased out because it was not required?

The Chairman: Mr. Armstrong?

Mr. Armstrong: The project commenced, as noted here, in May, 1963. The Department had one Argus simulator—this was the second one—and the volume of training was considered, at the time, to justify having two. Subsequently, in the period of 1964 and into 1965, the defence budget itself was being reduced and in the examination of how to make these reductions, the conclusion was reached that we could get along without the second simulator. Now, part of the justification for that decision was that in the general approach to economy it was decided that the pilots and crews that were trained in the maritime role on the Argus would be kept in that role for longer periods of time and this meant it would be possible to reduce the amount of time required on the simulators. As a consequence, this simulator was cancelled and there was a saving, as you have noted, to the Crown because of that. The expenditure that had been made was, as suggested here, $1,677,000 including the $47,000 that is in dispute. Of that there was $490,000 that the Department was able to include in its spare inventories to service the simulator that we already had.

The Chairman: Unless there are some other questions, I would like to ask one of Mr. Hunter. The Department decided to discontinue this in January 1964, but during the latter part of 1964 and 1965, I would imagine it would be your Department, continued to accept parts and other things for this project. If we add the $490,000 and $115,000 plus the

• 1045

$282,000 from another contract it makes a total of $887,000 worth of parts and incidentals which, in turn, were sold to the Crown Assets Disposal Corporation for $3,162. My question is why did you continue to accept these parts and why did you not notify the contractor or the supplier that this project had been discontinued?

Mr. Hunter: Sir, I am told that these were parts that were fully fabricated. We accepted them and they were put into the spare parts inventory at a value of $49,000, as Mr. Armstrong has said, for use on the other simulator.

The Chairman: But you declared them surplus to Crown Assets and sold them for $3,162.

Mr. Hunter: Sir, it was the material valued at $115,000 and $282,000 which was declared surplus and sold by Crown Assets.

The Chairman: I see. Therefore, it was the $282,000 and the $115,000?

Mr. Hunter: That is right.

The Chairman: Fine that makes a total of $397,000 which sold for $3,162. Could you not have refused to accept any of these parts? Apparently you had more than you needed because you sold them to Crown Assets.

Mr. Hunter: Sir, these would have been either work-in-progress items or work-completed or nearly-completed items and it prob-

ably would have cost just as much to cancel them at that time. I am sure we looked at each case on its own merits. We would not, under any condition, allow them to continue on a contract for which we knew there would be no demand.

The Chairman: Mr. Leblanc?

Mr. Leblanc (Laurier): I believe there is a question of principle involved here. That is pointed out by Mr. Henderson in his report. He says:

> As the effect of this termination was to change the basis of reimbursing the contractor from firm price to cost plus, thus reducing his risk, it would have been appropriate for the Department of Defence Production to negotiate a reduction in the rate of profit.

Usually when we renegotiate a contract with a contractor from firm price to cost plus the rate of profit is reduced and in this case the profit would have been only 7 per cent. Why did the Department of Defence Production not carry out such renegotiations with regard to this particular simulator and thus reduce the profit of the contractor for less risk, as is usually done?

Mr. Hunter: Sir, I am told our normal policy is that the contract is terminated on the basis that it was originally undertaken. If a contractor had a firm-price contract, he was assuming a risk of a certain degree and his profit was set at that and we would assume that to the point where he terminated his work, he would have been accepting the risk right to that point. If the contract had been 90.9 per cent finished it would hardly have been fair at that point to have said that we were terminating it and he would be on a cost plus basis. However, according to my notes here each case is taken on its own merits and as it was felt the contractor had accepted that risk to that point of completion then his profit would be fixed on that basis. I should add that we are not noted for making generous settlements on terminated contracts, just the opposite really.

The Chairman: Mr. Henderson?

Mr. Henderson: I think, Mr. Leblanc, it is my understanding that this is one of the reasons why the Department has this Contract Settlement Committee and this was one of the factors they were considering. This was our view at the time we went over the case. I think Mr. Hunter is now explaining, perhaps, what their thinking was, but they settle these cases, as they have to, largely on their own merits. I think that is one of your reasons for having the Committee, is it not, Mr. Hunter? Perhaps you could explain the functions of the Committee.

• 1050

Mr. Hunter: That is right, Mr. Henderson. We have in the Department, a Contract Settlement Committee which handles all terminated contracts, or any claims of contractors in respect of a contract where they feel they have had a poor deal. This is headed by an assistant deputy minister of finance, and there or four members or directors of other branches who would not be concerned with this particular contract. They hold an informal hearing with the contractor and he is allowed to bring within him any of his staff or his lawyers or anyone that he wishes and we usually have a Treasury Board representative present at all sittings. This is really meant to give the contractor a forum where he can make his case on a terminated contract, or a claim he has in respect of any of our contracts.

Mr. Bigg: It is not true that in most of the contracts there is no such escape for one of the contractors. In most cases a civilian contractor would have to pay up the full amount regardless of how impractical finishing the contract was. So actually, if the government does this they can save the taxpayer money. Is that correct?

Mr. Hunter: It would depend if it were written in the contract, sir. I think some of the larger contractors do substantially as we do, but I think they name an arbitration board which would handle any disputes they might have, or termination cases. We have it build in as part of our system, as the Auditor-General said.

Mr. Lefebvre: What happened to the $47,000 in dispute at the year end? Is there going to be a court action on this or just what is being done about this particular amount?

Mr. Hunter: There will be a further hearing before this Contract Settlement Committee, which I have just spoken of, Mr. Lefebvre. It just has not been held yet either because the contractor does not have all the facts together or possibly he had one hearing

and may still disagree. He is allowed, if he wishes, to come back within a reasonable period.

Mr. Lefebvre: This money has been paid at the present time?

Mr. Hunter: It has been paid. It is considered an overpayment and we are seeking to recover it from him.

Mr. Lefebvre: What would be your court of last resort? Would you take civil action against this contractor if they do not agree with your opinion or with this hearing body that you have set up. What would be the final step taken by your Department?

Mr. Hunter: The final step, sir, would be the inssurance of a directive to pay to this contractor based on the Defence Production Act, which permits the Minister of Defence Production to issue an order for any amount in access of what has been paid to a contractor for work he has done, that he considers fair. In other words he can issue a directive to pay which is collectible in the Exchequer Court for any amount over and above the cost plus a reasonable profit.

The Chairman: The same procedure that you used with the Cardinel company in Montreal on the compressor.

Mr. Hunter: The same, Mr. Chairman.

Mr. Lefebvre: They can be ordered to repay the $47,000?

Mr. Hunter: That is right, sir.

The Chairman: Gentlemen, the next paragraph is 99, the Cosmopolitan aircraft.

Mr. Lefebvre: I have one question, is that the aircraft we are supposed to use to go to Halifax?

The Chairman: That is the one we are going to Halifax on and I want you to pay particular attention to that paragraph—

Mr. Lefebvre: We sure will.

The Chairman: —and ride in comfort after you read it. Mr. Henderson has an introduction to it.

Mr. Henderson: Mr. Chairman, I think the members will probably have read this on page 53 of the 1967 report, how in late 1957 the Department.

> ...was considering acquiring turbo-prop aircraft of British manufacture of a type in general use in Canada. However, at about that time the United States manufacturer of the Convair 440... was replacing its original piston engines with turbo-prop engines on an experimental basis in order to improve performance...

Consequently, the Canadian subsidiary of this United States manufacturer said that if orders for the new aircraft were placed with them the parent company was prepared to transfer the manufacture of the Convair 440 to Canada, and proposed intalling British manufactured Napier-Eland turbo-prop engines. The proposal was accepted because it was felt it would alleviate a slump that might be coming in the Canadian aircraft industry following completion of the Sabre jet aircraft. So Treasury Board authorized the purchase of 10 Eland Convair 440's. They were delivered

• 1055

between June 1960 and February 1961 at a final cost of $23 million, which included $2.75 million for additionaal tooling required for modifications and $1.5 million for ten spare engines.

The Napier-Eland engine, which in 1958 had not been put into service, subsequently was found, however, to be unsatisfactory and by the end of 1962 it had to be replaced and the manufacturer discontinued production. In October 1965, when it was seeking the approval of a re-engining program the Department outlined the many problems experienced with this engine; high maintenance cost, high rate of engine failure, greater frequency of scheduled overhaul, thereby increasing maintenance cost, and the limited supply of engines which had brought about a sharp reduction in aircraft utilization. It was expected these problems would soon force withdrawal of the Cosmopolitan aircraft from service.

In March 1966, Treasury Board authorized a re-engining program for seven of the aircraft and a contract was entered into with the U.S. government. The contract was completed at an estimated cost of $6.7 million and the last aircraft returned to service.

To summarize then, this shows how the acceptance for transport aircraft of an engine which had not been demonstrated as satisfactory in actual service resulted in abnormally high maintenance costs, which in turn caused a substantial reduction in aircraft utilization and a costly re-engining program.

The Chairman: I think the Committee will want to know what engines are in the Cosmopolitans now and how...

An hon. Member: Are they tooled up?

The Chairman: Mr. Armstrong, perhaps you would like to make a few comments. What were they re-engined with?

Mr. Armstrong: They were re-engined with an Allison engine, the same engine used in the Hercules aircraft and these are very satisfactory. We find them extremely satisfactory. As indicated in the Auditor-General's observation, this program was basically designed in the expectation that the Convair 440, engined with a Napier-Eland turbo-prop engine, would result in a commercial program for Canadian industry.

It is not unusual for an engine that has not been fully proven to be put into an aircraft. Obviously, you would never get a new engine if it were not selected without being fully proven, but they are selected on the basis of engineering competence. In this particular case the selection was not really a result of the engineering competence of the technical experts in the Defence Department, but the engineering competence of the commercial people who were hoping to produce an airplane that would have a wide commercial market. They believed their engineering reports indicated to them that the Napier-Eland would be a satisfactory engine and would have some advantages over the possible competitive engines.

At the time of selection of the Napier-Eland it was expected that it would be used in other aircraft, both for commercial and, I think, military purposes. As it turned out all of the programs that the Napier-Eland was to be used in were cancelled and, to my knowledge, it was not used in any other program except the Convair 440, which is this particular one. Under these circumstances with a new engine it becomes prohibitive really to overcome—every engine has some faults in its development and it just becomes prohibitively costly. We could not do this with the 10 aircraft we had and the engines in them. As a consequence, the engine was never satisfactory. Eventually we re-engined the aircraft as indicated here.

• 1100

The Chairman: Is it fair to say that you took a bit of a gamble and it just did not work out?

Mr. Armstrong: I think it is fair to say that someone took a gamble, but I do not think it is quite fair to say that the Department of National Defence took the gamble. We were the instrument that enabled a prospective aircraft development in Canada to proceed.

The Chairman: Gentlemen, I think we will close at this point. Will you mark these paragraphs which we would like to do next Thursday; numbers 103, 105, 106, 109 and 113?

Mr. Lefebvre: Mr. Chairman, could we fit 95 in there too, while we have the witnesses from the Department of National Defence before us?

The Chairman: So that we can program our meetings I would like to ask if you have any idea when you are going to table your 1968 report, Mr. Henderson, or is this information you do not want to give out yet?

Mr. Henderson: Oh, I am pleased to give it, Mr. Chairman. The report is wholly with the printer. It is a matter of when he can deliver and I am informed he is hoping to give me a delivery day next week. Therefore, I hope it will be tabled at least before you leave on your trip to Halifax.

The Chairman: All right, gentlemen; the meeting is adjourned.

APPENDIX F

DEPARTMENT OF DEFENCE PRODUCTION
MEMORANDUM

Your file No. BX69-317002 Vol. 14

December 1, 1966.

To:

Mr. A. B. Henderson,
(Project Management Branch),
10th Floor, Gillin Bldg.

From:

R. H. Evans,
(Legal Officer, attached to
Shipbuilding Branch),
5th Floor, MacDonald Bldg.
FHE 400 Hydrofoil Contract
Serial 2BX3-244

I have for acknowledgement your request of November 30, 1966, for an assessment of liability of the Contractor for fire damage to the Hydrofoil Vessel at Sorel, P.Q. on November 5, 1966.

The contract covering this transaction dated 8th May, 1963, includes a provision under Article 1 that DDP-26B (Rev.5/60) shall form part of the agreement between the parties.

Section 12 of DDP-26B (R.5/60) reads as follows:—

> "*Care of Crown Property*
>
> Except as otherwise provided in the contract, no insurance shall be carried by the Contractor on any property, title to which is vested in Her Majesty, including any machinery, equipment and production tooling which is the property of Her Majesty. The Contractor shall take reasonable and proper care of all property, title to which is vested in Her Majesty, while the same is in on or about the plant and premises of the Contractor or otherwise in his possession or subject to his control and shall be responsible for any loss or damage resulting from his failure to do so *other than loss or damage caused by fire or by ordinary wear and tear.*"

You will note that this section makes the Contractor liable for any loss arising from his failure to take reasonable and proper care, *except where the loss in attributable to fire.* In this case, the Contractor is relieved of liability without regard to the question of reasonable and proper care, and is given unconditional release. The question of negligence, therefore, becomes irrelevant under the terms of the contract.

In addition, by Article 9 of the D.D.P. Contract, even if the Contractor were liable for loss by fire attributable to negligence on his part, he is protected by the provision of Form DDP-32 (R.2/61), which, under Article 1 is incorporated into the contract, and which *unconditionally* insures the Contractor against fire loss, *from any cause whatsoever, except* of course, by implication, *arson* instigated by the Contractor himself.

Thus, even if the Crown had a claim against the Contractor, he in turn, would have a claim under his insurance policy against the Crown for reimbursement of such claim.

Accordingly, it is clear from the explicit terms of the contract that the Contractor is under no liability to reimburse the Crown for the loss incurred as a result of this fire.

(Sgd.) R. H. Evans,
Solicitor,
Legal Branch.

CONCURRED IN BY DIRECTOR OF
DDP LEGAL BRANCH.

HOUSE OF COMMONS

First Session—Twenty-eighth Parliament

1968-69

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: Mr. A. D. HALES

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 26

THURSDAY, MARCH 20, 1969

Public Accounts, Volumes I, II and III (1966 and 1967)
Reports of the Auditor General to the House of Commons (1966 and 1967)

WITNESSES:

(*See Minutes of Proceedings*)

THE QUEEN'S PRINTER, OTTAWA, 1969

HOUSE OF COMMONS

First Session—Twenty-eighth Parliament

1968-69

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: Mr. A. D. HALES

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 26

THURSDAY, MARCH 20, 1969

Public Accounts, Volumes I, II and III (1966 and 1967)
Reports of the Auditor General to the House of Commons (1966 and 1967)

WITNESSES:

(*See Minutes of Proceedings*)

THE QUEEN'S PRINTER, OTTAWA, 1969

20055—1

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. A. D. Hales

Vice-Chairman: Mr. T. Lefebvre

and Messrs.

Bigg,	Forget,	McCutcheon,
Burton,	Gervais,	[1] Noble,
Cafik,	Harding,	Noël,
Cullen,	Leblanc (*Laurier*),	Rodrigue,
Flemming,	Major,	Roy (*Timmins*),
	Mazankowski,	Tétrault,
		Thomas (*Maisonneuve*)—(20)

(Quorum 11)

Edouard Thomas,
Clerk of the Committee.

Pursuant to Standing Order 65(4)(b).

[1] Mr. Noble replaced Mr. Crouse on March 19, 1969.

MINUTES OF PROCEEDINGS

THURSDAY, March 20, 1969
(28)

The Standing Committee on Public Accounts met this day at 9.44 a.m., the Chairman, Mr. A. D. Hales, presiding.

Members present: Messrs. Bigg, Cullen, Flemming, Hales, Harding, Leblanc (*Laurier*), Mazankowski, Noble, Noël, Thomas (*Maisonneuve*) (10).

Witnesses: Mr. A. M. Henderson, Auditor General of Canada; Mr. E. B. Armstrong, Deputy Minister, Department of National Defence; Mr. G. W. Hunter, Deputy Minister, Department of Defence Production.

The Committee questioned the witnesses on the 1967 Auditor General's Report, in particular,

(*a*) Paragraph 99—The *Cosmopolitan* aircraft;

(*b*) Paragraph 103—The counter-mortar radar;

(*c*) Paragraph 105—Naval architects' fees.

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

Edouard Thomas,
Clerk of the Committee.

20055—1½

MINUTES OF PROCEEDINGS

EVIDENCE

(Recorded by Electronic Apparatus)

Thursday, March 20, 1969.

The Chairman: Gentlemen, you have received in the mail quite a bit of correspondence from our Clerk and I trust you have read it over carefully. On Tuesday of next week I will call on our Clerk to go over the final arrangements for our trip to Halifax. At that time we will have an opportunity to discuss the proposed plans so be prepared to ask any questions you might have at that time.

At our last meeting we were discussing the Cosmopolitan aircraft on page 53 of the 1967 Auditor General's Report and we had almost completed that discussion. I think Mr. Henderson has one or two additional observations to make since the last meeting about the Cosmopolitan aircraft. We then will proceed to Paragraph 103. Yes, Mr. Cullen?

Mr. Cullen: Mr. Chairman, on a point of order. With regard to the information we received in respect of the legal opinion as well as the comments made last week, are we going to pursue that later?

The Chairman: Yes, after the visit.

Mr. Cullen: After the visit? Could I ask one more question? Has the Department of Defence Production decided that it is no longer going to be the insurer or do they still have an open mind on this thing?

Mr. G. W. Hunter (Deputy Minister, Department of Defence Production): We still have an open mind, sir. We are discussing it in the context of firm price new construction at the moment with the Department of National Defence.

The Chairman: The question is, if a fire occurred tomorrow on the hydrofoil what position would we be in?

Mr. Cullen: That was to have been my next question. I raised a point of order because I do not see any point in pursuing things such as the fact that a standard form of contract was used and it would seem no warranties were incorporated. If we are going to get into the insurance business I think perhaps warranty clauses rather than standard forms should be used. This is the suggestion or the recommendation I wanted to make. I do not think we should abandon this field, Mr. Chairman, as the insurer as I have done some checking into the money we have been able to save by this practice, but unfortunately we are looking at the black side of it now. I think certain things should have been done that were not done, but I do not think we should abandon the field just because we had our fingers burned once. However, I think perhaps we have learned a lesson. In any event, if we are not going to be in the insurance business anymore then there is no point in pursuing this line of discussion.

The Chairman: Would you like to pursue it at this point or would you rather wait until we...

Mr. Cullen: No, I would rather wait. I just wanted to make the point that if we are going to pursue it later, I would like to discuss it then, sir. Thank you. I am sorry to have interrupted.

The Chairman: Mr. Henderson, you can proceed with your comments regarding that Cosmopolitan aircraft.

Mr. A. M. Henderson (Auditor General of Canada): At the last meeting the question of the Cosmopolitan aircraft, the facts of which are given in Paragraph 99 on page 53, was under discussion. As you know, where we have something further to add with respect to any of these notes in my 1967 Report because of things that have transpired in 1968, I have followed the practice of updating the Committee and would like to do so here.

This re-engining program for seven of the aircraft, as is stated in the penultimate paragraph of Paragraph 99, was entered into with the United States Government and completed at an estimated cost of $6.7 million. In 1968 we have noted additional costs of $1.1 million which relate to this project thereby bringing the cost up to $7.8 million, Mr. Chairman. I have the details of the cost here, but I do not

know if it is necessary to put all of the detail on the record unless the members wish it. Substantially this consisted of $450,000 for additional items on the contracts with Canadair; $425,000 for the re-engining of an eighth aircraft to replace the one which was partially destroyed by fire; some spare parts with a value of $136,000 and the balance of about $89,000 which had to be paid to the United States Government as a sort of clean-up figure, I suppose.

• 0950

From a review of the engine repair and overhaul costs that we conducted after completing the 1967 report, we have established that the average costs of repair and overhaul per engine flying now in the three fiscal years 1963-64 to 1965-66 for the Allison engine used in the Hercules—I believe that is the engine that is now in this particular aircraft, if I am not mistaken—and this Napier-Eland engine originally used in the Cosmopolitan were $9.52 for the Allison as against $89.50 for the Napier-Eland. That is the only additional information I think the Committee would wish at this time, Mr. Chairman

Mr. Bigg: Does this lump all the costs including the capital cost or is this just the operational cost?

Mr. Henderson: This was a re-engining program, Mr. Bigg, which, as stated here, had an estimated cost of $6.7 million. We have given the circumstances of it in Paragraph 99 and I just have given you additional costs that brought that all-inclusive-price to $7.8 million.

The Chairman: All right, that has updated the picture.

We will now move on to Paragraph 103 dealing with the counter-mortar radar. Mr. Henderson, could you give a brief outline of this situation?

Mr. Henderson: The radar equipment mentioned here had been redesigned and developed in Canada with a view to supplying the requirements, as we understand it, of both the Canadian Army and Canada's NATO allies. As we were not successful in selling this equipment to our allies, the 10 units produced for the Canadian Army which were estimated to have cost $3.889 million were thus $2.87 million in excess of the original estimate, exclusive of original development cost. As stated in the note, it seems doubtful to us that this equipment would have been produced at all had it been known in advance that only the 10 units for the Canadian Army would be produced.

As I have said in this paragraph, some of the increased cost is attributable to the unsuccessful attempt to shorten normal production time in the hope of getting a competitive advantage in the export market. When we reviewed this procurement in the fall of 1968, we noted that additional costs of $110,000 had been incurred in addition to those which are noted here in this paragraph.

That would be all I could say on this, Mr. Chairman.

The Chairman: Gentlemen, it would appear that we felt there was a good market in another country for this equipment, but that market or that purchaser did not come through and we were left with quite an expensive production. Perhaps either Mr. Hunter or Mr. Armstrong could tell us to what country it was hoped that we could sell it and why did we think we had a good chance of selling it to that country.

Mr. Hunter: Mr. Chairman, at the time we considered proceeding with this development there was, we felt, a very good chance of selling this to the West German government for one, whose requirement, although it is stated here as having been 20—that was its initial requirement—anticipated three separate buys which, I am told would have totalled roughly 25 each, making a total possible sale of 75. That was their total requirement.

We considered this to be a very potential sale because this was really second generation equipment. The competing equipment that is referred to here, I am told by my officials, was really first generation and I think the price of $70,000 was possibly for an equipment which was really first generation and which was being produced in the United States. The equipment that eventually became our competitor was from the United Kingdom which also had a first generation price of possibly about $70,000. We are really talking about one which had many improvements over these other two and ours, we felt, was the leader in the world at the time.

• 0955

If you recall, Mr. Chairman, at this point we were just commencing to work out production sharing arrangements with the United States and other NATO countries in an effort to spend at least the total amount of our

defence dollars in Canada. If we had to buy outside Canada we hope to get reciprocal business that would allow us to maintain technical know-how in Canada and up-to-date skills, so that we would, at least, have our own defence base if it were needed and also, as has been proven in the last 10 years, we have worked out some very satisfactory production sharing arrangements, not necessarily just for defence items, but items which started out as defence developments and then became commercial type items. I might refer to the PT-6 engine which, I think, is one of the better examples, whereas this is one of the worst we could state. The PT-6 engine has had over $250 million in foreign export sales. I also could refer to the Marconi doppler, which started off as a development similar to this and which has had between $150 million and $200 million worth of export business, not just on defence, but on practically all types of aircraft in the United States and many in Europe.

These are the successful ones and we had hoped that this might be another one. I think we had reasonable hope for it, even though the Auditor-General's comment here is that the prospective foreign purchaser had indicated he was not interested because he had ordered another prototype model for evaluation. We felt that ours was better than the competing model which he had ordered and, in fact, several years later you will notice that the item was taken by the West German government showing that they were still interested. This was in 1962.

The Chairman: What price did you get for the one you did sell to West Germany?

Mr. Hunter: It was sold for around $220,000 with spares, Mr. Chairman.

The Chairman: How much did you get for the other one you sold?

Mr. Hunter: The same price. That was sold to the government of Italy.

Mr. Noble: Mr. Chairman, I just want to ask what was the final disposition of the material that was built and had not been disposed of in the first instance. Were you able to dispose of it later or what happened?

Mr. Hunter: Sir, the order that we placed was for 10 production models, to which spares were added later. As far as I am concerned I do not believe there was any substantial amount of spare equipment or material.

Mr. Noble: Eventually you were able to sell it all, were you?

Mr. Armstrong: These 10 equipments are being used by the Canadian Army. They are still regarded as the best counter-mortar radar in the world. They are very fine counter-mortar radars.

Mr. Noble: You mentioned a moment ago that you had a customer, but you also said this material had been left on your hands. What was the final disposition? Have I understood this correctly?

Mr. Hunter: I am sorry, sir, I did not say that, I do not believe. We ordered 10 equipments for National Defence and, as you will notice, we paid a figure that turned out to be around $700,000, pre-production and pre-engineering expense, which we hoped to recover on further sales. We had a hopeful immediate sale of 22, but we did not place the order for those because, as is mentioned in the Auditor General's statement, at that moment Germany decided it would look at another counter-mortar radar.

If I might make one more comment, Mr. Chairman, just as proof of what happened to our development, you will notice the cost for 10 equipments came to roughly $4.5 million, which would be about $450,000 per equipment. We were told, I believe on quite good authority although it never was made official or published, that the price the West German government paid for its 20 equipments which were bought finally from the U.K. was around $9 million, so their price was just about the same as ours turned out to be, $450,000 each.

• 1000

Mr. Bigg: I gather this equipment is still available. If we need 50 more units, do we still have the tools and the ability to turn out 50 more of these units for this capital expenditure?

Mr. Hunter: The equipment would still be available, sir I am told the equipment will soon be starting to get out of date, but I think we could use the tooling and pre-engineering costs in which we have invested to build more should there be a further demand.

The Chairman: Mr. Hunter, I do not know whether I heard you correctly or not, but I think you said 10 units at a cost of about $4.5 million, that is, $450,000 each.

Mr. Hunter: That is right, sir. There is a slight difference; the Auditor General shows a total figure of $4.3 million, I believe, and our totals are a little higher.

The Chairman: That is approximately $450,000 each. Now is this the same model that you sold to West Germany for $220,000?

Mr. Hunter: Well, there were improvements being made all the time, sir. I take it the two that we sold were prototype models.

The Chairman: Then it is not fair to say that this model cost $450,000 and you sold it for $220,000?

Mr. Hunter: No it is not, sir, because I am told the spares that went with these two were vary, very restricted. The total spares that we bought, as you will see from our total costs, were fairly substantial and came to almost $1 million.

The Chairman: Mr. Cullen?

Mr. Cullen: Just on the face of this, Mr. Chairman, it looks like a good deal. As I understand, ten of this system were built and are being used and you need spare parts for them. We hear from an expert that they are the best system. If we had been fortunate enough to get the contract this would have been a very good deal on our part.

Mr. Hunter: That is right.

The Chairman: As Mr. Hunter outlined, a lot of our projects have been successful. This is one that went a wee bit sour, I suppose we could say. We cannot win all the time.

Mr. Cullen: Sour only to the extent that we did not get the contract, but we are using the ten units apparently, that were built.

Mr. Bigg: The inference is that we are producing them at approximately one-quarter of a million dollars each and the U.K.'s cost is almost double that?

Mr. Hunter: No, sir, the end cost when we add in all the spares, test equipment and everything, came to roughly $450,000 per unit and it is just about equal to what we understand the Germans paid to the U.K. for the Green Archers.

Mr. Bigg: Ours is considered to be better equipment?

Mr. Armstrong: Experts say ours is the best equipment there is, and I believe them.

The Chairman: Mr. Henderson, have you any observations on this? Mr. Leblanc have you a question?

Mr. Leblanc (Laurier): I have just one question. I want to know if this type of equipment is protected by a patent for the Crown, or if not, and it is that good and it is new maybe it qualifies to be patented, I do not know.

Mr. Hunter: I am told by my officials that there are certain patents on the radar portion of it, which I assume the National Research Council, who were the first developers, have taken out and they are the property of the Crown.

Mr. Leblanc (Laurier): Thank you.

The Chairman Mr. Henderson, have you any comments?

Mr. Henderson: Mr. Chairman, I do not think any of us would discount the question that you cannot always win with these things. You have to try a few of them and sometimes they come home and sometimes they do not. In putting a case such as this into my Report I feel I should draw the Committee's attention to the fact that we do seek, as far as possible, to deal with principles or to ask questions relating to principles. One of the things that this Committee has been wrestling with, as contained in its previous recommendations, is the question of the necessity for accurate estimating.

In this particular case, you will see at the bottom of page 57, the cost increased by over $2 million and, again, I am giving the reasons. I would respectfully suggest that the comments of the witnesses on those might be helpful to you and to me in determining the criteria employed in getting costs, in making the original estimates, because, after all, that is what we are concerned with.

Now, the first one was an attempt to shorten normal production time which cost extra, as naturally it would. In the second case, the drawings and specifications prepared by the

• 1005

Crown company and supplied to the contractor were incomplete and out of date as indicated by modifications and approved design changes amounting to $247,000. Under No. (3) is $1.5 million worth of equipment left out of the original estimate Then in No. 4, over on the next page, reference is made to production delays, overtime and so forth.

A discussion of the importance of accurate estimating, I think, is something with which this Committee can be quite helpful, if members would direct some questions along these lines, Mr. Chairman.

Mr. Cullen: Mr. Chairman, this is one of the things that befuddles me as a new member. Here is the contract that we have and Mr. Henderson in subparagraph (3) at the bottom of page 57 says that these items were left out of the contract.

Mr. Henderson: The original estimate, Mr. Cullen.

Mr. Cullen: Yes the original estimate, but were they ever intended to be included in the original estimate? Is this not something that is sort of an adjunct to the estimate? In other words, it is one thing to say that you are going to build a ship which is going to cost you $8 million and then the Department of Defence Production is going to put in fighting equipment and radar equipment and this kind of thing. However, is it fair to say when you are talking about the construction cost of a ship that the estimate has gone up by $1 million because you brought in stuff from the Department of National Defence? Is that a fair statement to make? I think maybe the Department of Defence Production could protect themselves a little better by saying, "The cost of construction of this item will be X number of dollars, the cost of equipment, parts and so on will be so much and the cost to the Defence Department of putting in fighting equipment will be so much". So that we would have the over-all estimate in front of us. When you have an estimated figure for doing a job and then you say the estimate has been overshot by putting on all of these additional items, I am just wondering if that is a fair comment, sir?

Mr. Henderson: We tried to find the reasons why the estimates were exceeded Mr. Cullen. Could you not apply the same thinking to the *Bonaventure's* excess increase and to the hydrofoils?

Mr. Cullen: That is the point I am trying to make; I am not sure that they overshot the mark by that much.

Mr Henderson: The estimates are based on requests made to the Treasury Board with all the pertinent facts attached, and that is our starting point, plus the departmental correspondence. Then, naturally, we measure that against the final out-turn and discuss them with the Department. I think it would be most illuminating if the witnesses could perhaps answer your question and explain that.

Mr. Cullen: First of all, sir, my question is directed to you. If we get an estimate from the Department of Defence Production that they are going to spend X number of dollars to build a ship and the ship is built for that figure, and subsequently or during the course of building the Department of National Defence say, "We have to put on fighting equipment and we have to put on radar equipment", is it correct to say that they have overshot the original estimate? Let us assume that they build the ship for the figure they said they were going to built it for and then the Department of National Defence puts on these additinal things. Is it a fair statement to say that they have under-estimated? Would it not be fair to say that the estimate was this amount and maybe it should have included this other stuff?

Mr. Henderson: I think you have to judge each of these cases on its own merit, based on the correspondence, the form in which the estimate was first submitted to Treasury which, in turn has found its way into the estimates that you have approved in the House. As far as extras go, they may come along and specify those at a later date. If they were in the category that I think you are seeking to describe, I would agree with you. However, my information here is that things like the heat exchanger and power supply, certainly the sales tax on the main unit, would be basics that should have been in the first estimate.

Mr. Cullen: Was the sales tax on the main unit ever included in any part of the estimate? I mean did they overshoot the estimate by $142,000?

Mr. Henderson: I would have to check those figures and give them to you.

Mr. Hunter: Mr. Chairman, if I could clarify part of Mr. Cullen's question, our first approach to Treasury Board was for an approval in principle about whether we should go forth at all with this equipment as being one of the items which we thought might be a winner. We had most incomplete information because the prototype and drawings had been completed by Canadian Arsen-

• 1010

als Limited in 1958, and this was 1951; we knew there would be much updating to do

but we had no better figures than to use the figure that the Auditor General quotes when he says that in February, 1961, we obtained approval in principle at $1.8 million. Now that was just approval in principle and that stated that we would come back for approval when we had a contract and there would be a second chance for Treasury Board to say, if it were more, that it was too much.

When we came back, as is stated here, we came back for a production contract of $2,287,000; that was in June, 1961. Now, in our submission we included this paragraph asking for $2,287,000 for the production costs and the pre-production and pre-engineering expenses we included this paragraph:

> The total cost of production of the 10 radars, including reasonable provision for spares, special tools and special maintenance equipment which will be added at a later date, appears to be nearly $2.8 million, including sales tax.

As I mentioned when I started out, this was a case where even during the time of production the state of the art was advancing and overtaking what you could get in hardware. This was the first time that we had stated what we thought the total program would cost. There were changes after that and I mentioned the reasons for the changes were that more became known about radar and we had to make the changes that would keep us competitive and, as Mr. Armstrong has said, at least wind up with what we hoped would be the best equipment in the world.

The Chairman: Mr. Harding.

Mr. Harding: I note on this point near the bottom of the page:

> ... the drawings and specifications prepared by Canadian Arsenals Limited and supplied to the contractor were incomplete and out-of-date as indicated by modifications and approved design changes amounting to $247,000;

Would you give us an explanation of this?

Mr. Hunter: When Canadian Arsenals Limited completed their prototype they had a set of working drawings as of the date that they had really gone into building that prototype. By 1961 those were considerably out of date. They were also not intended to be production drawings of the kind that the manufacturer would be able to pick up and produce the then modified equipment to our specifications.

Mr. Harding: I have just a further question. Was the cost based on these out-of-date models?

Mr. Hunter: It would be based, sir, on the best information we could get from what the cost of Canadian Arsenals Limited had been together with the engineering changes and the updating of the equipment as best we knew them at that time.

Mr. Harding: Did you know when these drawings and specifications were fowarded to the contractor that changes would have to be made?

Mr. Hunter: Yes, sir, we were aware that Canadian Arsenals Limited are not a production-oriented company. This division of Canadian Arsenals Limited, I should say, the electronics division, were really more a development type concern.

Mr. Harding: Would it be clear to say then that these specifications went to the contractor with full knowledge that very substantial additions would have to be made for updating?

Mr. Hunter: It is my understanding, sir, when we went to competition for this, and by the way, I should have stated we went to seven contractors, we gave them the best information we had on which they could bid. This would include all of the Canadian Arsenals Limited drawings with such amendments as we knew had to be made. I am sure each of the contractors would have the opportunity to review whatever information we had from Canadian Arsenals Limited to show that they were really working drawings and not production drawings.

Mr. Cullen: Would you permit a supplementary here?

The Chairman: Yes.

Mr. Cullen: Were the contracts comparable in price? Did you have a high and a low or were they sort of in the same area?

Mr. Hunter: There were five bids, Mr. Cullen, and I am told that they were very close. We can check that information for you.

They were very close, sir. The first three were within $10,000 of each other per unit.

• 1015

Mr. Cullen: I think that is a good indicator.

Mr. Bigg: It seems to me that we would be happier if we had an idea of the future cost. If you had to build 10 more of these, have we any way of knowing how much each additional unit would cost? A great deal of money appears to me to have been spent on experimentation and so forth. Perhaps we could have a more realistic idea of what this equipment would be worth now if we were going into mass production. Having done all the experimentation up to date, what would it cost to produce another one, say, if we wanted one tomorrow, to replace something else.

Mr. Hunter: I will see if my officials can give you a figure.

Mr. Bigg: Just in round figures.

Mr. Hunter: Sir, it would be between $250,000 and $300,000 just at a very rough guess.

Mr. Bigg: Per unit?

Mr. Hunter: Yes, sir, and the more units produced the less it costs because we have all the pre-production engineering invested.

Mr. Leblanc (Laurier): Could I ask a supplementary on that?

The Chairman: Mr. Leblanc.

Mr. Leblanc (Laurier): Then they would be much less expensive than they are in the U.K.? You mentioned they were retailing that equipment at $450,000 and ours would cost about $250,000 or $300,000. So ours would cost $150,000 less and would be a better machine?

Mr. Hunter: Sir, I am told the British price for the Green Archer was roughly $450,000 per unit. They had roughly the same expenses we did and they did not have large production either, so their cost for further sales would be correspondingly lower too.

Mr. Leblanc (Laurier): Is the cost mentioned hypothetical or is the cost based on the facts. Suppose, for instance, you had an order tomorrow from West Germany and they say, "All right, we want to purchase one unit at $300,000". Are you sure you can produce that equipment at $300,000 and make money on it?

Mr. Hunter: Not if they just ordered one, sir, but if they ordered a reasonable number that would give us an economic production run. I am sure that is what my officials mean when they say we could get the cost down to $250,000 or $300,000.

Mr. Noble: Mr. Chairman, may I ask a supplementary? Would the design be changed from the time you built the last one up until now? Would there be any improvement?

Mr. Hunter: Sir, I am told there have been certain improvements since this date. It would be hard to estimate at the moment, but there are improvements.

Mr. Noble: It would cost more money now, of course.

Mr. Hunter: It would cost more money but I would not think substantially that much more because we have a lot of the basic work done.

The Chairman: Mr. Mazankowski

Mr. Mazankowski: Mr. Chairman, about two-thirds of the way down on page 57:

> In March 1962 the country that had originally expressed interest in acquiring the 22 systems placed an order for one production model. It was delivered in September 1962. One other system was sold to another government in October 1963.

My question here is what countries purchased? Also, why were we unable to follow up with more successful sales, particularly in view of the fact that the price was competitive and that we have a machine here, according to your information, that is of superior quality. Was it a matter of poor salesmanship or just what is the reason?

Mr. Hunter: Sir, the first prospective purchaser you referred to, which is the one originally interested, was the government of West Germany. They had certain reciprocal purchase arrangements with the United Kingdom and while I cannot confidently say that was the reason they chose the Green Archer we have a feeling that there was some element of a political decision in their taking it. So, they bought the U.K. equipment.

The other purchaser was the government of Italy who have not yet bought any of this equipment. If we have the best in the world, we may still have a chance, if they are still interested. We did sell them one prototype.

Mr. Mazankowski: Are we pursuing this matter?

• 1020

Mr. Hunter: I am told it is rather doubtful that they are going to buy this at all. However, this is now being handled by the Depart-

ment of Industry, Trade and Commerce, which has taken over in the last transfer our International Programs Branch. We keep in close touch with them because we are the ones who would have to produce for them

The Chairman: In that regard I think it might be well to supply the Committee with the latest and most up-to-date report from the international section of the Department of Trade and Commerce that are handling this. Could they report to the Committee when they last contacted Italy regarding this sale, what success they have met with or where it stands at the moment, if you do not mind, Mr. Hunter.

Mr. Hunter: I will do that, sir.

The Chairman: Mr. Noël?

[*Interpretation*]

Mr. Noël: Just one question, Mr. Chairman.

From what we just heard, can we conclude that the countries belonging to NATO are competing with each other for the manufacturing of certain kinds of war equipment? Great Britain sold us $450,000 worth of instruments that serve the same purpose as those that are manufactured here.

So, can we conclude from this that allied countries in NATO, for instance, are competing with each other to market equipment of this kind?

[*English*]

Mr. Chairman: That was a very good question.

Mr. Hunter: The answer is yes, sir.

The Chairman: They are competing against each other?

Mr. Cullen: On a supplementary, are we placed against an inside European Common Market between Great Britain and Europe with France no longer in NATO?

Mr. Hunter: Sir, this is no longer part of my responsibility but I do not believe we are fighting any common market. We have had reasonable success with the NATO European countries. Over the years we have done quite a bit of business with them. I think our total last year was around $150 million.

Mr. Cullen: Would you say th eonly criterion, then, would be our ability to compete in price?

Mr. Hunter: I believe so, except there is the odd political decision that must be taken, but we do not find them too often. It is usually price.

The Chairman: Mr. Armstrong, maybe you could answer this question. Has any thought been given within the NATO organization to countries sitting down around a common table and saying,—"We are going to need this type of war equipment and as Canada is best suited to produce this, you will proceed along this line", and to some other country, "You make this other decent fighting equipment". Is there any sign of co-operation or co-ordination in NATO in this regard?

Mr. Armstrong: Mr. Chairman, there has been, of course, a great deal of attention paid to this particular subject because I believe most NATO countries recognize that by co-operation in development and production there are economies achievable for all. There are NATO organizations designed to achieve this and they have accomplished success in various areas as well as participation jointly by NATO countries in developments and sharing of the cost, but it has still not reached the stage that you suggest, that NATO countries would be allocated the task of producing certain types of equipment. It remains, as Mr. Hunter has indicated, a competitive operation to a very large degree.

Mr. Noël: I conclude from what I have heard, that it takes salesmanship. I think the Department has shown a greater amount of salesmanship with the Treasury Board than they showed to the West Germany army. I think at the same price of $450,000 and as you said, with a far better equipment we could

• 1025

have sold the thing to the German army. If we were cut up by political considerations, well, I do not understand that.

The Chairman: There is no doubt about them being good salesmen with Treasury Board. I think the Committee will agree to that.

Mr. Cullen: I think they have a good deal to sell.

The Chairman: Mr. Harding?

Mr. Harding: Mr. Chairman, I would like to get back to items 2 and 3 again. I must say I think the last speaker on his talk of salesmanship to the Treasury Board hit the nail right on the head. How you could sell a project of

this type to the Treasury Board without including some of the items listed here, is rather a mystery.

Now, let us go down to item 3. We see spare parts, maintenance equipment and manuals. Are these not normally part of the overhaul cost of a project? Do you not include them in the...

Mr. Hunter: They certainly are part of the normal cost and I think I mentioned when we went for our first contract at $2,287 million, as mentioned in the fourth paragraph of the Auditor General's report, we told Treasury Board that the total cost of production of 10 radars including reasonable provision for spares, special tools, special equipment and special maintenance equipment which would be added at a later date appeared to be nearly $2.8 million, so we were making the best guess that we could on what might be required in the way of spares. You always cannot say at the time what maintenance and equipment will be required or what spares National Defence will want. They gave us their best estimate at the time on what they felt they could get by on, but once they had the equipment—this, as you see, came along at a later date—they had a better idea.

Mr. Harding: But you were out $892,000 on this.

Mr. Hunter: No, we were not out $892,000, sir, because at the time our contract was estimated at $2,287 million we mentioned there would be at least $513,000 worth of spares and maintenance equipment to be added. I was reading from the submission we made to Treasury Board for our first contract.

The Chairman: In that submission, Mr. Hunter, did you not say that would include sales tax?

Mr. Hunter: Yes, sir.

The Chairman: Then, how do you account for sales tax on the main unit of $142,000?

Mr. Hunter: Our estimate, sir, was $2.8 million at the time in June, 1961 when we went up for the first contract, the breakdown of which has been given by the Auditor General. This sales tax could be on the additional items, I would think, and when you look at the figure of $142,000, I believe it is the sales tax on what was added after we put up our original contract.

Mr. Bigg: I have sort of a general suggestion. Has thought ever been given by the Department that instead of under-estimating and being placed in an embarrassing position before us, they might make a generous estimate and then give an incentive to be within that estimate? We would be very happy if they came to us and said, "We have saved 25 per cent to the taxpayer and we are going to give everybody in the department a 10 per cent bonus for efficiency, economy and so on." I think we would be very happy to go back to Parliament and say that the Department had saved the taxpayer 25 per cent instead of always coming to us and saying that you want another $800 million or $800,000.

Mr. Hunter: Sir, perhaps, Mr. Armstrong, would have a different view, but I would say that if our estimated figure was higher than our need and they were published in the Blue Book of estimates and made generally known, this would be an invitation to contractors to submit higher tenders if they thought we had that much money to spend. I think Mr. Armstrong would probably say that if there has to be a tendency, it should be a tendency to be on the low side so that at least there would be an incentive, both to my Department and to my officials, to see if this could be achieved.

Mr. Bigg: I realize that is the thinking of the Department, but we have never had the shock of being told that they want to put money back into the Treasury and that everybody is doing their best to save money for the Canadian taxpayer who is becoming alarmed.

Mr. Armstrong: I think the point that needs to be cleared is that in going to the Treasury Board, these items were not included—the spares and so on—in that original estimate and it was stated they were not in it. They had to be added later.

Mr. Bigg: I understand that point, but in general, is there anything wrong in saying that after the capital costs we expect there will be an extra 33⅓ per cent for maintenance

• 1030

repairs and so on? Then your Department could come along and say you had this project built for 20 per cent less than you had estimated. What would be wrong in promising a generous Christmas bonus?

Mr. Armstrong: If I just could say a word on what you are suggesting. Obviously, it is not in the Department's interest in estimating a program to under-estimate it. I think we are to some degree led astray in the type of thing we have been dealing with because the

figures shown here are not always intended to cover all of the items, as indicated here. At the same time, to do as you suggest, Mr. Bigg, and go the other way so that we overestimate everything by 20 per cent is equally bad from our point of view. We are continually faced with the problem of operating within a given, limited budget, so we have to select the things we think are most important that can be done within the total funds available.

If we say that everything is going to cost 20 per cent more than it actually does, we may make a lot of mistakes because we may cut out sensible items that we did not need to cut out from our defence program. Similarly, if we underestimate, we are later faced with the problem of having to make difficult adjustments. The only sensible course is to try to be as close as we can to an accurate estimate, neither too high nor too low. These are very complicated things; they are new equipments, developments and so on and it is pretty difficult to be on the nose.

Mr. Bigg: Minority of one.

The Chairman: Mr. Hunter, I may have missed this point, but you made a submission to Treasury Board in June, 1961, which said that this radar equipment was estimated at $2 million-odd and you included a paragraph which said that there would be these other items?

Mr. Hunter: Yes, sir.

The Chairman: Now, did you attach an estimate of the cost to those added features or the things that were to follow? Did you say to Treasury Board, "Now, it is going to cost us $2.8 million, but we expect there will be the following things", which you listed. Did you put a price on those?

Mr Hunter: We did not put a price beside each one, sir.

The Chairman: How about a total of—

Mr. Hunter: Well, the total actually was the difference between the contract price of $2,287,000 and the $2.8 million about which we said: "When we add the spares, special tools, special maintenance equipment appears to be nearly $2.8 million". In other words, we were advising Treasury Board at that very time that we were aware it would be at least $513,000 more than the contract price which we were asking immediate approval for.

The Chairman: Well, then that is my point. I wanted to make sure that Treasury Board knew this when you were granted the money.

Mr. Hunter: Yes, sir. I read that from our report to them, sir.

The Chairman: All right. Are there any further questions. Did you want to say anything further? If not, we will move on.

Mr. Hunter: Sir, if I could just say one thing. Mr. Bigg asked if we could not return some money once in a while. We have hundreds of contracts where the bids that we get in are less than the amount that has been estimated by ourselves and by National Defence as being the funds that were set aside for whatever the project might be. However, these do not get mentioned in the Auditor General's Report.

The Chairman: All right, gentlemen, paragraph 105 is next.

Mr. Cullen: I suggest you write a book, sir, because we could use some encouragement like that.

105. *Naval architects' fees.* In March 1965 the Department of National Defence requested the Department of Defence Production to obtain the services of naval architects to assist in preparing structural drawings for a new type of ship and to provide other related services.

When negotiating with the architects the Department of Defence Production suggested that in view of uncertainties as to the extent of the work, particularly with regard to the time required for consultations, it might be more appropriate for the architects to quote on the basis of cost plus a fixed fee rather than a firm price. The architects quoted on both bases and a firm price of $8,010 was agreed to in May 1965.

In November 1965 shortly after completion of the work, the architects claimed $26,490 which was $18,480 more than the agreed firm price, stating that until they received the lines plans and general arrangement drawings of the ship four days after signing the contract, they had not appreciated the amount of work involved. The reason offered by the architects for not renegotiating the contract in May was that they were under pressure from the Department of National Defence to proceed with the work.

In March 1966 the architects were paid an additional $6,255 for work required to complete the contract, which had not been anticipated by either the Crown or the architects.

In March 1967, after further representations, the Treasury Board approved payment of an additional $4,485 representing 50% of the architects' unrecovered costs as established by audit, bringing the total cost to the Crown to $18,750.

The Chairman: Now, we have been into this before in other years. Mr. Henderson, have we paid too much for naval architects' fees?

Mr. Henderson: Well, the figures here, Mr. Chairman, are somewhat smaller than the ones that you have been dealing with. Here the architects were paid $10,000 more than the firm price of their contract which was $8,000 because as they stated, until they received the lines, plans and general arrangement drawings of the ship they had not appreciated the amount of the work involved.

The overpayment consists of two things, $6,000 for additional work approved retroactively and $4,500 covering half the architects'

• 1035

remaining loss. This is a payment that appears to have been an *ex gratia* one but it was not described as such in the public accounts, which incidentally, was a request of this Committee in its second report, 1961, that payments of this type be shown as *ex gratia*. I think that is about the size of this paragraph, Mr. Chairman.

The Chairman: Well, I think it is a very important and a very serious expenditure. Mr. Armstrong, I imagine it is your responsibility to explain to the Committee why you paid these architects more than the set fee.

Mr. Armstrong: Well, all I would like to say—I think really Mr. Hunter should deal with this—since we have been talking about estimates and inaccuracies for some time, that in going forward for this contract, the Department of National Defence set up an encumbrance of $20,000 for it. It was contracted at a lower price and eventually came up somewhat higher.

Mr. Hunter: Mr. Chairman, this was a case of our asking this firm—Gilmore, German and Milne of Montreal, who are certainly one of the leading firms of marine architects in Canada—to do a fairly rush job for us. We were going out for tenders on the two new operational supply ships and the Department of National Defence already had one. We feel really that the representative of the firm who came down and discussed it with the Director of Shipbuilding in DND and ourselves did not understand the complexity of the job. We told him that it had a lot of new type structural work and other services that would be required over the one *Provider* which the Department already had. We suggested ourselves that he do it on cost, an hourly cost plus a fixed fee.

He somehow determined in his mind that this was more in the nature of a commercial tanker because the *Provider* ship is the one that supplies the *Bonaventure* and other destroyers at sea. He was working on the assumption that it was the type of ship that really only needed to do filling and refilling.

The Chairman: All right; we will stop right here. Here is question number one, now who wants to ask it? Mr. Leblanc, concerning that? I will ask it then.

Mr. Leblanc (Laurier): Well, go ahead.

The Chairman: I will ask it then, if you like Mr. Hunter, you said that the architect was of the opinion this was a tanker type ship.

Mr. Hunter: A commercial tanker rather than a navy tanker, it is much more simple.

The Chairman: Rather than the *Provider* ship that you were having him draw the plans for. Well, now where did the lines of communication fall down that this architect was not told exactly what he was to draw the plans for?

Mr. Hunter: Well, we can only look over the correspondence, sir. This was reviewed by the Contract Settlement Committee which I mentioned the other day who, having heard all the facts, felt that there had been an honest misunderstanding with this consultant. These are people who have done work for us for many years and they actually had not seen the drawings at the time that we pressed them into arranging some kind of a contract.

The Chairman: Well, I will allow questions on this particular point. This seems to be the root of the trouble. Mr. Leblanc, did you have your hand up?

Mr. Leblanc (Laurier): My questions are not exactly along this line.

The Chairman: Have you a question on this, Mr. Bigg?

Mr. Bigg: I see you gave them half. Is that right, you gave them half what they asked in the end?

Mr. Hunter: We gave them half of their additional cost, which had been audited and showed to be their costs, sir.

Mr. Bigg: Did you have further consultations and decide there was a little bit of laxity on both sides?

• 1040

Mr. Hunter: This was as a result of the Contract Settlement Committee review, sir. It was a misunderstanding. We thought we had pressed him perhaps into making a hurried decision even though we wanted him to get on with the work. He received the drawings four days after we signed the contract with him. He could have stopped there and said, "These drawings are different. This is not what I understood". However, he proceeded with the work on the basis that we would be fair with him. I feel that when the Contract Settlement review group looked at it they felt there had been an honest misunderstanding and they took the decision that the additional cost would be shared fifty-fifty. So he lost $4,000 on the job and, as Mr. Armstrong says, we got the complete job done for $18,000 when their estimate by very competent people had been $20,000 to $25,000.

The Chairman: No, this is not the point. You allowed this naval architect to proceed to draw plans for a ship that you did not want.

Mr. Hunter: That we did not want?

The Chairman: That was the wrong type—commercial tanker. He drew plans—

Mr. Hunter: It came out afterwards that he had been thinking—and quite wrongly—more in terms of commercial tankers of which he had done a great many, but he had never done one of this type of operating supply ship. However, after considerable discussion with our people he realized it was more in the nature of a commercial tanker with which he was very familiar.

As it turned out when he got the drawings he found out that there were many different requirements in a ship that has, at least, to transfer fuel in the middle of the ocean in any sea state. These were changes that he was not aware of because he had not seen the drawings when he agreed to this firm price.

The Chairman: What did you ask him to draw plans for?

Mr. Hunter: It was described to him, sir. He had discussions with the Assistant Chief of Technical Services in charge of shipbuilding construction, but somewhere in their conversations they seem to have missed the major difference between what would be a commercial tanker and the requirements for this ship.

Mr. Bigg: I have a supplementary question. Did you get advice from another firm on how much they would have charged for this job had you not given it to the original contractor? Was there any attempt made to find out what a fair price would have been from another marine architect had it not been done by the man who made the original mistake?

Mr. Hunter: I do not believe there was, sir, but there are people in National Defence who are most competent to determine when they look ahead on a job the number of hours work involved because they have people just as competent, I would expect, as—

Mr. Bigg: The point I am trying to make is this. If it was an honest mistake to start with and the work had been done, I would be inclined to think he should be paid 100 per cent. Whereas if it was an error that he should have been aware of himself, then I think the architect should have absorbed the loss.

Mr. Hunter: But, sir, in the review that was made by the Contract Settlement Committee it was felt there was probably fault on both sides. The Crown people had not gone to enough lengths to make certain he was aware of the requirements and he had not taken the time to be sure he was aware. So their assessment was that the blame was equal, fifty-fifty.

The Chairman: I have on my list Mr. Leblanc, Mr. Noël and Mr. Noble.

Mr. Leblanc (Laurier): You said that during the conversation your people had with the architect that probably someone became confused. Do you not give out written specifications when you sign a contract of this sort?

Mr. Hunter: Sir, this was a rush job to enable us to get out the specifications for the two new operational supply ships. The drawings were in the course of preparation and, as it happened at the time that we wanted him to get started on this job they were not available. They were made available four days later after we had signed the contract with him and as soon as he saw them he was certainly aware that he had not fully understood the contract. He proceeded, at our request, to get this job done so it could go out on a much bigger competitive bid for these two ships, which actually involved, I believe, $46 million.

Mr. Leblanc (Laurier): Then when the architect submitted his firm price the first time he was not aware of all the facts, but, as

• 1045

you mentioned, you were in a rush to get things done so you pushed it a little faster than you normally would have?

Mr. Hunter: I would say that, sir.

Mr. Leblanc (Laurier): How many naval architectural firms do we have in Canada whom you can consult?

Mr. Hunter: The consensus is that there are four, sir.

Mr. Leblanc (Laurier): Then you are rather restricted when you send out tenders for whatever you have to build for the navy? If you have only four firms you have to address yourself to those four firms.

Mr. Hunter: In employing naval architects, I do not believe it is not normal to call tenders. For work like this you pick the consultant or naval architect who is probably the best in that field. I think they all concentrate. He had had previous experience in this kind of work of which we were aware, so we called him in.

Mr. Leblanc (Laurier): Among those four main firms they would be the specialists? One would specialize in building hydrofoils, another one would specialize in building other types of boats or ships—fighting ships?

Mr. Hunter: I think it is fair to say, sir, that they tend to specialize although they do not totally specialize. I can recall two or three of the firms that have a staff with a fairly wide knowledge.

Mr. Leblanc (Laurier): Thank you.

[*Interpretation*]

Mr. Noël: Mr. Chairman, I am astonished. On page 59, I read:

[*English*]

> The architects quoted on both bases and a firm price of $8,010 was agreed to in May 1965.

[*Interpretation*]

I am of the opinion that it is not the amount that is important here, but the principle. When a reputable architect's firm has the choice between the price on a cost plus profit and a set cost, I think there was a slip-up in the explanations or when the given explanations were received. For such a boat, a supply ship, the person who was sent must have explained honestly to the architects what kind of boat we wanted to have built, and that the plans would follow in four days, that this was a rush order because of the war. So, I believe that there has been a slip-up either on the part of the architects, or in the Department. The architects who have fixed a firm price, did not do this on the basis of what some person said to them, but on the basis of something such as a design, for instance. Or else they have acted like children. That is why I am very astonished to see that we proceeded that way. Now, instead of costing $8,000, it cost more than $18,750. I fail to understand this. It is not about the amount that I am protesting, it is for the principle. If this Department carries on like this, it will doubtless run up incredible costs.

[*English*]

The Chairman: Mr. Noël, I think the question that arises out of your remarks is how could this naval architect submit a tender if he did not have specifications and drawings on which to tender. How could he give a firm price?

Mr. Noël: That is right.

Mr. Hunter: Sir, he did it on an hourly basis of the number of hours that he estimated would be required to do the job after discussions with the Department of National Defence ship construction people. This, I might mention, was not for the whole ship by any means. It was just for certain structural areas for which he was asked to do the drawings.

The Chairman: Mr. Harding on a supplementary.

•1050

Mr. Harding: This is really an amazing thing. I think it is just another example of exceptionally sloppy work in connection with these contracts, In this case an architect discussed a contract with the Department without even knowing the type of ship involved, whether it was a commercial tanker or an operational supply ship. I go along with the other speakers here that a firm price was given to the Department. A firm price is a firm price and anyone who would quote a firm price, not knowing all the facts, is just not a good businessman.

Mr. Hunter: Well, sir, this was done on the basis of a number of discussions he had. I read the file and I find that one of the differences was that he was told this would be very similar to the *Provider*, which was the first one that had been built. This perhaps was stressed a little too much, and in his mind he felt, having worked on the *Provider* which he had done before, that it was more similar to the *Provider* than it was. Apparently there were substantial changes that had not been sufficiently not clearly drawn to his attention.

Mr. Harding: Mr. Chairman, I have only one more comment. If it is not the architect who is at fault then it is the people in the Department who supplied the information. It must be obvious to everyone.

Mr. Hunter: When this was reviewed by the Contract Settlement Committee, the fact that they found the Crown employees 50 per cent liable with the contractor for the misunderstanding is a clear indication that there was some fault found.

Mr. Mazankowski: Mr. Chairman, may I ask a supplementary to that?

The Chairman: All right, Mr. Mazankowski, you are next. The floor is yours on a different subject.

Mr. Mazankowski: Roughly the same line yes.

Mr. Noble: My question is on the same line.

The Chairman: All right go ahead Mr. Mazankowski and then Mr. Noble.

Mr. Mazankowski: In other words a contract was signed with a firm price established at $8,010, is that correct?

Mr. Hunter: That is right.

Mr. Mazankowski: Now, it states that four days after the contract was signed, the architect was made aware of the detailed accounts of the ship. Why was the renegotiation not conducted during the period of May to November? Why did it not take place four days after the details of the ship were made known to him rather than at the end of November when the job was fully completed?

Mr. Hunter: Sir, because of the urgency of getting the job done.

Mr. Mazankowski: What was the reason for the urgency?

Mr. Hunter: We were preparing the total package to go out to tender. We had plans throughout the whole Department of Defence Production and the Department of National Defence to call tenders on a certain date, to get them in on a certain date and to proceed with the job. This was a very small part of a $46 million contract. If we held up all of the other elements involved while we settled this difference, it would hardly have seemed worthwhile.

Mr. Mazankowski: I have one more question. I wonder if Mr. Hunter could explain the third paragraph which reads:

> In March 1966 the architects were paid an additional $6,255 for work required to complete the contract, which had not been anticipated by either the Crown or the architects.

Mr. Hunter: Sir, I am told this was additional work not related to the original structural drawings and services described and agreed upon at that time. It was additional work that he was asked to do afterwards.

Mr. Mazanowski: Over and above the $8,000 contract?

Mr. Hunter: Yes, sir, I am told it had no relation to that part of the work.

Mr. Bigg: That had nothing to do with the firm price at all?

Mr. Hunter: No, sir.

Mr. Noble: Mr. Mazankowki has covered the questions I would like to have had answered. I have one question that may have been answered previously but I will put it differently. Did the contractor hesitate and delay starting on the project when he became aware of the misunderstanding and did he

ask for assurance that he would be compensated for the extra work before he proceeded to do anything on the contract?

Mr. Hunter: Sir, under the terms of our contract, he is really obliged to carry on.

• 1055

Mr. Noble: He did not approach you at all when he noticed the misunderstanding? He went on with the work, is this right?

Mr. Hunter: He probably mentioned it—I have not got the details of any discussion, but he did go on with the work.

Mr. Noble: Well, is this a privilege that the contractor would have, to carry on with work before he has a proper understanding with the Department?

Mr. Hunter: That he must go on with the contract, you mean sir?

Mr. Noble: I mean does he have the privilege of carrying on with the contract before he has a firm commitment from the Department that he should carry on with that particular arrangement?

Mr. Hunter: Sir, there are numerous cases where a contractor, in the course of production, might raise points with us that perhaps were not clear to him in the specifications or in his discussions with us. There are many cases where we ask a contractor to carry on because we have a Contract Settlement Committee which will review these at the proper time and not waste the time of everyone else involved in a contract while each point is settled. This is the reason we have a Contract Settlement Committee which can review, and does review, any claims a contractor may have during, or usually after, a contract.

Mr. Noble: Mr. Chairman, it seems to me they have given the contractor a lot of freedom if he can carry on. If it is going to be settled later, he is pretty well assured that he is going to be taken care of.

Mr. Hunter: Not necessarily, sir.

The Chairman: I am going to call Mr. Cullen and then Mr. Leblanc. However, before leaving this subject I would like to comment that this Contract Settlement Committee seem at times to be pretty lenient, and this would appear to be one of those times. Is there a Chairman of this Committee?

Mr. Hunter: Yes, sir, he is my Assistant Deputy Minister in charge of Finance, Mr. R. M. Keith.

The Chairman: It would be possible to have this Contract Settlement Committee appear before our Public Accounts Committee, and we might make up a list of these cases they have reviewed and in which they have made settlements. The Committee may want to know the reason or the justification for some of these settlements. I think this would be one such case and it might be interesting to have the Contract Settlement Committee appear before us and give their views to the Committee on what we think are cases of leniency. We may not know all the answers, mind you, but I think we should have them before us some time.

Mr. Hunter: If I could make one thing clear, this Committee only makes recommendations to the Minister that a certain settlement be made. These are then put in the form of a submission to Treasury Board, and it is Treasury Board that decides whether any settlement will be made.

The Chairman: Yes, but they make the decision really.

Mr. Hunter: Yes, sir. You may consider them lenient but they are usually considered pretty tough as far as...

The Chairman: They have got to prove that to this Committee. Mr. Cullen and then Mr. Leblanc.

Mr. Cullen: Mr. Chairman, first of all I want to thank you for giving me a step up in ordinary life, I was a lawyer and I now see you wish to elevate me to a Court of Appeal.

It seems to me, sir, our going over this is almost redundant. The Contract Settlement Committee, I think, has established what we are endeavouring to establish here, that is, that there was fault on both sides. The Committee decided it was 50 per cent on each side.

The government, I think, or the officials, conceded in May of 1965 that there was room for error and room for renegotiating the contract. It seems to me the architect thought it would be much higher than it was and the Department officials thought it would be lower. I just wonder if we are wasting a lot of time. The concession has already been made that there was a "goof" made on both sides, and it has cost the government and the architects money. Other than an appeal about why

they reached the 50 per cent decision, which might be a good point, I wonder if we are gaining anything by flogging this to death?

The Chairman: Well, there is a principle involved here, Mr. Cullen which I think the Committee is interested in. I think the Committee is interested in the person who pulled the "boner" and made the "goof". Where is he now? Has he been elevated and has his salary been increased? Has he gone up the ladder or what has happened? This is the kind of thing I think—

Mr. Cullen: I bet he is more careful, Mr. Chairman.

The Chairman: Yes, Mr. Leblanc.

Mr. Leblanc (Laurier): I am interested in what is mentioned here about their being under pressure. What was the pressure for? We are not at war, as far as I am concerned. Those ships have to be built all right but what is the rush? What happened there that it was a rush job? You got all mixed up because it was a rush job.

Mr. Hunter: Sir, I would say it is part of an orderly program of procuring materiel for the customers of the Department of Defence Production. They tell us that they want and we give them a schedule of when we can get it for them. They then do all their planning. In the case of ships they would probably plan for training and for crews and for one thing and another. When it is $46 million worth of ship plus the people to run it and you hold that program up for the sake of relatively small items, you could run the government into much higher costs than what you would save by taking the time at that point. I think Mr. Armstrong might...

Mr. Leblanc (Laurier): If you had taken four more days then we would not be in confusion here. I do not know what four more days would have cost the government, but in any case, you would have had a fixed price with the architect.

Mr. Hunter: Sir, I believe if we had taken the four days we would have probably found out that the contractor had not really understood the contract and therefore perhaps we would have had to renegotiate it at the $26,000 figure.

The Chairman: Gentlemen, the meeting is adjourned.

HOUSE OF COMMONS

First Session—Twenty-eighth Parliament

1968-69

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: Mr. A. D. HALES

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 27

TUESDAY, MARCH 25, 1969

Public Accounts, Volumes I, II and III (1966 and 1967)
Reports of the Auditor General to the House of Commons (1966 and 1967)

WITNESSES:

(See Minutes of Proceedings)

THE QUEEN'S PRINTER, OTTAWA, 1969

20057—1

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. A. D. Hales

Vice-Chairman: Mr. T. Lefebvre

and Messrs.

Bigg,	Mazankowski,	Thomas (*Maisonneuve*),
Burton,	McCutcheon,	[2] Trudel,
Cafik,	Noble,	[3] Winch,
Cullen,	Noël,	[4] Yanakis—(20).
Flemming,	Rodrigue,	
[1] Guilbault,	Roy (*Timmins*),	
Leblanc (*Laurier*),	Tétrault,	

(Quorum 11)

Edouard Thomas
Clerk of the Committee.

Pursuant to Standing Order 65(4)(b),

[1] Mr. Guilbault replaced Mr. Gervais on March 24, 1969.
[2] Mr. Trudel replaced Mr. Forget on March 24, 1969.
[3] Mr. Winch replaced Mr. Harding on March 24, 1969.
[4] Mr. Yanakis replaced Mr. Major on March 24, 1969.

MINUTES OF PROCEEDINGS

TUESDAY, March 25, 1969
(29)

The Standing Committee on Public Accounts met this day at 9.42 a.m., the Chairman, Mr. A. D. Hales, presiding.

Members present: Messrs. Bigg, Burton, Cullen, Flemming, Guilbault, Hales, Leblanc (*Laurier*), McCutcheon, Noble, Noël, Lefebvre, Rodrigue, Thomas (*Maisonneuve*) (13).

Also present: Messrs. Forget, Harding.

Witnesses: Mr. A. M. Henderson, Auditor General of Canada; Mr. E. B. Armstrong, Deputy Minister, Department of National Defence; Mr. G. W. Hunter, Deputy Minister, Department of Defence Production.

The Deputy Minister of Defence Production provided information concerning sales of the counter-mortar radar.

The Committee questioned the witnesses on the 1967 Auditor General's Report, in particular,

(*a*) Paragraph 106—Purchase of buses which proved to be unsatisfactory;

(*b*) Paragraph 109—Cost of disposal of aviation gasoline reserve.

A list of bus defects and failures was accepted as an appendix to this day's proceedings. (*See Appendix G*)

The Clerk of the Committee informed the members of the details of the trip to Halifax.

At 10.57 a.m., the Committee adjourned to the call of the Chair.

Edouard Thomas,
Clerk of the Committee,

20057—1½

EVIDENCE

(Recorded by Electronic Apparatus)

Tuesday, March 25, 1969

• 0941

The Chairman: Gentlemen, we will proceed with our meeting. Mr. Henderson has an announcement he would like to make concerning his absence from the Committee for a little while. We have him sitting on the left this morning, but I do not want you to mistake him for one of the members of the Committee. We are crowded up here and as could not have his assistant behind him, I suggested he sit over to the left. Mr. Henderson, would you like to make that announcement?

Mr. A. M. Henderson (Auditor General): Thank you, Mr. Chairman. It is a very pleasant change to be able to take a new view of the members of the Committee from this seat and I appreciate your permitting me to sit over here so that I might have readier access to my associates and the working papers.

What I wish to say to the members is that several weeks ago I furnished your Chairman and your Vice-Chairman with a schedule of my staff timing in connection with my responsibilities in the United Nations, which this year are primarily in Europe, Africa and the Middle East. My staff has been engaged over there for the past month and the culmination of the work is April 30. It is necessary, as your Chairman knows, that I join my officers in the preparation of what will amount to 14 separate reports including related accounts, all of which have to be discussed with the principals. Therefore, I am leaving on Thursday and plan to return only at the end of April unless it should be necessary in connection with your deliberations that you would wish to have me fly back sooner.

In my absence, my place will be taken by Mr. G. R. Long, the Assistant Auditor General, and Mr. Harold Hayes, one of my Directors, both of whom are intimately familiar with all of the circumstances. I trust, therefore that this set of arrangements will commend itself to the members of the Committee, Mr. Chairman.

The Chairman: Thank you, Mr. Henderson. We wish you well in your endeavours over there and we will have Mr. Long and Mr. Hayes take over during your absence.

We were dealing with Paragraph 105 on page 58 at our last meeting. Mr. Hunter was asked to provide the answer to the question, what continuing steps were they taking to help sell the counter-mortar radar in Italy? Mr. Hunter, can you report further on that?

Mr. G. W. Hunter (Deputy Minister, Department of Defence Production): Yes, Mr. Chairman, I have checked with the International Defence Programs Branch of the now Department of Industry, Trade and Commerce. They tell me that they were advised late in 1966 or early in 1967 that the Italian Government also had decided to buy the Green Archer which was the United Kingdoms competing equipment. However, as far as we know they have not yet bought it and we have continued from time to time to let them know that if there were an economic run of the order available we would still be interested. We have also advertised it in our book of *Canadian Defence Products*, and we have had enquiries from other foreign governments from time to time, but we still do not have any firm offers.

• 0945

The Chairman: Thank you. Now, gentlemen, we will proceed with Paragraphs 106, 109 and 113. I would like to finish about 10.45 a.m. and then turn the meeting over to our Clerk who will outline the itinerary and arrangements for our trip on Thursday and Friday of this week and we will have everything brought up to date as far as the trip is concerned.

Paragraph 106 deals with the purchases of buses by the Department of National Defence.

> **106.** *Purchase of buses which proved to be unsatisfactory.* In June 1962 tenders were invited for the purchase of 34 intercity type 40-passenger buses for the Department of National Defence—Army and a contract was awarded to the lowest

tenderer who supplied a bus of separate chassis and body design at a firm price of $636,612. The price was later increased by $12,580, the cost of modifying the luggage space to meet the stowage requirements which had not been satisfactorily defined in the specifications. This brought the amended contract price of $649,192 to within $36,000, or $1,059 per bus, of the second lowest tenderer who offered a bus of integral body and chassis design and had previously supplied most of the Department's bus requirements.

At the time the contract was placed Army specifications did not require integral frame construction, although this was a requirement of the RCAF specifications for an intercity bus and is the body design favoured by most commercial users. There are now uniform specifications throughout the Defence Forces requiring integral design for an intercity type bus.

In October 1964, a departmental report on the buses acquired listed 20 different types of failures or defects. Major failures occurred in engines and clutch assemblies. Among the built-in defects common to all vehicles was that spark plugs on the right side of the engine could only be reached by dismantling the side of the bus, and then cutting a rectangular port in the compartment wall. We were unable to determine why some of the defects were not discovered prior to acceptance of the buses.

A settlement under the contract warranty covering the cost of repairs resulting from faulty manufacture, material or workmanship was made in January 1967 in the amount of $40,669. In addition, the manufacturer agreed to undertake a test program to determine the causes of the defects and failures. As a result of the test program the manufacturer decided to carry out two re-work programs, one completed in October 1965 and the other in November 1966, during which modifications were made, the parts and labour being paid for by the company.

During the interval between the delivery of the 34 buses and the first re-work program, 41 major engine failures and 78 clutch failures occurred; and between the first and second re-work program 31 more engines failed, while no significant reduction in the number of clutch failures was observed.

Notwithstanding the efforts of the manufacturer and the Department to rectify the various defects and failures, the cost of maintenance and repair of the buses continued to be abnormally high.

At March 31, 1967, after three years of service, maintenance and repair costs (excluding those effected at "unit" level) amounted to $235,595 or 15.7 cents per mile, compared with $146,288 or 6.6 cents per mile applicable to another fleet of 40-passenger buses of the type offered by the second lowest tenderer.

We were unable to determine the reasons for the continued unsatisfactory performance of these vehicles, but it may be significant that they were basically a modified school bus which is not considered to have the inherent strength to perform as an intercity bus at a satisfactory cost level for the life span required.

The Chairman: Mr. Henderson, could you give us an introduction to this and then we will accept questions.

Mr. Henderson: Following competitive tenders the Department of National Defence purchased 34 intercity 40-passenger buses. This note relates how these buses which first appeared to be cheapest have, in fact, turned out to be considerably more expensive than buses of the type offered by the second lowest tenderer, the difference being the unusually high maintenance and repair costs.

> At March 31, 1967, after three years of service, maintenance and repair costs (excluding those effected at "unit" level) ...

for the fleet of 34 buses, the cost

> ... amounted to $235,595 or 15.7 cents per mile, compared with $146,288 or 6.6 cents per mile applicable to another fleet of 40-passenger buses of the type offered by the second lowest tenderer.

As mentioned in the paragraph, these particular buses purchased for the army did not meet the air force specifications for an intercity bus and were not of the type favoured by most commercial users. It will be noted that the buses proved unsatisfactory and that, at least, some of the defects were not discovered by departmental inspection staff prior to acceptance of the buses. There is also the question which members might care to

inquire into regarding the warranty provisions in contracts for this type of purchase and, again, the question of the extent to which the contractor should or should not assume responsibility.

Mr. Lefebvre: Mr. Chairman, could we find out the name of the manufacturer of this bus, if they previously had manufactured buses of this type before and if they had a record of satisfactory service before the purchase was made as compared with the second lowest bidder who apparently had a very, very good—6.6 cents per mile—repair cost as compared with 15.7 cents per mile on the buses that were purchased by the Department?

The Chairman: It was Mr. Hunter's Department that purchased the buses so I guess he should answer that question.

Mr. Hunter: Mr. Chairman these buses were bought from the International Harvester Co. of Canada, Limited. I am told that this was the first purchase that we had made of this type of bus and it is quite true that the second lowest tenderer had sold us buses of this type on other occasions.

Mr. Lefebvre: Could you tell me, Mr. Hunter, who the second tenderer was?

Mr. Hunter: The Western Flyer Coach Limited of Winnipeg.

Mr. Lefebvre: Was this a school-type bus, was it a heavier type of bus or just what type of bus was this?

Mr. E. B. Armstrong (Deputy Minister, Department of National Defence): I do not know if you would call it a school-type of bus. When the bus was purchased the specification was based essentially on the performance standard and intended to be used for intercity purposes. I think in the Auditor General's comment he referred to the non-integral construction, but the chassis and the body were built separately in this particular bus which is not the case. .

Mr. Lefebvre: The chassis was built by one manufacturer?

Mr. Armstrong: Well, no, it was purchased from International Harvester. I think the body itself, that is the coach, was in fact probably purchased from another manufacturer by him as part of a sub-contract. However, as far as our engineers are concerned, this was not the cause of the difficulties. The difficulties that arose with this bus, essentially arose out of the engine, the clutch and the clutch assembly. This was, I believe, the first bus of this type built in Canada. This was a bus that was built in Canada. International Harvester was the low tenderer and the bus met the performance specifications. Consequently, there really was no option but to accept the low tender. This is the practice when you are buying on the basis of a particular bid.

• 0950

Mr. Lefebvre: The last paragraph here, I think, partly answers my question. It states:

> ...but it may be significant that they were basically a modified school bus which is not considered to have the inherent strength to perform as an intercity bus at a satisfactory cost level for the life span required.

I am sorry I did not notice that sentence before I started questioning the witness, but what I was trying to find out, sir, was whether or not when the manufacturer tendered he showed proof or gave a history of other units that had performed satisfactorily for this type of service? I understand this is quite normal when you are tendering for any vehicle.

Mr. Armstrong: I do not think he could with this particular bus because it was a new type of bus. The engine which gave a good deal of trouble in this case was a tested engine, but it had in other uses, both in trucks and buses, been used as a front engine. In this case it was changed and built into a rear engine bus. I think our own engineers felt that in moving it to the rear together with the required connections, it set up a degree of vibration that ultimately caused problems with the engine. The engine itself was a satisfactory engine when used in other ways.

Now, I would like to add here the latest lifetime figures we have for the cost of the two types, the Western Flyer Bus which is the bus that we had bought before, as compared with this one, 15.7 cents for the Western Flyer and 19.9 cents for the bus referred to here. So the difference, over this period of time, was not as great as indicated in those earlier figures that were quoted by the Auditor General, although there is, obviously, quite a significant difference of 4.2 cents a mile.

Mr. Lefebvre: I have just one more question. Was this the first and only time that this

type of bus was manufactured by International Harvester? Was this a sort of experiment?

Mr. Armstrong: My understanding is that this bus was a new bus that they manufactured for this purpose to bid on this particular contract. It may have been sold to other people for other purposes, but I am not aware of that, I do not know.

Mr. Lefebvre: You are not aware whether they are continuing their manufacture?

Mr. Armstrong: Oh, yes, they are continuing to manufacture them.

Mr. Lefebvre: Of the same type?

Mr. Armstrong: Perhaps not the same type, but I know they are still tendering on bus contracts.

The Chairman: Mr. Cullen on a supplementary and then Mr. Harding.

Mr. Cullen: My supplementary has to do with the answer given by Mr. Armstrong. You indicated that the difference between the rates of 15.7 and 6.6 as quoted in the Auditor General's Report is smaller now.

Mr. Armstrong: Yes, the current figures, as I indicated, are 19.9 and 15.7.

Mr. Cullen: Now, my question is, are we comparing apples and oranges here? Are the buses performing the same service with the same drivers over the same roads or is this a sort of general average?

• 0955

Mr. Armstrong: This is an average. When you ask are we comparing apples and oranges, I would say no, we are not comparing apples and oranges, but taking a lifetime figure of this kind of the two types of buses, it is conceivable that, you know, in the package as a whole they would not be strictly comparable. Perhaps the average age of buses is slightly different in one as against the other and so on, but taking those 34 buses—those are the only ones of this type that we have—over the period of usage, the average cost is 19.9 cents while for the Western Flyer buses which we have, the average cost is 15.7 and they are used for these same general purposes.

Mr. Harding: I would like to ask who is responsible for advising the Department that the vehicle is suitable for use?

Mr. Armstrong: Of course, our engineers, first of all, determine the specification for bidding purposes and this specification is essentially, as I said, a performance specification. There there is the Quality Control Division—formerly Inspection Services—that is responsible for the inspection of the vehicle which is, essentially, an inspection on a proving grounds by running the vehicle for a period of time—approximately 100 miles, I think, or something of this order—under special conditions of rough operation and so on to determine if there are any weaknesses in the bus or in the vehicle itself. Then, of course, there is a warranty which covers a twelve-month operation of the vehicle and does require replacement of defective workmanship and so on by the manufacturer. This, of course, did take place in this case. There were, as you know, about $40,000 worth of repairs done by the manufacturer.

Mr. Harding: Do you have inspection reports made and turned in to the Department?

Mr. Armstrong: Inspection reports in what sense? Do you mean at the time of the initial purchase?

Mr. Harding: When you are in the process of testing these vehicles.

Mr. Armstrong: This would be at the time of the purchase, yes. Of course, the Quality Control Branch makes a report.

Mr. Harding: Do you have a file of reports on the inspections that have taken place?

Mr. Armstrong: I do not have the actual report with me. I have the type of test, if that is of interest to you, that is given to the vehicle.

Mr. Harding: There is just a point I would like to raise here. I think it is the third paragraph it says:

> Major failures occurred in engines and clutch assemblies. Among the built-in defects common to all vehicles was that spark plugs on the right side of the engine could only be reached by dismantling the side of the bus, and then cutting a rectangular port in the compartment wall.

Mr. Armstrong: This, in fact, was not true. When a bus is put into service the various people who operate it put in reports and there was a list—in fact, I have it here—which includes that item in about 20 different

defects. The company, when this one was raised, showed how the spark plugs in this particular case could be removed and replaced by using ordinary tools in a period, I think, of about eight minutes which was satisfactory. So that that particular defect was not, in fact, a defect.

The Chairman: May I interject here, Mr. Armstrong, and ask why you allowed this to appear in the Auditor General's Report? As I understand it your Department is given the verbatim report that is going to appear before it is published and if that was not correct why did you allow it to appear?

Mr. Armstrong: Mr. Chairman, it is not always possible to get everything out of an Auditor General's Report that is incorrect. This was a comment that was made in a defect list. Subsequently, when that particular defect was investigated it was found that the company was able to show that this was not so. We did not, I imagine because of timing, get this to the attention of the Auditor General before he printed his Report.

• 1000

Mr. Harding: Mr. Chairman, I have another question. Apparently this complaint must have been drawn to the attention of the Auditor General when this check was going on.

Mr. Armstrong: When which check was going on?

Mr. Harding: I presume the staff must have had trouble with the spark plugs and ...

Mr. Armstrong: Yes, as I said, this was one of the items on this list which when investigated the company was able to show that this was not so. You could get at the spark plugs and...

Mr. Harding: The point I am making is this. There could not have been much of an investigation done on the engine itself when the staff did not know how to get at the spark plugs.

Mr. Armstrong: Well, I think I was explaining to you that the inspection test is in fact a driving test on a proving ground. They do not attempt to take the vehicle apart and repair it. Their object is to show up any defects that may appear in the vehicle as a result of giving it that kind of a test. Now if they do not show up, there is a warranty that also protects the Crown for a period of twelve months.

Mr. Harding: I have just a further question on this Mr. Chairman. You say all they have to do is test drive this vehicle. Do you mean to tell me that they do not check the mechanical aspects of the vehicle?

Mr. Armstrong: Well the mechanical aspects are checked in the sense of the specifications, that specifies performance and general characteristics. The specification comprises something like ten pages of various items. These are only checked in the sense that they require certain types of cooling systems and so on. For example, they specify the cruising speed of the bus and so on and so forth. I think you would appreciate that this is a commercial bus and we do not attempt to provide the kind of detailed specification that would require a special bus to be built for the Department of National Defence. If we did that we would pay an enormous price for it. In fact we provide a performance classification, which may be met by a number of commercial bus manufacturers.

The Chairman: Mr. Armstrong, I think what Mr. Harding wants to find out is why your department's inspection services would not look at a motor to make sure that the spark plugs could be removed easily, or any other part of the engine that has to have constant maintenance. Why would they not notice this spark plug feature before the bus was ordered?

Mr. Harding: That is right Mr. Chairman.

Mr. Armstrong: Well, I really cannot tell you why they would not notice this before it was ordered. But in fact this fault did not exist. I have told you that this was not so, you could get at the spark plugs.

Mr. Lefebvre: How many buses were dismantled before the mechanical staff found out that you could get at the spark plugs?

Mr. Armstrong: Well, I do not know. On the first complaint, as I said, there was a list of twenty items. After a new bus goes into service, presumably the first time the spark plugs have to be changed, is at 8,000 or 10,000 miles. When someone tries to get at them and finds he cannot, that is put on the list as, "We cannot get at the spark plugs without cutting a hole in the buss". We go to the manufacturer and say, "Here is a defect, we do not know how to get at them". He shows us that we can get at them, and that we can get at them with ordinary tools.

Mr. Lefebvre: If this only happened once then it should not be in the Auditor General's Report. The way this reads it gives us the impression that almost every bus was taken apart to get at the spark plugs. You say that you found out from the company that you could get at the spark plugs, probably with a certain type of wrench or something like that, I am not too sure because it does not say here.

Mr. Armstrong: No, I said with ordinary tools.

Mr. Lefebvre: With ordinary tools?

Mr. Armstrong: Yes.

Mr. Lefebvre: Yet the mechanics in the department could not take them off without dismantling the side of the bus?

Mr. Armstrong: For any new bus there is a list of defects. These are things that the people who operate it find wrong with it. In

• 1005

this particular case the list said "The spark plugs on the right side of the engine can only be reached by dismantling the side of the bus, it will then be necessary to cut a rectangular port through the inside of the compartment wall." When that particular defect was investigated the company then showed how the spark plugs could be removed, the method of removing them and replacing them using ordinary tools. It was possible to do this in eight minutes which was considered to be satisfactory.

Mr. Lefebvre: Well was this brought to the attention of the manufacturer after one bus was taken apart or was it after a number of buses were taken apart?

Mr. Armstrong: I would think, obviously—I am only speaking from what is common sense—the first man who could not get at the spark plugs said, "I cannot get at them", and this would be brought to the attention of the manufacturer. Maybe others did get at them and remove them, it is quite possible.

Mr. Lefebvre: Is it because the first mechanic was too big? This could quite well happen.

Mr. Armstrong: It may be so, I do not know.

The Chairman: Mr. Leblanc, would you allow a supplementary, I imagine it is on this point. Mr. McCutcheon and then Mr. Bigg.

Mr. McCutcheon: When you receive these buses, or the department receives them, what inspection takes place?

Mr. Armstrong: The test is—I will read to you what they are required to do...

Mr. McCutcheon: May I just continue for a second and draw a parallel. An automobile dealer accepts an automobile off a car drive-a-way and he goes over that car thoroughly to make sure that the distributor and the battery and all the rest of the things are there. Now, who is the individual that accepted that bus in the first place?

Mr. Armstrong: Well the bus is accepted by the Department of National Defence, but the inspection is undertaken under these conditions—I will read to you what the inspection test requires:

> The contractor shall, under the supervision of the Inspection Services, Department of National Defence, Ottawa, give each bus a pre-delivery test run. Test conditions shall be as follows: the bus shall be loaded to represent the rated load, properly distributed; mileage shall be not less than 100 miles, and may be increased at the discretion of Inspection Services; speed and road conditions shall be such as to vibrate the vehicle continuously and shock load it periodically for the purpose of disclosing any defects or maladjustments; at the conclusion of the test, all defects and maladjustments shall be corrected.

There is a warranty which is also provided in the purchase contract. It is a rather, ... would you like me to read the warranty?

The Chairman: It is not necessary.

Mr. McCutcheon: I do not think you need to read the warranty. I would just like to know who in the world would accept this vehicle, if he knew anything about mechanics at all, in the condition it was in.

Mr. Armstrong: He accepted because the engine and clutch trouble did not show up.

Mr. McCutcheon: What you are saying is that they did not even look.

Mr. Armstrong: No, I did not say that. I did not say they did not look.

Mr. McCutcheon: They obviously did not.

Mr. Armstrong: These engine failures and clutch failures did not show up until the

vehicles had been driven I would think 7,000 to 8,000 miles; then they began to fail. Now they did not show up in the test that was carried out by Inspection Services, however, not having shown up they were under warranty.

Mr. McCutcheon: What they missed completely was a simple, most elementary, examination of that bus for service. Any farm boy would no doubt have discovered it, in my opinion.

Mr. Armstrong: You are basing this, if I may say so...

Mr. Chairman: We are referring to spark plugs.

Mr. McCutcheon: I am referring to the condition of the motor and servicing it. What good is a motor if you cannot service it?

Mr. Armstrong: Yes, but we could service it. What led you to the conclusion that you could not service it?

Mr. McCutcheon: What was the directive from the company? What had to be done in order that it could be serviced?

Mr. Armstrong: Are you speaking of spark plugs?

Mr. McCutcheon: That is right.

Mr. Armstrong: I explained that to you.

The Chairman: By the use of a special tool.

Mr. Armstrong: No, not a special tool, by ordinary tools.

Mr. McCutcheon: Well, from this report the special tool would probably have to be an acetylene torch.

Mr. Armstrong: Now let me read this to you sir.

• 1010

Mr. Cullen: I think this is three times that we have had the same answer from the witness, and we seem to be flogging away at the same thing. He has tried to answer the question and we do not seem to want to hear the answer. We want to hear that they did goof. The situation is that the manufacturer came in and said "It can be repaired, you can use an ordinary tool". Why are we milking this? Why do we not get on to something that is important? Let us get on with the warranties.

Mr. Armstrong: Would you like me to read the report that I have from our people on this?

The Chairman: Yes, please.

Mr. Harding: Mr. Chairman, just a moment. As to the last comments that have been made, I think it is the duty of this committee to check and find out why vehicles of this type are accepted by the department and if necessary we should make recommendations to try and alter the stipulations.

Mr. Cullen: I agree with this but what has been questioned here is, spark plugs and we have had the answer on that three different times.

Mr. McCutcheon: With the greatest respect, Mr. Cullen, we have not had an answer.

Mr. Cullen: You have not been listening, I think that is the problem.

The Chairman: I will decide whether it is repetition and if it is I will just call you to order and say that the question has been answered, so if I appear to be pretty blunt, excuse me. Now, Mr. Armstrong.

Mr. Armstrong: This is what our technical people report to me: It has been observed that the spark plugs on the right bank of the engine can only be reached by dismantling the side of the bus. This was indeed reported by a user unit, but was later demonstrated by International Harvester Company to be erroneous. Using ordinary tools, the four spark plugs in the right bank can, in fact, be removed and replaced in eight minutes without any modification of the bus. Considering that the plugs require attention at intervals of between 8,000 and 10,000 miles eight minutes did not seem unreasonable.

The Chairman: All right gentlemen, you have heard the story about the spark plugs, and Mr. Armstrong has answered me when I said "Why was this allowed to be in the Auditor General's Report"? It was a matter of timing, he said. Now, Mr. Henderson, do you agree to accept this explanation?

Mr. Henderson: Mr. Chairman, I think that there are one or two facts here which I should bring to the Committee's attention to explain the inclusion of this paragraph. The departmental report in question mentioned there, dated October 20, 1964 to be precise, is a form of a report addressed to Mr. Hunter of the Department of Defence Production,

signed by Mr. Armstrong, attaching thereto a list of the defects in the buses. My reference to the spark plug case here is only one of the twenty, and Mr. Armstrong has read to you the one which is quoted in the second sentence of the first paragraph in my report. I will mention briefly some of the other defects in connection with these buses. I only dealt with the spark plug one to give an illustration. I refer to the others, for example, the position of the vehicle battery is such that considerable difficulty will be encountered when its removal is necessary; all spring U-bolts were found loose; brakes were improperly adjusted; the windshield wiper motor can only be reached through the opening left when the headlight is removed; many of the radiator heater hose connections are almost impossible to reach for tightening of clamps or change of hose; cables and air lines run through the main conduit between the floor and the luggage compartment and the cables and air lines have connections that can only be reached by cutting the walls of the conduit. Then we have the spark plug case.

• 1015

The note containing this test was shown to the Department and they were asked if the facts were correct and that was confirmed back to me before this appeared in my 1968 report. Four months after my 1968 report, when presumably the manufacturer had been contacted, Mr. Armstrong, who is punctilious in clearing up further explanations to me, gave me a detailed report on this paragraph 106. So it was right then, last summer, that for the first time we knew what he has read out, that in so far as the observation of the inaccessible spark plugs is concerned, there was only one user report on this but it was later demonstrated by the supplier that using ordinary tools the four right bank spark plugs could in fact be removed and replaced in eight minutes without any modification of the bus. So you see, in completing my examination here I was having recourse to the Department's own report on the defects of October 1964.

Now, there is one other comment while I am speaking, Mr. Chairman, and that has to do with comparison mileage. Mr. Armstrong gave you some up-to-date figures. My figures were based on three years of service at March 31, 1967 as is explained in the third paragraph at the top of page 60, in which I point out that the Western Flyer was running at 6.6 cents a mile and the International Harvester bus at 15.7 cents a mile. As I understand it, the figures Mr. Armstrong has given you are over a longer period although I stand to be corrected on this. The Western Flyer bus, for example, is of 1961 vintage and accordingly it might be expected that its operating costs at the present time would be lower when compared with the International Harvester bus which was bought later. I wanted to mention this to disabuse your minds of any conflict. We are, in effect, not comparing the same kind of things here when we use the two sets of figures. Thank you, Mr. Chairman.

The Chairman: I am now going to accept questions from four different members, and then we are going to wrap up this paragraph. Those members are Mr. Leblanc, Mr. Cullen, Mr. Bigg and Mr. Noble.

Mr. Leblanc (Laurier): My question is this one. On page 59 the Auditor General mentioned that a settlement under a contract warranty was made between the Department and the supplier of those buses. Could not the Department have just returned those buses and canceelled the entire order, or were we compelled and obliged to accept the buses? Could the Department have said, "All right, your buses are not what we want; there is too much to do on those buses, so we will not accept the others, and we are returning the buses, that is all". Could we do that under our contract?

Mr. Hunter: Sir, under the Department of Defence Production general conditions for firm price, purchase and supplies, in section 8 we have a warranty clause which reads:

> Notwithstanding prior acceptance of the finished work, and without restricting any other terms of the contract or any condition, warranty or provision implied or imposed by law, the contractor, if requested by the Minister to do so at any time within 12 months from the date of delivery, shall:
>
> (a) replace or make good at his own expense any finished work, excluding Government Issue incorporated therein, which becomes defective or which fails to conform to contract requirements as a result of faulty or inefficient manufacture, material or workmanship;

That is the basic warranty clause we have in all general purchase contracts. Also, that is

the clause under which, if it were possible to return the whole bus, it would be done, I think. The inspection is done by National Defence, as Mr. Armstrong has said, and if they accept the buses generally as meeting the specifications then the only recourse is to go back under the warranty clause to have any defect in workmanship or material remedied within 12 months. So, I think the short answer is that once the buses have been accepted generally you could not return the whole bus, Mr. Leblanc.

Mr. Leblanc (Laurier): You mean that if our inspectors had examined the bus differently they probably would have refused the entire order after having discovered all the faults that were in the buses. Apparently our inspectors were to blame for not discovering the faults within the vehicles and accepting them as they were.

Mr. Hunter: Sir, these were defects which could only have shown up later. As Mr. Armstrong said, there are initial road tests and very severe tests, as I understand it, but these clutches actually did not fail in the period of testing which I am sure the inspectors felt was a reasonable one. The clutches failed later and there were defects in the engine which failed later, therefore, under this warranty clause we actually made a

• 1020

claim and were successful in recovering $40,699, I believe. Our legal people, together with National Defence, reviewed this recovery and felt that the contractor had lived up to the replacement under that warranty clause.

Mr. Leblanc (Laurier): Thank you.

The Chairman: Mr. Leblanc has brought this to the attention of the Committee and I think Mr. Hunter and Mr. Armstrong will have to produce more evidence than has been produced so far to prove to this Committee that the Inspection Services Branch did their job well and thoroughly and sincerely in view of the list of defects that Mr. Henderson read to this Committee just now regarding the removal of the battery, the windshield wipers, the spark plugs and all those other things that could have been seen without a road test. We are at this point and I think what Mr. Leblanc has brought out here is that the Inspection Services Branch fell down on their job.

If the Committee is assuming something that is incorrect, you may correct us.

Mr. Armstrong: I think you are assuming something that is incorrect. I think perhaps the best thing I can do to satisfy the Committee is to bring the Inspection Service experts, now the Quality Control Division, before the Committee. This would seem to be...

Mr. Lefebvre: May I put in a supplementary? Will they also be able to tell the Committee—it is apparent from this although I stand to be corrected—whether a good repair and maintenance manual was provided with these buses? Or, were the mechanical staff not competent to repair this bus. I do not want to talk about spark plugs all morning, but something is wrong somewhere if they can be removed in eight minutes.

Mr. Armstrong: I will bring the experts. I think the only way to deal with this in detail, if you want to get into the kind of thing which you are, is to have the inspection experts and the engineering experts appear. This bus was not a statisfactory bus; there is no question about it.

The Chairman: We will settle on that point then. We will have the head of the Quality Control Division answer questions before the Committee.

Mr. Cullen: The second paragraph of Paragraph 106 of the Auditor General's Report reads:

> At the time the contract was placed Army specifications did not require integral frame construction, although this was a requirement of the RCAF specifications for an intercity bus...

and this is the point that interests me:

> ...and is the body design favoured by most commercial users.

If that statement is correct, I wonder why the Department would not have made that a part of its specifications, or do you agree with that statement?

Mr. Armstrong: We do have this as part of our specifications now. The RCAF specifications at the time did have this in, but not as an absolute requirement. They had this qualification which is to be interpreted as defining a standard of structural reliability, life and limit of maintenance; therefore, nonintegral construction was also acceptable if it would meet equivalent excellence to the satisfaction of the RCAF design authority.

At the time this question was dealt with before the Treasury Board, the matter of

including the integral bus design as part of the specification was raised with the Board. At the time, the Treasury Board asked for further study before agreeing to that type of specification. If you build this in, part of the problem is that you eliminate certain competition to some degree. We subsequently went to the Treasury Board in August 1965, with a study by the automotive engineers in the Department and they agreed following that...

Mr. Cullen: When yau say "they", do you mean Treasury Board?

Mr. Armstrong: Yes, the Treasury Board. They agreed that the specifications for the 40-passenger bus to be used as an interurban bus would have included the integral construction as part of the specifications. We have done that since.

• 1025

We do this in Canada but overseas we do not do it. We have been using the Mercedes bus, which is not this type of construction and it has been very satisfactory. So you can get a bus that is satisfactory that is not the integral type of construction. However, we do use this specification now in Canada.

Mr. Cullen: I think to be honest or to be fair you should not be comparing a bus that is being operated in Europe with one that is being operated here. We think of longer distances and bigger loads here.

Mr. Armstrong: I do not think so. We use these quite extensively in Europe because our camps are some distance apart, as you know, and we do have a rather major problem of picking people up to bring them into the camps because they go to school there. All the conditions, all the life of the Canadian community is centered in the camps so they have fairly extensive operations, perhaps at somewhat slower speeds, although in Germany the speeds are very high on the autobahnen too.

Mr. Cullen: Do I understand you to say that you have now changed completely and that your tender system does adopt the ...

Mr. Armstrong: Only in this respect, the integral bus construction for this type of bus. Otherwise we still use a performance specification.

Mr. Cullen: On the warranty aspect, the Auditor General's Report shows that the Department was successful in getting back $40,669 as part of an agreement, but the amount the Department was in fact going after or trying to recover is not shown.

Mr. Hunter: This was our total claim, Mr. Cullen.

Mr. Cullen: So under the warranty you were claiming $40,669 and you were not trying to claim a penny more?

Mr. Hunter: That is right, sir. That is what we felt came within the terms of the clause which I read to you.

Mr. Cullen: What was the over-all cost? Is there a figure on this repair work compared to the $40,669 that you did not feel you could recover under the repair warranty?

Mr. Armstrong: I do not think there is such a figure that I am aware of.

Mr. Cullen: Thank you, Mr. Chairman.

The Chairman: Mr. Cullen's question brings out this point. In one Department we have two different sets of specifications, one for the army and one for the air force; at least we did have. Now there will be one set of specifications. Mr. Armstrong, would this be one of the examples, where unification might overcome some of these little details that we have uncovered here?

Mr. Armstrong: I think so, yes, since there is only one technical service now.

Mr. Bigg: It just seems to me that this shows the danger of always taking the lowest bid and we needed a little more liaison between our officers and the people who were bidding on this contract. I think they modified what appears to me to be defunct schoolbuses trying to make them do the job just to get in a lower bid. I also think these bodies were already made and they tried to adapt them to this army specification and did not make it. Is it correct to say that they were already made?

Mr. Armstrong: I think the problem you are faced with here, Mr. Bigg, is that this bus met the specification; this was a competitive tender. The International Harvester Co., bus met that specification. It was roughly $1,000 less than the other bus and one either accepts the low tender under these circumstances or presumably one calls another competition, because the bus, in fact, met the specification that was called for.

Mr. Bigg: Yes, but had we looked at this chassis and seen that the luggage compartment was not satisfactory . .

Mr. Armstrong: The luggage compartment was adjusted, that was additional, and the bus was still about $1,000 cheaper.

Mr. Bigg: Yes, but it was $1,000 more than you thought it would be at the time. It helped make the decision on taking this particular contract, surely.

Mr. Armstrong: Including the adjustment for the luggage compartment, this bus was $1,059 less than the Western Flyer bus, which was the second lowest tender. They both met the specification. If the bus meets a specification, there really is no ground under a competitive bid on which you can reject it, unless you call tenders again and start over again.

• 1030

Mr. Lefebvre: I have a supplementary to that. Mr. Armstrong, when you advertise tenders, I think as a protection to the Crown, the lowest of any tender is not necessarily accepted. Is that correct? What I am getting at is this. Is this practice something that is used very, very seldom because of possible public repercussions? Do you feel if you do not accept the lowest tender, you may be charged with favoritism or something like that? Is this a sort of penalty that we must pay to have these public tenders?

Mr. Hunter: Sir, the phrase that we use at Defence Production is the "lowest tender meeting the specifications," so that if there were any area for improvement I think it would be up to us to draw the specifications as tightly as we can. We could always follow this rule: the lowest tender meeting the specifications because, as you say, if you do not take the lowest tender which meets the specs then you are in some way favouring someone else.

Mr. Lefebvre: In other words, you were caught by the system.

Mr. Hunter: Well, we were perhaps caught by the fact that it is difficult accurately to set specifications so that you do not run into some differences later in the life of a vehicle, perhaps. I guess I am getting into the field of Inspection Services but we are quite familiar with this, too.

Mr. Bigg: My idea is that when we are setting these specifications, certainly maintenance costs and so on are relevant. Let us take police cars about which I know a great deal. The cost of maintaining a police car on the road is probably the most expensive part of running a police car. It is not the original price of buying it at all. The Mounted Police have found that the car which stands up to the rigorous use of a police car is the one we want. I am quite sure that the Commissioner and his staff over the years have begged the Department to buy certain types of vehicles. I will not name them for obvious reasons.

They want a car that will stand up, although even in the automobile industry which is very competitive there are certain types of automobiles that the policemen have found do not stand up to rigorous road conditions, although the price is competitive. It is these other things, the maintenance and the standing up to the rough conditions which these buses apparently did not do.

I know that you have learned something from this; we are going to go back to the integral type construction. I was just suggesting that with a little more inspection probably we would have gone to the integral type of design beforehand by, for instance, discussion with the Air Force. They may have had modified school buses or they may have had buses built by farm machinery units that were not used to building buses, rather than the people who have built buses over the years.

Mr. Armstrong: One point I would make though, Mr. Bigg, is that our engineers have said it was not in this case the integral or the non-integral design that caused the trouble. I just wanted to make that point clear. Even had the bus been an integral design, presumably this trouble would have arisen in this particular case.

The Chairman: Mr. Noble?

Mr. Noble: Mr. Chairman, I believe that Mr. Armstrong said earlier that the engine was primarily for front-end installation.

Mr. Armstrong: I beg your pardon?

Mr. Noble: You said that the engine was primarily for a front-end installation.

Mr. Armstrong: I said that this engine had been used satisfactorily before on trucks and buses as a front-end installation. In this case it was moved to a rear installation and our engineers believe that this was one of the reasons that it gave trouble.

Mr. Noble: Mr. Chairman, I would just like to ask this then: Did the company agree this supposition was correct, and did they offer to make free adjustments?

Mr. Armstrong: They did, yes. They made adjustments to the tune of $40,000 and they extended over a period, I think, of approximately two years. They did make adjustments beyond the specific warranty requirement of twelve months.

Mr. Noble: Do you feel that full adjustments were made for the difference that was demonstrated here by installing the engine in the rear rather than in the front?

Mr. Armstrong: If I may put it this way, the company were, in the opinion of our technical people who had to deal with the problem, very co-operative. They did all they could to improve the situation but, as indicated by the figures we have given you, this bus

• 1035

has not been satisfactory and the maintenance costs have been higher than the Western Flyer type that we had been using in the past.

Mr. Noble: Mr. Chairman, I would like to ask one more question. Did the Department know before agreeing to purchase them that these engines were designed for front-end installation?

Mr. Armstrong: I assume our engineers would know this. They were satisfactory engines for front-end installation, but this does not mean they would not work, I presume, on a rear-end installation either.

Mr. Noble: I notice you said a while ago that you felt there was a lot more vibration at the rear end, and that this contributed to some of the trouble that you were having with these engines.

Mr. Armstrong: I believe this is the view of our engineers.

Mr. Noble: Are these buses still in service?

Mr. Armstrong: Oh, yes; they are still in service.

The Chairman: Mr. Armstrong, did the Inspection Services people recommend that you buy the bus?

Mr. Armstrong: No; they do not recommend that we buy the bus. The bus is bought on a competitive tender and, as I indicated to you, there is a fairly lengthy specification on which the companies tender.

The Chairman: Did the inspection...

Mr. Armstrong: It is our engineering people who would examine the tenders then they come in and say in their opinion this tender conforms with the specification.

The Chairman: In other words, as far as they were concerned, go ahead and buy this bus.

Mr. Armstrong: If it conforms with the specifications then it is the lowest tender, buy it; yes.

The Chairman: Mr. Harding?

Mr. Harding: I have just one more question, Mr. Chairman. I wonder if Mr. Armstrong could obtain this information for us? I would be interested in finding out what proving tests were carried out by the company itself prior to the delivery of these vehicles.

Mr. Armstrong: I undertook to have the inspection people come here. I think they will be able to answer those questions for you.

Mr. Harding: I think if a thorough testing had been carried out a lot of these gimmicks would have been found. It seems to me that...

Mr. Armstrong: I suppose it depends how long you test a vehicle, you know. These things began to show up after they had run 7, 8, 9 and 10,000 miles; the engine failed. That is a lot of testing, if you are going to test them that far.

Mr. Harding: But the point is this, Mr. Chairman: If this company is putting out a new vehicle, before anyone purchases one it is just plain common sense to make sure that there are complete and adequate tests of the equipment.

Mr. Armstrong: Do you mean by the company?

Mr. Harding: Yes.

The Chairman: Well, we will cover that point when the head of the Inspection Services is here.

Mr. Leblanc (Laurier): I hope we are not travelling to Halifax on those buses. We would never get there!

The Chairman: Are you satisfied, Mr. Henderson, that we leave this paragraph? You have no questions?

Mr. Henderson: There is one more point on which I would inform the Committee, Mr. Chairman, and that is that the $40,000 settlement under the contract warranty, as is explained at the bottom of page 59 and the top of page 60, covered up to the end of the first rework program during which they had 41 major engine failures and 78 clutch failures. Then the second rework program produced 31 more engine failures but no compensation was received from the manufacturer with respect to these.

Mr. Cullen: Can we ask why?

The Chairman: Mr. Hunter? Had the warranty expired by this time, perhaps?

Mr. Hunter: No. Mr. Chairman, I am told that the second rework program was carried out completely at the company's expense. The $40,000 that is mentioned in the Auditor General's report was a settlement with the Department of National Defence for the work that they had been put to in their own shops. Presumably this was their cost, but the company undertook quite a large rework program. My officials do not have information on exactly what it cost them, but it was extensive, as Mr. Armstrong has said. This was carried out completely at their expense.

The Chairman: All right. Paragraph 109 on page 61—Cost of disposal of aviation gasoline reserve.

Mr. Cullen: Mr. Chairman, on a point of order. Are we going to go back to paragraph 106 when the experts come in?

The Chairman: Yes.

• 1040

Mr. Cullen: The Auditor General read out a letter, I think an inter-department letter. Will we have the Minutes of that meeting so we will know what these defects were and so can ask the appropriate questions?

The Chairman: I am sure we will. If not, we will have Mr. Henderson have that for us at that meeting.

Mr. Cullen: Thank you.

Mr. Henderson: Mr. Chairman, this is a report made by Mr. Armstrong to Mr. Hunter. The document Mr. Cullen is seeking is an inter-departmental report. They may care to speak to this right now.

Mr. Armstrong: I have a copy, I think, of that right here. If you want it I can just table it. It is in English only.

The Chairman: Do members agree that this be published as an appendix to our proceedings?

Some hon. Members: Agreed.

The Chairman: It will be there, Mr. Cullen, provided the Minutes of Proceedings and Evidence are printed before we have them here, which I expect they will be.

Now the gasoline situation, Mr. Henderson.

Mr. Henderson: In this paragraph we deal with the cost of disposal of an aviation gasoline reserve and we refer to costs of $91,500 incurred in the disposal of a 620,000-gallon reserve of aviation gasoline that had been maintained partly for an air base near St. John's, Newfoundland. We conclude in the last paragraph with a statement that the departmental records indicate that 400,000 gallons of this type of gasoline had been used at this air base in 1964-65, so it would appear that most of the gasoline could have been used in normal operations, and expenditure of much of the $91,500 could have been avoided had the decision to dispose of the reserve been made at the same time as the decision to discontinue use of the air base.

Although the departments of National Defence and Defence Production did not take exception to the 1964-65 consumption figure of 400,000 gallons, when I asked them for their advance comment on this paragraph, subsequent to publication of our report, the Department of National Defence has satisfied me that consumption in 1964-65 was, in fact, negligible and their consumption in earlier years was 349,000 gallons in 1961-62; 269,000 gallons in 1962-63 and 184,217 gallons in 1963-64.

Having said this, Mr. Chairman, I must go on to say that we have been unable to satisfy ourselves that the reserve could not have been used in the normal operations had the decision to dispose of it been made earlier. In this connection we note that a substantial portion of this reserve was held for delivery to Royal Canadian Navy sea tankers.

In any event, approximately $23,000 in storage charges for the period April 1, 1965 to May 31, 1966 could, we think, have been

saved. The only provision for disposal of this reserve appearing in the contract with the supplier of this gasoline reads:

> ... if for any reason whatsoever there is no longer a requirement for Aviation Gasoline 115/145 grade at the termination of this contract, the reserve volume will be purchased...

that is to say, by the Crown.

We suggest that the contract should also have included a provision whereby the Crown could reduce the size of this reserve through consumption. We think it interesting to note that the decision to dispose of the reserve was prompted by the realization of the cost of its maintenance and the request to pay this cost to the supplier. This is an example of the decisions that may be made as departments gradually meet, from their own appropriations, most of the costs—for example, the accommodation now included in the appropriations of the central government agencies.

That ties in with another of the Committee's recommendations, Mr. Chairman. We thought it was pertinent to consideration of this note.

The Chairman: Mr. Burton and then Mr. Leblanc.

Mr. Burton: Mr. Chairman, in the first line of section 109 it is noted that in 1963 the Department of Defence Production entered into this contract. Could you tell us on what date in 1963 this contract was entered into?

Mr. Armstrong: I have the date. It was April 1, 1963.

Mr. Burton: April 1, 1963?

Mr. Armstrong: That is April Fool's day, you know.

Mr. Burton: I note the second paragraph states that the air base was closed in April, 1964. What was the date on which the decision was taken to close this air base?

• 1045

Mr. Armstrong: I do not have the exact date the decision was taken. It presumably was taken, oh, I would judge, in November or December of 1963, if it were closed on April 1, 1964—this is Torbay we are talking about—and it was closed down as an active RCAF Station on April 1, 1964 and turned over to the Department of Transport. However, it continued to be designated as a deployment field for Maritime patrol aircraft. Consequently, the reserve of fuel was left there for the time being and it was subsequent to that in 1965 that it was decided to no longer maintain the fuel there for redeployment purposes.

Mr. Burton: How long was this airfield in operation prior to April 1964?

Mr. Armstrong: At Torbay?

Mr. Burton: Yes.

Mr. Armstrong: I do not know. Torbay has been in operation a long time, but I cannot give the exact date. It was designated as an emergency deployment airfield, I think first of all, in 1960, but this was not the beginning of the airfield.

Mr. Burton: Thank you.

Mr. Lefebvre: Prior to April 1, 1963, how was the gasoline supplied to this air base? Was this contract something new or was it a renewal of a contract that had run out?

Mr. Armstrong: Until that time there had not been this reserve of fuel. The search and rescue portion of the RCAF was located at Torbay and the stockpiling criteria for a redeployment airfield of this kind requires a certain reserve—30 days reserve. This had not been provided. Consideration was being given to building the necessary storage in order to stockpile the fuel, but about that time, as you will recall, the Americans were getting out of Fort Pepperell and certain storage tanks became available to us. These were adequate to hold this amount of reserve fuel and the contract was then drawn up with Imperial Oil Limited to stock the fuel there with the condition that if we eventually terminated we would have to buy the fuel.

Mr. Lefebvre: Was this the same contractor who provided the fuel prior to April 1, 1963?

Mr. Armstrong: I do not know. He may have provided fuel there prior to April 1, but prior to April 1, 1963, we did not have this reserve fuel stored there. The normal fuel supply, I presume, would have been by annual competition.

Mr. Burton: Could I ask one further question, Mr. Chairman?

The Chairman: No, I am afraid not. We have to outline our trip for Thursday and Friday. Mr. Leblanc, I have your name and Mr. Burton's on my list and we will start with you when we get back to this paragraph.

I will ask Mr. Thomas, our Clerk, to outline the procedure for Thursday and Friday.

(CLERK DETAILS ITINERARY)

The Chairman: Mr. Armstrong, is there anything you want to add?

Mr. Armstrong: No, I do not think I have anything to add. I am sure you will be very welcome in Halifax. I am not going, I am going to leave you on your own. You will be well looked after by the people of Halifax. Commodore Bridgman who was here before the Committee and Captain Allan who is the Hydrofoil Project Manager as well as some of the local people in the Command will be there to give you all the advice I think you seek.

The Chairman: I hope the Committee will be well prepared and will know what you want to see and the questions you want to ask. Do not return here wondering why we did not see this or why we did not ask that. The time to do this is when we are there, so let us go well prepared, gentlemen.

The meeting is adjourned.

APPENDIX G

BUS DEFECTS AND FAILURES

A. *Major Failures*

Item	Reported Defect	No of cases	Remarks
1	Complete engine failure.	6	IHC has been asked to investigate these failures to determine the cause and degree of factory responsibility.
2	Radiator shutter pins seized causing engine overheating.	3	This item is included in the category since it is possible that the condition is related to the engine failures.
3	Baggage compartment doors open when driving along the highway.	3	A serious safety hazard. This was brought to IHC attention who in turn notified Van Wilson. Van Wilson have provided stiffeners to prevent deflection of the doors. These to be fitted by area workshops.
4	Fan idler pulley and bracket too weak causing broken pulleys and/or belts.	11	IHC were aware of the condition shortly after the vehicles were delivered and produced a mod kit to alleviate this problem. Kits were forwarded to user units for local installation. It is known that some overheating cases occurred before the kits could be fitted. This problem may be related to certain engine failures.
5	Steering gear housing accumulated water. Upon freezing caused extensive damage to internal parts.	5	The vehicles were in unprotected storage awaiting body installation. IHC were aware of this situation and notified all users. Despite this quite a number of steering gears were damaged.

B. *Miscellaneous failures Common to all Buses Held*

Item	Reported Defect
1	The tow hooks, front & rear, are too weak to be of any use (EFR raised). It appears that it will be necessary to reinforce the bumper and fit adequate towing attachments.
2	The door locking device (key operated) on the inside of the front door is dangerous. It would cause injury to personnel or damage to clothing (EFR raised).
3	Any alternater belt adjustment is impossible. The alternater is already at its maximum adjustment and bears against the power steering oil reservoir.
4	One of the heater hoses (with the shut-off valve) is floating loosely in the engine compartments. On some buses it is at times resting and rubbing on the fan belt or fan belt idler pulley.
5	The position of the vehicle battery is such that considerable difficulty will be encountered when its removal is necessary.
6	All spring U-bolts were found loose.
7	Brakes were improperly adjusted.
8	Passenger entrance light switch is not protected by a suitable stop and will be damaged by excessive door handle pressure.

Item	Reported Defect
9	The windshield wiper motor can only be reached through the opening left when the headlight is removed.
10	The spark plugs on the right side to the engine can only be reached by dismantling the side of the bus. It will then be necessary to cut a rectangular port through the inside of the compartment wall.
11	No method can be found to gain access to the rear of the drivers instrument panel. One brake air pressure warning light is already burned out and it is impossible to replace it without extensive modification to the instrument panel.
12	Many of the radiator heater hose connections are almost impossible to reach for tightening of clamps or change of hose.
13	Cables and air line are run through the main conduit between the floor and the luggage compartment. These cables and air lines have connections which can only be reached by cutting the walls of the conduit.
Peculiar to one or more Buses	
14	Power steering; hydraulic lines leaking.
15	Front wheel brake control connected improperly.
16	One ignition switch non-serviceable.
17	Air lines for brakes leaking inside main conduit.
18	Engine idler pulley shaft came loose and pulley damaged fan. This shaft is spot welded to its bracket. (EFR raised).
19	Excessive water is leaking into the luggage compartment through the inspection holes in the main conduit and through uncaulked holes where sheet metal has been joined. This latter failure could bring discouraging results should soldiers' personal effects be in the luggage compartment when it fills with water.
20	One radiator hose mounted with the clamp on an angle and only touching one side of the hose.

HOUSE OF COMMONS

First Session—Twenty-eighth Parliament
1968-69

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: Mr. A. D. HALES

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 28

TUESDAY, APRIL 1, 1969

Public Accounts, Volumes I, II and III (1966 and 1967)
Reports of the Auditor General to the House of Commons (1966 and 1967)

WITNESSES:

(*See Minutes of Proceedings*)

THE QUEEN'S PRINTER, OTTAWA, 1969

2005-1

HOUSE OF COMMONS

First Session—Twenty-eighth Parliament

1968-69

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: Mr. A. D. HALES

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 28

TUESDAY, APRIL 1, 1969

Public Accounts, Volumes I, II and III (1966 and 1967)

Reports of the Auditor General to the House of Commons (1966 and 1967)

WITNESSES:

(*See Minutes of Proceedings*)

THE QUEEN'S PRINTER, OTTAWA, 1969

20085—1

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. A. D. Hales

Vice-Chairman: Mr. T. Lefebvre

and Messrs.

Bigg,
Cafik,
Cullen,
Flemming,
Guilbault,
[1] Harding,
[2] Knowles (*Norfolk-Haldimand*),
Leblanc (*Laurier*),
Mazankowski,
[3] McCutcheon,
Noël,
Rodrigue,
Roy (*Timmins*),
[4] Scott,
Tétrault,
Thomas (*Maisonneuve*),
Trudel,
Winch,
Yanakis—(20).

(Quorum 11)

Edouard Thomas,

Clerk of the Committee.

Pursuant to Standing Order 65(4) (b),

[1] Mr. Harding replaced Mr. Burton on March 25, 1969.

[2] Mr. Knowles (*Norfolk-Haldimand*) replaced Mr. Noble on March 31, 1969.

[3] Mr. McCutcheon replaced Mr. Scott on March 31, 1969.

[4] Mr. Scott replaced Mr. McCutcheon on March 25, 1969.

(*Text*)

MINUTES OF PROCEEDINGS

TUESDAY, April 1, 1969
(30)

The Standing Committee on Public Accounts met this day at 9.39 a.m., the Chairman, Mr. A. D. Hales, presiding.

Members present: Messrs. Bigg, Cafik, Hales, Knowles (*Norfolk-Haldimand*), Lefebvre, Mazankowski, McCutcheon, Noël, Rodrigue, Thomas (*Maisonneuve*), Winch—(11).

Also present: Messrs. Deachman, Forrestall, Scott.

Witnesses: Mr. E. B. Armstrong, Deputy Minister, Department of National Defence; Mr. G. W. Hunter, Deputy Minister, Department of Defence Production; Mr. G. R. Long, Assistant Auditor General; Mr. B. D. Irvin, Directorate of Vehicles and Field Engineering, Department of National Defence; Mr. A. G. Cross, Auditor General's staff.

The Chairman advised the Committee that the Sub-Committee appointed to study the refit of the HMCS Bonaventure in detail would meet again to obtain more information concerning the contracts in question prior to completing its report.

Mr. Winch moved, and

It was agreed,—That the Clerk of the Committee arrange the details of a visit by the Committee to the Printing Bureau and to other departments.

The Committee questioned the witnesses on paragraph 106 of the 1967 Auditor General's report—"Purchase of buses which proved to be unsatisfactory" as well as the list of defects and failures contained in APPENDIX G. (*See Issue No. 27*)

At 11.06 a.m., the Committee adjourned to the call of the Chair.

Edouard Thomas,
Clerk of the Committee.

20085—1½

MINUTES OF PROCEEDINGS

EVIDENCE

(Recorded by Electronic Apparatus)

Tuesday April 1, 1969

• 0938

The Chairman: Gentlemen, we will come to order. I would first like to make a report to the Committee from the Steering Committee.

Your Steering Committee met aboard the plane on our return from Halifax last Friday, and at this point I would like to say thank you and pay tribute to Captain Kerr of the Air Force who arranged all the details for our trip to Halifax, and to Mr. Armstrong, the Deputy Minister, for having these arrangements made for us also. The trip was most successful and the Committee certainly appreciates the arrangements that were made.

I would also like to tell the Committee that your Chairman wrote to Admiral O'Brien of Maritime Command, Captain Falls, Captain of the *Bonaventure*, and Captain Cotaras, Captain of the hydrofoil, expressing our appreciation for what they did for us on the trip.

It was decided at the Steering Committee that the members of the Committee who headed up each group, namely, Mr. Cafik

•0940

looking into furniture; Mr. Lefebvre, machinery; Mr. Winch, electrical; Mr. Rodrigue, air conditioning and refrigeration, would each write a full and comprehensive report and table it with the subcommittee on our return from the Easter vacation. And in the meantime the subcommittee will seek certain information from the Department of Defence Production, and the subcommittee will continue their meetings with officials of the DDP and DND, on the matter of the refit of the *Bonaventure* in particular.

It was also felt by the Steering Committee that if necessary we would call a representative of the Davie Shipbuilding Company before our Committee and when the investigation is complete the Committee will make a report to the House on the one point in particular, the refit of *HMCS Bonaventure*.

In the schedule for our Public Accounts Committee on return from the Easter vacation, it was suggested that it might be advantageous for the Committee to make a visit to the Printing Bureau to see its operations and look into their inventory control and their operations generally. It is a very interesting department where *Hansard* and all our other printing is done. And we felt that this would be of interest to the Committee.

Secondly, we felt that it might be good to repeat something we did a couple of years ago. We would divide the Committee into four sections, and the Auditor General would see that we were transported to four departments of government and there we would be met by the Auditor of each department. We would meet the deputy minister of that department, and sit down and discuss the operations of these four departments. Then the four groups would meet at noonhour somewhere for lunch and discuss our morning's travels into these four departments. These were the suggestions from your Steering Committee, and I hope they will meet with the approval of the Committee as a whole.

An hon. Member: I move adoption.

The Chairman: Right. The Steering Committee decided not to discuss *HMCS Bonaventure* or the hydrofoil this morning, but decided that we would continue on page 59, paragraph 106, the purchases of buses.

To recapitulate, at our last meeting Mr. Armstrong, Deputy Minister of the Department of National Defence, gave the Committee reasons why they purchased these 40 buses which did not pan out too well. He gave us many reasons to substantiate the actions that they took, but it was the feeling of the Committee that the inspection service might have done a little better job before the buses were purchased.

With this thought in mind we have asked the members of the inspection service to come here this morning. I am going to ask Mr. Armstrong to introduce them, and per-

• 0945

haps the best way to start the discussion would be for the Chairman to read a list of defects that were noted and tabled at the last meeting, and then I am sure questions will arise from this. Mr. Armstrong, will you introduce your men?

Mr. E. B. Armstrong (Deputy Minister, Department of National Defence): Mr. Chairman, I have with me this morning two technical men. On my immediate right is Mr. B. D. Irvin, who is in charge of the Support Vehicle Section in the Directorate of Vehicles and Field Engineering. It is in this section that the technical aspects of specifications are determined. I have also Mr. R. L. Martin, Director of Quality Assurance Engineering. That is another way of describing the inspection services, and he is here and is prepared to answer your questions on the inspection side of this particular contract.

The Chairman: Will we proceed in the method that I outlined? Is that agreeable?

Gentlemen, at the last meeting, and we do not want to go over all the remarks of the witnesses this morning, but first of all these buses that were purchased at the time the contract was placed, the Army specifications did not require integral frame construction, although this was a requirement of the RCAF specifications. So we noted that in the one department we had two types of specifications, one for Army buses and one for Air Force buses. We were also told of the defects that existed in these buses, and the Committee is at a loss to know how these defects would escape the attention of your quality control and your general inspection. I might say the Committee had a ride in both of these buses in Halifax. We rode in the Western Flyer bus, and we also rode in the International bus on two different occasions.

This is what was tabled. I do not want to be too lengthy.

A. Major Failures

Item	Reported Defect	No. of Cases
1	Complete engine failure.	6
2	Radiator shutter pins seized causing engine overheating.	3
3	Baggage compartment doors open when driving along the highway.	3
4	Fan idler pulley and bracket too weak causing broken pulleys and/or belts.	11
5	Steering gear housing accumulated water. Upon freezing caused extensive damage to internal parts.	5

B. Miscellaneous failures

Common to all Buses Held

• 0950

Item	Reported Defect
1	The tow hooks, front and rear, are too weak to be of any use (EFR raised). It appears that it will be necessary to reinforce the bumper and fit adequate towing attachments.
2	The door locking device (key operated) on the inside of the front door is dangerous. It would cause injury to personnel or damage to clothing (EFR raised).
3	Any alternator belt adjustment is impossible. The alternator is already at its maximum adjustment and bears against the power steering oil reservoir.
4	One of the heater hoses (with the shut-off valve) is floating loosely in the engine compartments. On some buses it is at times resting and rubbing on the fan belt or fan belt idler pulley.
5	The position of the vehicle battery is such that considerable difficulty will be encountered when its removal is necessary.
6	All spring U-bolts were found loose.
7	Brakes were improperly adjusted.
8	Passenger entrance light switch is not protected by a suitable stop and will be damaged by excessive door handle pressure.
9	The windshield wiper motor can only be reached through the opening left when the headlight is removed.
10	The spark plugs on the right side of the engine can only be reached by dismantling the side of the bus. It will then be necessary to cut a rectangular port through the inside of the compartment wall.

I must say here, gentlemen, that we were advised at the last meeting that with an ordinary wrench these spark plugs could have been removed.

11 No method can be found to gain access to the rear of the drivers instrument panel. One brake air pressure warning light is already burned out and it is impossible to replace it without extensive modification to the instrument panel.

12 Many of the radiator heater hose connections are almost impossible to reach for tightening of clamps or change of hose.

13 Cables and air line are run through the main conduit between the floor and the luggage compartment. These cables and air lines have connection which can only be reached by cutting the walls of the conduit.

Peculiar to one or more Buses

14 Power steering hydraulic lines leaking.

15 Front wheel brake control connected improperly.

16 One ignition switch non-serviceable.

17 Air lines for brakes leaking inside main conduit.

18 Engine idler pulley shaft came loose and pulley damaged fan. This shaft is spot welded to its bracket.

19 Excessive water is leaking into the luggage compartment through the inspection holes in the main conduit and through uncaulked holes where sheet metal has been joined. This latter failure could bring discouraging results should soldiers' personal effects be in the luggage compartment when it fills with water.

20 One radiator hose mounted with the clamp on an angle and only touching one side of the hose.

Now, this report was dated October, 1964 and drafted I presume by your Department.

Mr. Armstrong: It is a Department of National Defence report.

The Chairman: Now having had that table, gentlemen, I think you can understand why the Committee wanted you to appear before them, so that we could see why all these defects could be found in any one or set of buses after having been put through an inspection service department.

Mr. McCutcheon: Mr. Chairman?

The Chairman: Mr. McCutcheon?

Mr. McCutcheon: Just a word of explanation in connection with the statement you just concluded. You mentioned a bus called a "Western Flyer", and then you further referred to an "International bus". Now, it was always my understanding that the International people manufactured motor trucks. I did not know that they were in the bus business. Is my understanding correct that International supplies chassis, just by way of explanation before we get into it?

The Chairman: Mr. Irvin will answer that question.

Mr. Irvin: Western Flyer build their own buses and buy most of the running gear. They do not manufacture running gear; they buy running gear from various sources including International Harvester. The International Harvester Company are in this particular end of the bus business. They are in this particular bus business by virtue of manufacturing their own chassis and having somebody else build the body. So you have one manufacturer who builds a body-frame combination which is, in effect, a monocoque, though it is not a true monocoque, and he buys his components and that is how he produces a bus. The other manufacturer is totally responsible for his own chassis, manufactures all of it and then goes out to buy the body.

• 0955

Mr. McCutcheon: Then Mr. Hales' comment regarding an International bus was hardly appropriate.

Mr. Irvin: No, this is a Superior bus. The trade name of this bus is Superior, but the International Harvester Company are the company responsible for the chassis and the chassis defects. The Superior bus was built by a now defunct firm called Van Wilson which was the company responsible for the body defects.

The Chairman: Mr. Winch?

Mr. Winch: Do you still think it has the right name—Superior bus?

Mr. Irvin: Oh yes; I think it is as good as any other name.

The Chairman: Mr. Lefebvre?

Mr. Lefebvre: I wonder if Mr. Irvin could give us an idea of how his department in-

spects buses or looks over the buses that are offered to him. What events take place before he places an order for 34 buses as in this case?

Mr. Irvin: The first thing that we do is to sit down with the ultimate user of the buses and make certain that we have the requirement absolutely clear. We want to know exactly what he is going to do with the piece of machinery, what sort of speeds he expects from it, what sort of life he expects from it, how many passengers he is going to carry and what sort of general service.

Mr. Lefebvre: This would be the Department of National Defence?

Mr. Irvin: Yes, this is our own user and all of our commercial equipment is handled by one directorate who represents that user's service. In many cases they go right back to the people in the units in the field in order to get the user's requirement straight.

We then draft a performance specification. This is a specification which outlines all the details which will be required to provide a bus with the performance characteristics that the user has asked for.

Mr. Lefebvre: Then you call for tenders on this?

Mr. Irvin: No, we do not call for tenders, sir; we have no money. The DDP do the tender calling. We then pass that specification over to DDP and sometimes from that specification DDP make up a questionnaire which is related to and integrated back against the specification. Sometimes in the case of complex equipment we make up the questionnaire.

DDP then go out and ask for tenders. In the case of the bus—there is the questionnaire—131 questions are asked of the manufacturer as to whether he has met the clauses and the specifications, and in many cases where gearing is concerned, where the powers of engines are concerned and that sort of thing, how he proposes to meet it in his bid.

Mr. Lefebvre: In this particular case, were there only two companies tendering on this order of 34 buses?

The Chairman: I think that is Mr. Hunter's question.

Mr. Lefebvre: Well, were there only two interested?

Mr. Hunter: There were four or five; I do not have the details here.

Mr. Lefebvre: Were they all as close together as these two? Was it $12,000 between the first and second?

Mr. Irvin: There was a little over $1,000 a bus between the first and the second.

Mr. Lefebvre: Yes; $1,059.

Mr. Irvin: I am sorry; I do not have the information on the other bids.

Mr. Lefebvre: But before the order is given for the buses, is it your Department that recommends after checking over the questionnaires?

Mr. Irvin: Where the tenders come in, the Department of Defence Production looks over the tenders to see that they are in the correct form and that the questions on the questionnaire have been fully answered so far as all the formalities of bidding on a contract are concerned. They then send those tenders over to us for technical assessment. We go through the questionnaires and if we are not satisfied with the manufacturers' answers, we go back to the manufacturer and say "You have not answered this question to our satisfaction;

• 1000

will you provide a more detailed technical answer". We look for places technically where the manufacturer has attempted to go under the specification. Very, very frequently we catch him on tires; he has underestimated his weights—perhaps deliberately, perhaps not—and he is trying to get away with a smaller tire size than we like. These are the sort of things that we catch at that tender assessment. We then recommend to DDP as to whether or not the lowest tender or which of the various tenders meets the specification, sometimes with minor deviations, and what the position is in regard to the next step.

Mr. Lefebvre: Would your recommendations include seeing these buses prior to your recommendation or is it just strictly from the questionnaire?

Mr. Irvin: No. We would not normally in the case of a catalogue item—

The Chairman: The question here, Mr. Irvin, is did you personally inspect this bus before you recommended it be purchased?

Mr. Irvin: No, sir.

Mr. Lefebvre: They were bought without anyone in your department seeing these buses in operation whatsoever? Your recommendation came in strictly on the questionnaire?

Mr. Irvin: Yes, I think that is true.

Mr. Lefebvre: Just on paper?

Mr. Irvin: Yes.

The Chairman: In other words, the buses were recommended for purchase by your department without seeing them?

Mr. Irvin: No. We do not recommend the purchase sir. We simply recommend to DDP that we are satisfied this but meets our specifications.

The Chairman: You said this without seeing the bus?

Mr. Irvin: We certainly said that—we did not say "this bus". We said the manufacturer is tendering a bus which meets our specifications.

Mr. Lefebvre: But your recommendation, without seeing the bus, goes to Mr. Hunter's department.

Mr. Irvin: Yes.

Mr. Lefebvre: Now, Mr. Horner, did your department after you received the recommendation from Mr. Irving buy the buses without seeing them?

Mr. Hunter: I have just asked my officials, Mr. Lefebvre, and I understand we probably did not see them. This was a bus that was being defined as meeting the specifications and Mr. Glassford advises we were not sure they were actually in production.

Mr. Lefebvre: So, we have here a case where thirty-four buses were purchased without anybody ever putting an eye cn them? Further to this when these buses were delivered...

The Chairman: Mr. Lefebvre, will you pursue that further and see if any change has been made.

Mr. Lefebvre: I was coming to that, but I can do it right away if you wish. Has this policy been changed, Mr. Hunter, since this disastrous experience?

Mr. Hunter: Mr. Lefebvre, there is no set policy. If there is any doubt in our minds I am advised that we would ask to see a sample of anything we are buying. There is no hard and fast rule on that.

Mr. Lefebvre: I could understand this in the purchase of something that is continuously in production and being used such as two door standard motor car from one of the three manufacturers where everybody sees them every day and your department probably has bought thousands of them; but this, in fact, was the first time that the bus was produced, is that not correct?

Mr. Hunter: I believe so, sir.

Mr. Lefebvre: It was never produced before and yet we bought it without seeing it?

Mr. Irvin: The bus was a production item in the United States at the time we bought it.

Mr. Lefebvre: In the United States but not in Canada.

Mr. Irvin: The factory had supplied that model in Canada. There was one, actually, in Cornwall, at the time.

An hon. Member: With the rear engine?

Mr. Irvin: With the rear engine; the identical bus.

Mr. Lefebvre: I have just one or two more questions, Mr. Chairman. After these buses were delivered—and I do not want to take all morning especially on these spark plugs—it is intriguing to know that your mechanics, when they started repairing them, either did not have the proper knowledge or did not have the repair manual, otherwise they would not have taken the bus apart to remove the spark plugs had they known they could have gotten at them without doing this. Was no-one from the company who manufactured these buses invited to show your repair department how to service these buses? I think this is a very normal way of doing business in buying a fleet of buses. I understand in commercial use you invite the manufacturer to send his team of experts to show your mechanics just what to do.

• 1005

Mr. Irvin: Sir, that is unfortunately—we should have other witnesses here—not my department, as the engineering office. That is the maintenance department. Our maintenance director would be the one who would decide whether training on a particular new machine is or is not necessary. They would

normally do that under the system that was then in force. Today, of course, as you know, we are not only integrated—which means we do not have inter-service hassling going on—but in addition we have new regulations very recently promulgated which makes a purchase a system and we have a systems manager. We have a program systems manager who is in the engineering department. It is today the responsibility of the engineering department to see that all of these things are carried out; not to do them but to see that they are carried out. In the days of which we are speaking, we were operating under an entirely different organization.

The Chairman: May I interject here? Mr. Irving it would be within your jurisdiction and within your prerogative to contact the maintenance department and ask them to have a man go and look at these buses and check them over so that there would be no maintenance problems. Could you do this?

Mr. Irvin: Today, not only could I do it but I could see that it was done, but in the days of which we are speaking I am rather inclined to think that I would only have done that if I had thought that the machine was particularly difficult to maintain.

The Chairman: In view of the fact that you bought these buses sight unseen, would not that have been a good precautionary move?

Mr. Irvin: Not in view of the fact that the buses would normally be maintained at an International Harvester Company of Canada Ltd. dealer rather than in an army workshop.

The Chairman: Mr. Winch.

Mr. Winch: I would like to ask a supplementary. As I understand it, sir, it was your department that first of all had discussions with the department which required this, to make sure exactly what it was they wanted. Then it was your department that prepared the questionnaire. I want to make sure I got it correct that you said that you received the answers. I would like to ask in view of what has been discovered, did you, as an engineering department, approve the technical phases of this bus which are now so much in question? Did you approve them before the Department of Defence Production called for tenders for the contract?

Mr Irvin: Yes, sir.

Mr. Winch: You approved all this engineering matter which is now before us—the particulars on the engineering, technical and mechanical side.

Mr. Irvin: There is no way, sir, from the specification that you can specify life and reliability. I said, and I thought I said it clearly, that we write a performance specification. Our engineering judgment as to whether a product is good or bad can only be expressed in the specification.

Mr. Winch: Does not your study of performance also mean that your department engineers and specialists also have to study how it is built up in regard to fan belts, exhausts and all the other matters. Is that not a part of performance?

Mr. Irvin: The performance is that the bus must be adequate. The performance reads that the bus must be adequately cooled; it must have certain heaters; it must perform in certain respects; it must have certain gear ratios. We are a very small department indeed and if it has not got those features, we would expect our inspectors to find this when they test the bus.

Mr. Winch: But if it does have those specifications, do you not also check as to the situation with regard to repairs. Is that not part of your study as an engineering department.

Mr. Irvin: Not in the case of a catalogue item, sir. We would do this with a special. For instance, if we were buying a large snow blower, which is of a new type manufactured within the last year, from, say, Sicard, or a large sweeper, or a piece of new engineer equipment or something like that, we would probably go over it in great detail. In many cases we frequently buy one and test it. When we do this it is a very long procedure because

• 1010

it puts the purchase of the one into one financial year and the other purchase into the next financial year. This is a complex operation. We do not normally test catalogue items from reputable manufacturers.

Mr. McCutcheon: May I ask a supplementary question?

The Chairman: Yes, Mr. McCutcheon.

Mr. McCutcheon: Is it usual for a service bulletin to be issued in order for a fully qualified mechanic to get at spark plugs?

Mr. Armstrong: I would say no, it would not be. But I think you must remember that that report that was read, particularly the one relating to the spark plugs, was something that happened in connection with one bus, was it not? Some mechanic could not find a way to get at it. I do not know why in the heck he could not, but he could not, and he was reported and was instructed how to do it.

Mr. Irvin: If I may answer your question, I myself looked at the plugs and reached to them with my ordinary office clothes on the other day. I had my jacket off and my shirt on. I have seen a lot of modern passenger cars where you have one or two plugs that are much harder to get at than the back plug on that International Harvester.

The Chairman: Mr. Irvin, you said the other day, do you mean last week?

Mr. Irvin: I mean on Friday.

The Chairman: On Friday.

Mr. Irvin: Yes.

The Chairman: That is the first time that you had seen the spark plugs?

Mr. Irvin: That is the first time I had looked at the spark plug problem, yes.

The Chairman: You are responsible for okaying the purchase of them and last Friday was the first time that you had seen it?

Mr. Irvin: The first time I had looked at that spark plug problem. My people had looked at it and had given me the answer.

Mr. McCutcheon: I must refer back to this sentence that the Auditor General has here, "By dismantling the side of the bus and then cutting a rectangular port." I believe it was you, Mr. Armstrong, who said that the company had sent out a bulletin or something to that effect that we could get at those in eight minutes with ordinary tools. Now who in the world was cutting the holes in here? What kind of a mechanic was he?

Mr. Armstrong: It did not say that the hole was cut in. It said that is the only way they could get in. I do not know whether they cut the hole in there or not.

The Chairman: Let us establish right now whether or not they did cut a hole in the side of the bus?

Mr. Armstrong: No one seems to know.

The Chairman: Mr. Irvin, when you looked at them the other day...

Mr. Irvin: They did not, no.

Mr. Armstrong: If you meant did they eventually have to cut a hole to get at them, the answer is no. As I explained last week, there is access to the spark plugs but for some reason or another which frankly, I cannot explain, this mechanic did not find it.

The Chairman: Mr. McCutcheon, before we proceed we want to get this cleared up. The Auditor General's Report says:

> that spark plugs on the right side of the engine could only be reached by dismantling the side of the bus, and then cutting a rectangular port in the compartment wall.

Now I would think they must have cut a hole at first in order to get a spark plug out or you would not have put it in the report. Would you enlarge on that?

Mr. Long: Mr. Henderson used comparative wording to that in this departmental report—it is almost identical. We, of course, did not see the buses, we did not see any holes, but the Department had reported that this was a fault in these buses.

The Chairman: I will read that again for you.

Mr. Cafik: Mr. Chairman, I wish you would because I had the impression that that report referred to one particular bus. I do not know if that is true or not.

The Chairman: "Common to all buses."

Mr. Cafik: That is what this says, what does the other say?

The Chairman: It says that too. It is item No. 10. Mind you, this report was written by Department of National Defence people. We should ask who would draft this report?

Mr. Irvin: This report would be from a mechanic, probably an Army mechanic, probably a private or a corporal to his sergeant or staff sergeant and then to a captain probably in charge of that particular workshop and then finally, through various long tunnels of communication, I might or might not hear about it.

• 1015

Mr. Bigg: I have a supplementary. If this is not true then the whole report is nonsense. Did he have to take off the headlight to get at the battery?

The Chairman: Order, order. Mr. Bigg, we are talking about spark plugs. I do not want to get lost in another windjam now.

Mr. Bigg: I am lost in one now.

The Chairman: Let us stay with one item, the spark plugs. We have asked who prepared this report and how it went through various tunnels up to the head and eventually found its way into the Auditor General's Report. We at this point are trying to determine if the same wording is in the Auditor General's Report that is in the communication made by the Department of National Defence. It says, "common to all buses". This is Item 10, dealing with spark plugs:

> The spark plugs on the right side of the engine can only be reached by dismantling the side of the bus. It will then be necessary to cut a rectangular port through the inside of the compartment wall.

Mr. Cafik: May I just see that for a moment? Did that report that was put out by the Department and which came from some private or whoever it might be, find itself at some stage of the game being an authentic report of the condition on those buses or is it just something lying around in a drawer that the Auditor General happened to get hold of?

Mr. Armstrong: I suppose the Auditor General should answer but my assumption is that the Auditor General reviewed the file, reviewed this report, and of course his observation was on it. I think I explained last week I had a report on this that a user unit, as I think Mr. Irvin has said, did report this as being the condition of the bus. This got reported back and eventually got listed on this list of all of the defects that the various people in using this bus had found. It was reported by a user unit that this was brought to the attention of International Harvester Company and they demonstrated that it was not the case, that the spark plugs could be removed, just as I said.

Mr. Cafik: When was it brought to the attention of International Harvester, at the time or recently?

Mr. Armstrong: I think at the time. I have not the exact date here.

Mr. Cafik: Is there no subsequent report on file indicating that that report was in error?

Mr. Armstrong: I think we indicated, as I recall—perhaps you would correct me on this—that this was in doubt. I am not sure whether we did or not at the time and we had it subsequently investigated and found that it was in doubt.

Mr. Cafik: May I pursue this further. When the Auditor General brought out his report in 1967 surely your Department had a look at it and you must have at that stage of the game known that this statement was not correct. Why was it not corrected at that time prior to being published in this book?

Mr. Armstrong: As I say, I think we indicated it was in doubt but I am not sure whether we did. I do not happen to have the correspondence here.

The Chairman: I think I might answer that, Mr. Cafik. I think you were absent at the last meeting when this point was explained. There was a time differential between the time the Auditor General's Report was printed and the Department had found that they could remove these spark plugs by the use of an ordinary wrench.

You are quite right that this report went to the Department of National Defence from the Auditor General. And if that statement in there was not correct, they had the liberty to remove it. They did not remove it in view of the fact that it was in this report, but in the meantime they did find a way of getting these spark plugs out without cutting a hole in the bus.

Mr. Cafik: I want to pursue it a little bit further. It would seem to me that the Department of Defence, with a statement like this which is obviously pretty serious and is obviously going to come before a committee of the House of Commons, would immediately have despatched somebody to have a look at those buses to find out if this was a true statement or not without having to wait to go through a whole lot of slow laborious processes to deter-

• 1020

mine the truth. I cannot understand the apparent lack of concern that the Department would have had for such a serious charge as this—until this time, at least.

Mr. Armstrong: This is not a lack of concern at all for a serious charge. The statement is made. Do you have the correspondence on it? I do not happen to have it with me.

Mr. Long: If I might explain, Mr. Cafik, the report that we referred to is a letter written over Mr. Armstrong's signature to Mr. Hunter, and we considered that that was at a fairly high level. The information that the spark plugs could be reached was given to us. As Mr. Henderson has mentioned in the past, Mr. Armstrong always very carefully sent us comments after the report is issued. In that comment, which is dated April 5, 1968, some time after the report was tabled, it is stated:

> In so far as the observation on the inaccessible spark plugs is concerned, there was one user report on this but it was later demonstrated by the supplier that using ordinary tools the four right bank spark plugs, could, in fact, be removed and replaced in eight minutes without any modification to the bus.

That was the first we knew that the report from National Defence to the Department of Defence Production was in error on this point.

Mr. Winch: What is in the letter which you said was of importance, which I presume was dated before that?

Mr. Long: This is the letter from which the Chairman read. It is dated November 30, 1964.

Mr. Winch: And what is in it?

Mr. Long: It lists the various defects.

Mr. Winch: So it was an official letter from Mr. Armstrong when you were investigating and preparing a report that this was the situation at that time?

The Chairman: Mr. Cafik, have you finished? I think your point was made. You cannot understand why the Department of National Defence did not have this withdrawn?

Mr. Armstrong: We do our best. We get these reports, and, as the Auditor General has said, we make our observations on the reports as quickly as we can. I do not think we can guarantee that everything the Auditor General says is accurate. It just is not possible for us to do that. Although we do our best to do that, I just do not feel that I can assume that responsibility.

We do what we can in this area, but occasionally you are going to get statements and a report of this kind that will not be accurate. In that case, perhaps the Public Accounts Committee has a responsibility for recognizing that it is not accurate. Perhaps this is one of the problems.

Mr. Cafik: If I could make one last comment, Mr. Chairman, it seems to me that if a responsible person—and I am not saying you are not responsible—purchased a lot of buses and found that it appeared that you could not get at the spark plugs without ripping the bus apart, or cutting holes in it, this would strike him as being a very serious thing and he would immediately dispatch somebody to have a look at it and find out if it was true. I just cannot understand why this was not done as soon as it was brought to your attention.

Mr. Armstrong: You say it was not done, but you are talking about an Auditor General's Report that came to us in 1968.

Mr. Cafik: In 1967?

Mr. Armstrong: In 1967; and this was long after the letter in which we made these observations and said, "Now, let us get this corrected".

Mr. Cafik: What was the date of your letter?

Mr. Armstrong: That was in October, 1964. We said, "Now, these are the defects we have found in these buses and we want some action taken".

Mr. Cafik: Yes.

Mr. Armstrong: Not when we got the Auditor General's comment. And when this one was investigated it was found that it did not exist as a problem.

Mr. Winch: Mr. Chairman...

The Chairman: No. Mr. Cafik? We are on a very delicate point here. Follow it through. And then it will be you, Mr. Winch.

Mr. Cafik: I am really becoming confused now. In 1964, apparently, there was your letter saying there was something wrong with the accessibility of the spark plugs. When did the Auditor General prepare this report dated 1967?

The Chairman: Mr. Long?

Mr. Long: This is the report for the year ended March 31, 1967.

Mr. Cafik: All right; then when did you make your observation about not being able to get hold of the spark plugs?

• 1025

Mr. Long: This would be cleared with the Department possibly some time in December, 1967.

Mr. Cafik: From what you have said, that appears to be a couple of years after you originally wrote that letter.

Mr. Armstrong: That is right.

Mr. Cafik: It would also appear that in that two-year interval you really did know that the spark plugs were inaccessible.

Mr. Armstrong: That is right.

Mr. Cafik: Then when the Auditor General was preparing his report in December 1967, why was that information you had not made available to him?

Mr. Armstrong: We had to go back and check it. We just did not get it back in time to make it available to him.

Mr. Cafik: But you did have the information.

Mr. Armstrong: His report comes out in February. We received the letter in December, and we did not have it checked and back to him in time. Eventually he got the letter that said that this was not the case. Perhaps in terms of timing that is unfortunate, but there are the facts; and it was not the case.

Mr. Winch: Mr. Chairman, that is my very point. As I remember the information we were previously given, it was to the effect that before the Auditor General reaches his final conclusions and sends his report to the printer he takes up with each department the matters affecting them upon which he is going to report. That was the definite understanding.

That being the case, and your letter, Mr. Armstrong, having been written in 1964—and it was not until the 1967 report was in that you discovered it—did the Auditor General not follow what we were told was his usual practice and consult with your Department on what he was writing upon, and was this not included? If so, why was it not corrected?

Mr. Armstrong: Let me put it this way: I was not aware that the Auditor General was going to include this in his report until I got his letter, which I think you said was in December, 1967. When we receive these we immediately send them out to the various areas in the Department where they can check the facts, for the purpose of accomplishing the objective that we stated earlier—that of checking the facts. It is not always possible to check the facts before the report is printed. We just did not succeed in having this particular one checked in time.

Mr. Cafik: I do not want to be unfair by any means, but I understand from your previous testimony on this matter today that the facts were known?

Mr. Armstrong: Yes, I think they were known.

Mr. Cafik: What you are putting forward then is the argument that although the facts were known they were not recorded in any formal manner and that it took a few months to find out what was already known?

Mr. Armstrong: I am not sure whether or not they were recorded, but we would have to go back through the Department and find out, on these buses, all of the problems that arose out of this comment.

The Chairman: But you already knew about the spark plugs, did you not?

Mr. Armstrong: We knew about the spark plugs, but the reply came back to us eventually and it was too late to keep that particular thing out of the report.

Mr. Winch: I have just one further question...

The Chairman: Mr. Cafik, and then I will come back to you, Mr. Winch.

Mr. Cafik: This is my last question on this matter. When you came up with the answer and knew you were too late to have it changed in this book did you write to the Auditor General and say, "Unfortunately, we are late in giving you this information, but the statement made in your report of such-and-such a date is incorrect on the basis of this information". Was there such correspondence?

Mr. Armstrong: I think the Auditor General has already said that...

Mr. Long: Mr. Cafik, on April 5, Mr. Armstrong commented on all National Defence notes in the report.

Mr. Cafik: All right.

The Chairman: Mr. Long, while you have that before you will you give us the exact date that the copy of what is in here went to the Department of National Defence?

Mr. Long: Mr. Chairman, as came up earlier in your deliberations on this report, in National Defence our staff is working right in the Department and our Director is right in the Department. Things were being cleared verbally and by hand rather than by correspondence. As of the date that this matter first came up in these meetings, this has been changed, and from now on it will be by correspondence. Therefore, I cannot give you the date that there was verbal clearance, but all of these items were shown to people in the Department.

The Chairman: Then may we ask you, Mr. Cross, as an auditor in the Department, whether you at any time spoke to anybody in

• 1030

the Department, or told anybody, that you were going to have in your report this business about having to cut the side of the bus to take spark plugs out?

Mr. A. G. Cross (Assistant Audit Director, Branch "C", Auditor General's Office): This information would be disclosed in the original draft that was sent to the Department.

We were looking through our papers just a moment ago to see if we could determine the date that this was probably sent to them. There is some uncertainty from the information we have here, but it appears that it was perhaps in the latter part of October, 1967.

The Chairman: In other words, if that is a fact—and you will establish whether or not it is—then the Department of National Defence had from October to December to correct this item that was going to appear in the Auditor General's report, and they did not have it removed in that period of time?

Mr. Winch: This is the very point that I would like to ask about, and I hope it will be my final question on this particular matter. It is in view of what Mr. Armstrong has just told us.

Mr. Armstrong, the Auditor General's report is a mighty important report, because it is published and it comes to this Committee. The matter occurred in 1964, but the actual statement in the report did not go to the printers until December, 1967. You were informed, I gather, in October about this specific matter.

I then would like to ask this. Do you not consider that the Auditor General's report is a mighty important document and therefore anything which you knew was going to be in it, and it is drawn to your attention, in view of your answer that it took a long time to get answers back, do we understand from that, that on this important document affecting your Department you do not give top priority in getting the information so that corrections can be made on the basis of information which you had a long time before?

Mr. Armstrong: The answer is, of course, that we give top priority to getting the information. I said that I cannot guarantee that we will have these checks in complete detail before the report is printed. Therefore, I simply cannot accept, myself, the responsibility for the accuracy of everything that is given in the Auditor General's report. We will give it, and we have given it top priority, and we will continue to do so.

The Chairman: Gentlemen, I want to get on to the technical part. Mr. Mazankowski you are next. I would like you to direct your questions to these defects that are the responsibility of the gentlemen here.

Mr. Mazankowski: Thank you, Mr. Chairman. I would like to direct this question to Mr. Irvin. In your opinion, in the majority of the failures that were involved in these vehicles, would you say that it was a matter of an inadequate inspection at the time of the acceptance of the buses, or a matter of inadequate or improper specifications? Or was it a matter of the quality of the vehicle that we purchased.

Mr. Irvin: That question is a very broad one indeed. Insofar as the ability to inspect, I can only speak from the engineering aspect of the thing. The specification called for a 100-mile road test. I myself did a considerable road test on Friday morning on the bus which had 76,000 miles on it. I could not, in that road test, even with that age of machine, find any evidence that the major and expensive defects might occur, but yet I know from experience that that bus might have burst an engine on the way back from Montreal. I know this from the record. But I had two of my technical people with me and even with the three of us strolling around that bus we

could not find that the engine of the bus for instance was working in an uncomfortable climate at all.

Insofar as the really expensive failures are concerned, these are extremely difficult. We

•1035

are not talking about a bus here when we talk about the expensive failures; we are talking about one part. There is the part. That is a part of the engine that worked very well for three years when the engine was mounted in trucks. When that engine went in the back of the bus, for some reason or other the climate of its operation changed. I have a theory as to why the climate changed. I do not know whether the manufacturers agree with me.

To make a long story short, we finished up with another part that you would normally only find in an aircraft engine or in a racing car in order to make that particular part stand up. There is the part from a satisfactory truck engine. It did not work at all, nor did the next one, nor did the next one. And finally we got that part and that worked in the rear-engine bus.

That is the expensive failure, which in fact is what drew this whole matter to your attention. If it had not been for those engine failures I do not think you would have paid any attention to the bus at all. This sort of thing can happen in the engineering business. It is a matter of high-frequency vibration, torsional vibration on the crankshaft of that engine which was present only in this particular engine application, apparently.

The major failures, the major difficulties like that, were not inspected. Some of the minor things were probably inspectable, capable of being caught on inspection. Some of them that the company immediately changed were caught on inspection.

A good many of these items on this list which your Chairman read to you earlier are not defects at all. They are simply normal routine maintenance operations which have to be carried out on a machine like this. For instance, the slack U-bolts. The U-bolts are the large bolts which attach the springs to the back axle, and it was the back axle they were talking about. In order to deal with the torque reactions of this axle at the back end of this bus we had double springs, and we had U-bolts about this long. Those U-bolts in the first 10,000 miles are probably going to have to be tightened three times, at least three times, and from then on I would say that at about every 20,000 miles during the routine inspection they should be tightened. I think you have all driven automobiles long enough and taken enough interest to realize that you take your car back to the dealer two or three times and he tightens the U-bolts. That is the U-bolt item.

Brake adjustment is the same way. Brakes have to be adjusted after some usage. As for the alternator belt adjustment, I have to go back five or six years here, but certainly at the present time we have no trouble adjusting alternators. I have a notion that either the belt that was looked at in that particular case was too long, or it had stretched.

The heater hose arrangement, which is Item 4, a shut-off valve floating loosely in the engine compartment. This is not correct at all, because there are actually four hoses that come together at one particular place. There is no reason why the relatively small valve arrangement, which has only to be worked twice a year to either turn the heater on or turn it off, has to be individually supported, and if it were touching anything it was because somebody had replaced one of the hoses too long. In other words, a careless mechanic put in too long a hose, which advanced that piece over too close to the fan belt. That is a maintenance item. This is something in the maintenance.

I cannot make a straightforward or simple answer to your question, sir, I am sorry. I would have to take a long time, divide the list, and discuss each and every item with you in detail.

Mr. Mazankowski: In other words, many of the defects that the Chairman had listed at the opening of the meeting would be classified as service maintenance requirements, rather than defects.

Mr. Irvin: Yes.

Mr. Mazankowski: What would you have to say about the position of the battery? According to the report they say the position of the battery is completely inaccessible, and it is practically impossible to get at. There is something about the windshield wiper motor as well. These things bear a great deal of significance when it comes to servicing this machine. Is this not part of the problem why the cost of operating these vehicles per mile is said to be excessively high.

• 1040

Mr. Irvin: No, sir. The battery in that bus is probably easier to get at than the battery in my Jaguar.

Mr. Mazankowski: Why is it in the report then? It seems ridiculous. It is very contradictory, and I think we are trying to condemn a manufacturer here in a report in which there may be some information that is false. I am only looking at it with an open mind.

Mr. Irvin: Yes, the battery is awkward. Many batteries are awkward to remove. I do not know where the report came from, but I wonder if I could say one thing. When you put a piece of troublesome machinery in the hands of the troops, and this one was troublesome, one interesting thing—and this is a matter of record—is that things will go wrong with that machine and complaints will be levelled against that machine which are never levelled against a piece of machinery which they happen to like. How that gets into the hands of the Auditor General, I do not know, but I can quite imagine that it could. It is a fact, that if you give the air force an airplane it does not like they will find all sorts of things wrong with it, as will the navy with a ship it does not like or the artillery with a gun it does not like.

This bus had certain major defects which could not be foreseen by anybody: by us, they were not foreseen by the manufacturer, and furthermore, the bus was of a different type from a bus to which the services were accustomed, and they did not like it. There was no way I could turn it down because it met the specifications. When the troops do not like something you can get a lot of complaints.

Mr. Mazankowski: Mr. Chairman, why would the manufacturer not foresee this if it is, in fact, a catalogue item? Also, the Chairman cited an instance where the air gauge,—and I presume he is talking about the air gauge on your braking system—has not been operational and it is impossible to remove and replace it. Could you comment on that as well? This becomes a safety factor because without an air gauge it would be practically impossible to operate the bus.

Mr. Irvin: Once again I do not know where the information comes from. All I can tell you is that I can get at the air gauge of that bus, but then I have been pulling vintage cars apart for 35 years so I can get at almost anything.

The Chairman: Following on Mr. Mazankowski's questioning, you say you do not know where this comes from or who makes the report. As head of the inspection services part would it not be conceivable, and only good management of operations, that you would have a copy of this sent to you and it went to the powers that be? You have never seen this and know nothing of it?

Mr. Irvin: Unsatisfactory service conditions which were linked to difficulties of maintenance will normally under this system, or did normally under the system invoked at that particular time, stop at the maintenance authority. They did not come to the engineering department unless were questions regarding difficulties of maintenance. Questions which involved or necessitated work by the engineering department would come to us.

The Chairman: Mr. Mazankowski and then Mr. Bigg.

Mr. Mazankowski: Does your department set out the warranty requirements for vehicles that are purchased by the Department?

Mr. Irvin: No.

Mr. Mazankowski: What were the terms of the warranty on these vehicles?

Mr. Hunter: Mr. Chairman, the terms of the warranty were the standard warranty clause which is shown in DDP-26A, which covers our supplies provided at firm prices. No. 8 of DDP-26A reads:

> 8. Warranty
>
> Notwithstanding prior acceptance of the finished work, and without restricting any other term of the contract or any condition, warranty or provision implied or imposed by law, the contractor, if requested by the Minister to do so at any time within 12 months from the date of delivery, shall:
>
> • 1045
>
> (a) replace or make good at its own expense any finished work, excluding Government Issue incorporated therein, which becomes defective or which fails to conform to contract requirements as a result of faulty or inefficient manufacture, material or workmanship;...

Mr. Mazankowski: I would like to go back to Mr. Irvin for a minute because he did not answer the part of my last question. Because this was a catalogue item, why were not some of these defects foreseen? You stated earlier the fact that this unit was being manufactured, and was a catalogue item meant that many of these things were not foreseeable. If it was a catalogue item it should have been forseeable. What would your comment be in that regard?

Mr. Irvin: I think we all know the expression "a lemon" in reference to automatic equipment. There are a lot of lemons produced. If you look across the whole industry it is surprising how many lemons are put in.

Mr. Mazankowski: I did not expect to hear that from an engineer.

Mr. Irvin: Oh, yes, we call them lemons too. We are buying the cheapest article which will apparently do our job. We inevitably buy some lemons; we are going to continue to buy some lemons; we cannot avoid it, because we are buying the cheapest articles which will do our job. We have manufacturers bidding against each other to give it to us as cheaply as they possibly can so that they can get the business. We do get some bad machinery, and we will continue to get some bad machinery. I am not complaining of the system. The only way in which standards can be raised is to allow the engineering department to use its own judgment as to what sort of machine should be bought, in which case, of course, you cannot use the tendering system against a specification.

Mr. Mazankowski: I will have some other questions, Mr. Chairman.

The Chairman: Mr. Bigg and then Mr. Cafik.

Mr. McCutcheon: Mr. Bigg, with your permission, may I ask one supplementary right now.

The Chairman: All right, but he has been waiting a long time.

Mr. McCutcheon: I know that. This can be answered very quickly.

The Chairman: Mr. Irvin, will you give us short answers from here on.

Mr. McCutcheon: What were the major engine failures referred to here?

Mr. Irvin: The initial failure was a failure of the cooling system which was corrected by the manufacturer very early. The rest of the failures were, as far as we know, almost entirely the failure of the connecting rod bolt which resulted in a catastrophic engine failure.

Mr. McCutcheon: What model engine was this?

Mr. Irvin: This is a 345 cubic inch V-8.

Mr. McCutcheon: This is a very successful motor in their trucks is it not?

Mr. Irvin: Yes.

Mr. McCutcheon: Thank you.

Mr. Bigg: I understand that all these buses were identical? Is that correct?

Mr. Irvin: Yes, sir.

Mr. Bigg: And from the start no major changes were made in them except for the luggage compartment which was not adequate from the start?

Mr. Irvin: Yes.

Mr. Bigg: So that any of these complaints would be standard? The battery would be in the same position in every bus and the spark plugs would be in the same position in every bus?

Mr. Irvin: Yes.

The Chairman: Mr. Bigg, could I follow in on the luggage part here and then we will come to you, Mr. Cafik. Mr. Irvin I think you said you were responsible for the specifications?

Mr. Irvin: Yes.

The Chairman: Then, how would you answer this observation?

> The price was later increased by $12,580, the cost of modifying the luggage space to meet the stowage requirements which had not been satisfactorily defined in the specifications.

The question is: Why were these specifications not satisfactorily defined so the government, the Crown, the taxpayer, would not have to pay $12,580 more?

Mr. Irvin: Because we are human and we occasionally err, sir.

The Chairman: That is a good, straightforward answer, and I wish all the witnesses

would do the same. Then, when we come down to the other specifications it says:

> At the time the contract was placed Army specifications did not require integral frame construction . . .

and yet in the air force they did. Could you explain the difference to the Committee?

Mr. Irvin: There are four ways you can build a bus. You can build it with a separate body and a relatively flexible frame and put in good mountains. You can build it with a stiff frame and a monocoque body and tie the two together with relatively simple mountings. You can weld the frame on to the body

• 1050

and call it a monocoque although it is not truly a monocoque; or you can build it like an airplane as a true monocoque. The industry throughout the world has been arguing the question as to which is the best way to build vehicles almost since the beginning of vehicles. A Volkswagen is a true monocoque, a Rolls-Royce is a frame and a body. It all relates to production volumes, tooling and those sort of things, and the preference of the individual designer.

The Chairman: Well, why the difference between the army and the air force?

Mr. Irvin: Sir, in those days we were not integrated and, unfortunately, we differed on many points. Fortunately, those days are over.

The Chairman: You say you erred in the specifications. You were forthright enough to tell us that you made a mistake and that it cost us $12,580 for this mistake. Would this be done by members of your staff in your department?

Mr. Irvin: We specified the luggage weight, we did not specify precisely how the luggage was to be carried. There was provision in the design of the machine to carry luggage of that weight, there was not sufficient bulk capacity to carry the luggage completely. I may say that I am correcting specifications even today and improving specifications which have been in use ever since World War II.

The Chairman: All right. Mr. Bigg, were you finished?

Mr. Bigg: No, I was not. I want to say for the record that I am glad of this feature of unification—if we are going to regard the performance of a vehicle as being just as important as the price. Performance, accessibility and manitenance is just as important as price. There is no sense our buying a cheap vehicle which cannot be maintained and made available when our armed forces need it. I am a soldier myself and I am also a taxpayer.

Mr. Cafik: I have a number of very short questions in relation to the over-all price we are paying for these buses and what it really means in dollars and cents to us. I think I will direct the first one to the Auditor General's department.

In the last paragraph on page 59 you talk about $40,669 being recovered from the manufacturer by the government in lieu of expenditures for repairs. On page 60 in the second last paragraph on this item you speak of the repairs being $235,595 over a three-year period. My question is as follows. Has that $40,669 been deducted from the $235,000? In other words, are the repairs really $40,669 more than the $235,000 or are the repairs in the net cost to the government really $40,669 less than the $235,000? It surely ought to be one or the other.

Mr. Long: The $40,000 is in the $235,000. The $235,000 is an over-all figure.

Mr. Cafik: Very good. What is the life expectancy of a bus?

Mr. Irvin: Of this form of bus, between 100,000 and 150,000 miles, depending to some degree on the service. It depends entirely on the service. On our radar sites we use buses of this sort but we do not expect to get anything like that mileage.

Mr. Cafik: In the three-year usage of these buses—that is, as of March 31, 1967—how many thousand miles had they gone? In other words, what part of their life expectancy had been eaten up?

Mr. Irvin: Between a third and a half.

Mr. Cafik: Between a third and a half.

Mr. Irvin: Yes, in general.

Mr. Cafik: If you relate the $235,595 that it cost in the first three years for repairs to the difference in the cost of the buses from the second low manufacturer or low bid to the bid that you actually accepted, you will find something rather coincidental. The repairs were $235,000 in rough figures. There was a

difference of $36,000 between the low tender—the one you accepted—and the second low, which is used for reference purposes here, and we got back $40,669 from the manufacturer in lieu of faulty workmanship, which totals $76,669. When you subtract the cost of the buses from the one in the second we end up with a difference of $89,000, which means that in effect the cost difference in that three-year period between having bought from the second high bidder and having bought from the people we did buy from, is $12,500.

Mr. Long: That is correct.

Mr. Cafik: That is really what we are talking about. And the $12,500, oddly enough, is almost the same figure as the difference in the luggage price—it was $12,580 to change the compartment space. Had you bought the

• 1055

buses from the second low bidder would you have had to change the specifications for luggage in that case as well?

Mr. Irvin: No, sir.

Mr. Cafik: You know that for certain?

Mr. Irvin: Yes.

Mr. Bigg: You would still have to maintain them.

Mr. Cafik: Yes, you would have had to maintain them. But I have already brought that in with the difference in maintenance costs of $146,000.

Since the payment that you got of $40,669 and there have been two periods when they have come and done work on it over and above that at their own expense under the guarantee—has the government made any further claims under the guarantee?

Mr. Armstrong: No, that is the total claim that the government made on the Company. I believe the Company did some other work but it would not affect your figures.

Mr. Cafik: And is there any intention of making further claims at this stage?

Mr. Armstrong: That was the final settlement under the warranty.

Mr. Cafik: Am I correct in understanding that following the two periods of repairs paid for by the manufacturer that the Auditor General makes the observation that there has really not been any significant improvement in the maintenance costs or the performance of this equipment? Is that a valid observation? You will find that in the second paragraph on page 60.

Mr. Irvin: Sir, we have greatly improved the life of engines. We are still having some isolated failures of engines. Routine maintenance, as the age of the vehicle increases, inevitably goes up. We are up against corrosion damage and that sort of thing on some of these, but certainly we are not getting anything like the catastrophic engine failures that we had initially.

Mr. Cafik: Could I ask one last question.

Mr. Winch: Mr. Chairman, may I ask a supplementary.

Mr. Cafik: I have only one question and then I think you could proceed, Mr. Winch.

The Chairman: All right.

Mr. Cafik: Would you say that the maintenance costs of one of these buses versus the other type that you have had, now that all the repair work and warranty work has taken place, is no greater than the cost of the other now, or would you still feel that these buses cost more to maintain?

Mr. Bigg: At the same age, of course.

Mr. Cafik: Yes, of course, at the same age. You have to take all things as being equal.

Mr. Irvin: No, I think we are looking at a bus that is more expensive, although it is very hard to tell. Already in the case of the competitive bus which was purchased by the air force we have had to change three transmissions in fact we have had to change the whole transmission type—and I am currently negotiating to change the other three. Whether we are going to run into more things like that with the other bus, I do not know. Whether we have really cleaned up the expensive problems with this bus, I would need a crystal ball, sir, to tell you.

Mr. Cafik: I would like to ask for some information, and they can give it to us at a later date. This report covers the servicing and maintenance costs up to March 31, 1967. I would like to request that we as a Committee be given the maintenance costs from that point on until the end of the year and relate

that on a per mile basis, as was done in this Auditor's Report with the previous type of bus. Does anyone have that?

The Chairman: I imagine Mr. Long might have figures for that.

Mr. Long: We have worked-up figures comparing these costs over a length of time which has expired since we first acquired the superior bus. Twenty-one of those were

• 1100

acquired in 1963 and 15 in 1964. The cost of that bus up to December 31, 1968, was 19.19 cents per mile, including the $45,000 that was recovered. If you remove that it would be 17.6 cents per mile.

Mr. Cafik: Why is that higher than the original figure of 15.7 cents?

Mr. Long: The buses are getting older all the time.

Mr. Cafik: Yes, but apparently they have been fixed in the meantime as well.

Mr. Long: This is the cost. I cannot explain why.

Mr. Cafik: All right. Very good.

Mr. Long: I can give you the comparable costs for the Western Flyer bus.

Mr. Cafik: Would you do that, please?

Mr. Long: This is for comparable features. Some of the Western Flyer buses were acquired in 1949 and are still in use, but for an equal period the cost is 8.13 cents per mile.

Mr. Bigg: Under the same road conditions?

Mr. Long: Yes.

Mr. Lefebvre: Does the cost incurred per mile include replacement of those buses with other types of buses while they are being repaired?

Mr. Long: This would just be the maintenance cost of the bus.

Mr. Lefebvre: This might also be an important cost factor.

The Chairman: Gentlemen, it is now 11 o'clock. Mr. McCutcheon.

Mr. McCutcheon: On a point of order, Mr. Chairman, if I may. I am vitally concerned about evidence that has come out at this hearing relative to a manufacturing company from my area. Can we accept Mr. Cafik's figures as being correct, that the total maintenance and the total cost of these International chassis is not terribly out of line with the other product that was manufactured?

The Chairman: Mr. Irvin, is that a fair statement?

Mr. Cafik: I want to correct something in the record. I did not draw that conclusion. I would have drawn that conclusion if the Auditor General had indicated that after that three-year period the maintenance was comparable between the two types of buses, but it obviously does not appear to be comparable and where the loss is involved on the part of the government is in subsequent maintenance, but for the first three years there is no significant difference between the cost of one vehicle and the other.

Mr. McCutcheon: This is exactly my point, Mr. Chairman. I think I also heard that this report was in the hands of Mr. Armstrong in October of 1967 and that he did not deign to reply until April of 1968. I think the crux of the whole thing is this terrible delay, in my humble opinion, of six months in replying to notification from the Auditor General, and probably if this had been done more promptly this bad publicity for International Harvester might not have been generated so much.

Mr. Winch: I have a question, Mr. Chairman. Did I understand Mr. Irvin to say that had they bought the other bus there would have been no necessity for a change in the luggage compartment?

Mr. Irvin: Yes, that is right, sir.

Mr. Winch: Did they both not tender on the same specification? Why did you have to have one and not the other?

Mr. Irvin: No. In those days we were not integrated. The Air Force elected to use a slightly differing specification to ours and in the second bid the manufacturer, although there was no difference in the clause regarding the luggage facilities, provided both the load capacity and the space. The low bidder provided the load capacity but did not provide the space, although they were both bidding on the same clause.

• 1105

Mr. Winch: They were both bidding on the same clause.

Mr. Irvin: Yes, the same clause.

The Chairman: Gentlemen, so that we will have a few notes or observations when we come to write the reports of this Committee—and these may be altered or finalized—I would sum up our meeting this morning in this way. That when the Department was buying a new type of bus or a bus that they had not normally bought before, knowing that the engine was in the back rather than the front, and so on, that more care should have been taken in examining and checking over the bus. I would say that the Committee was amazed to learn that the bus was bought sight unseen and that those responsible for making a report to the Department of Defence Production approved it without having seen the bus. There would appear to be a lack of communication between the maintenance department and the inspection people. I think that immediate care and study should be given to the draft report of the Auditor General's Department to all departments of government and that immediately upon receiving the Auditor General's draft report anything that is in there that is not in accordance with the thinking of a certain department should be corrected immediately and the Auditor General so informed, because this Committee is most anxious that everything that appears in here be authentic and as agreed upon by everyone before it is printed.

We will close with that. As I say, those are just some rough observations. The Committee may not agree with them and if you do not agree with them we will change them before our report is made. The next meeting will be on April 17. Meeting adjourned.

HOUSE OF COMMONS

First Session—Twenty-eighth Parliament

1968-69

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: Mr. A. D. HALES

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 29

THURSDAY, APRIL 17, 1969

Public Accounts, Volumes I, II and III (1966 and 1967)
Reports of the Auditor General to the House of Commons (1966 and 1967)

WITNESSES:

(See Minutes of Proceedings)

INCLUDING THIRD REPORT TO THE HOUSE

THE QUEEN'S PRINTER, OTTAWA, 1969

HOUSE OF COMMONS

First Session—Twenty-eighth Parliament

1968-69

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: Mr. A. D. HALES

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 29

THURSDAY, APRIL 17, 1969

Public Accounts, Volumes I, II and III (1966 and 1967)
Reports of the Auditor General to the House of Commons (1966 and 1967)

WITNESSES:

(*See Minutes of Proceedings*)

INCLUDING THIRD REPORT TO THE HOUSE

THE QUEEN'S PRINTER, OTTAWA, 1969

20087—1

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. A. D. Hales

Vice-Chairman: Mr. T. Lefebvre

and Messrs.

Bigg,	Mazankowski,	Tétrault,
Burton,	McCutcheon,	Thomas
Cafik,	Noble,	(*Maisonneuve*),
Cullen,	Noël,	Trudel,
Flemming,	Rodrigue,	Winch,
Guilbault,	Roy (*Timmins*),	Yanakis—(20).
Leblanc (*Laurier*),		

(Quorum 11)

Edouard Thomas
Clerk of the Committee.

Corrigendum:

Page 434 left-hand column, 6th line of Mr. Noël's question should read "Great Britain sold West Germany $450,000 worth of instruments".

Page 434 right-hand column,

For

"I think the Department has shown a greater amount of salesmanship with the Treasury Board than they showed to the West Germany army."

Read

"I think DDP (Department of Defence Production) has shown a greater amount of salesmanship in their dealings with the Treasury Board than they showed with the West German army".

REPORT TO THE HOUSE OF COMMONS

THURSDAY, April 17, 1969.

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

THIRD REPORT

Your Committee recommends that it be authorized to retain the services of an engineering consultant on an as-required basis during the consideration of the Auditor General's Reports.

Respectfully submitted,

A. D. HALES,
Chairman.

20087—1½

ORDER OF REFERENCE

HOUSE OF COMMONS,
WEDNESDAY, April 16, 1969.

Ordered,—That the Public Accounts Volumes I, II and III and the Abridged Version for the fiscal year ended March 31, 1968, laid before the House on January 14, 1969, and the Report of the Auditor General thereon, laid before the House on March 26, 1969, be referred to the Standing Committee on Public Accounts.

ATTEST:

ALISTAIR FRASER
The Clerk of the House of Commons

MINUTES OF PROCEEDINGS

THURSDAY, April 17, 1969
(31)

The Standing Committee on Public Accounts met this day at 9.41 a.m., the Chairman, Mr. A. D. Hales, presiding.

Members present: Messrs. Bigg Cafik, Cullen, Flemming, Hales, Harding, Leblanc (Laurier), Lefebvre, Noble, Mazankowski, McCutcheon, Noël, Winch (13).

Also present: Mr. Hogarth.

Witnesses: Mr. E. B. Armstrong, Deputy Minister, Department of National Defence; Mr. G. W. Hunter, Deputy Minister, Department of Defence Production; Mr. G. R. Long, Assistant Auditor General; Mr. J. R. Brisson, former President of Canadian Arsenals Ltd.; Mr. G. T. Holmes, Director of Clothing and General Engineering, Department of National Defence.

Moved by Mr. Winch, and

Agreed,— That the Committee seek the authority of the House to retain the services of an engineering consultant on an as-required basis during the consideration of the Auditor General's Reports.

Moved by Mr. Cafik, and

Agreed,—That a representative of the Davie Shipbuilding Limited be called to appear before the Committee at some future date.

Moved by Mr. Winch, and

Agreed,—That a representative of the Auditor General's staff attend as an observer the audit of the Davie Shipbuilding Limited contracts by the Department of Defence Production if it is possible and considered advisable by those concerned.

The Committee questioned the witnesses on the 1967 Auditor General's Report, in particular,

(a) Paragraph 109, Cost of disposal of aviation gasoline reserve;
(b) Paragraph 113, Additional cost of using unsuitable material;
(c) Paragraph 63, Disposal of surplus plant.

At 11.02 a.m., the Committee adjourned to the call of the Chair.

Edouard Thomas
Clerk of the Committee

EVIDENCE

Recorded by Electronic Apparatus

Thursday, April 17, 1969.

The Chairman: Gentlemen, may we come to order. I would first like to make a few announcements, but before I do so, Mr. Noël has a point of privilege.

Mr. Noël: Yes, Mr. Chairman. I want to make a correction. In Issue No. 26, page 434, in the left-hand column, the sixth line, I read in my intervention:

> Great Britain sold us ...

It should be:

> Great Britain sold West Germany ...

The same correction should be made in the French version. Then on the same page, in the right-hand column, I read:

> I think the Department has shown a greater amount of salesmanship with the Treasury Board than they showed to the West Germany army.

It should read:

> I think DDP (Department of Defence Production) has shown a greater amount of salesmanship in their dealings with the Treasury Board than they showed with the West German army.

The Chairman: Your corrections will be attended to, and the Clerk has made notes accordingly.

Gentlemen, this is the first meeting since the Easter recess, and our fact-revealing visit to Halifax to inspect the aircraft carrier *Bonaventure* and the hydrofoil *Bras d'Or*. I am happy to say at this point that the hydrofoil had a successful test last week. No doubt you noticed it in the press. No particulars were given as to the speed that was achieved. However, it was a successful test at that point, so I am glad to bring that to the attention of the Committee.

Your steering committee met on Tuesday morning of this week. April 15, and I am pleased to report to the Committee the results of that meeting, and hope that the recommendations will meet with the approval of this Committee. They are as follows.

First, that the Public Accounts Committee seek authorization from the House to hire a consultant to review contracts that were let to Davie Shipbuilding Limited regarding repair, replacement and moving of furniture in the refit of the *Bonaventure*, and submit to the Committee what the consultant considers to be a fair and reasonable price.

Second, that the Committee hear evidence from all members of the Department of Defence Production and the Department of National Defence who were involved in the refit of the *Bonaventure*, with particular reference to the furniture contracts, this to commence next Thursday, a week from today, April 24, and continue thereafter until the Committee has completed its investigation.

The subcommittee is to prepare a complete report as soon as possible on the findings from the meetings held in Ottawa and the inspection of the *Bonaventure* in Halifax.

Also the steering committee agreed that the Public Accounts Committee adopt a policy of making periodic visits to various departments of government to see at first-hand how they operate, and meet with the Deputy Minister and the auditor in charge. The first visit will be to the Printing Bureau next Tuesday, April 22. In that connection the Clerk will distribute a list of paragraphs in the Auditor General's Report that have to do with the Printing Bureau. And I would suggest that you read each of those paragraphs and study them before our trip next Tuesday.

• 0945

With regard to the motion, it would read something like this. It is the standard motion. "Moved, that the Committee seek the authority of the House to retain the services of an engineering consultant on an as-required basis during consideration of the Auditor General's reports."

It is rather broad in scope, but that would cover what the subcommittee felt should be done. Is there any discussion.

Mr. Winch: I so move.

Mr. Flemming: I second the motion.

Motion agreed to.

Today, I sincerely hope that we will be able to complete the paragraphs. They are paragraphs 109, 113 and 63 in the 1967 Auditor General's Report. Then we would turn to the Follow-up Report and give special attention to Items 15, 22 and 47. These are the paragraphs and the items that concern our witnesses, Mr. Armstrong and Mr. Hunter. I am sure the Committee feels that we have been very demanding on the time of these two gentlemen. I think we should make an attempt to release them today, because they are both busy men.

It appeared in the Press that the Minister of Defence Production. The Hon. Donald Jamieson, had ordered the audit section of his Department to move into Davie Shipbuilding Limited to audit or re-audit or examine the books in connection with the refit of the *Bonaventure*. I would like to ask Mr. Hunter, the Deputy Minister, if he could inform the Committee if in fact these auditors have moved in. Are they there now? How many are there? What are the directions they have been given, or their terms of reference? When might we expect reports? Or is there any other information he could give the Committee? Mr. Hunter.

Mr. G. W. Hunter (Deputy Minister, Department of Defence Production): Thank you, Mr. Chairman. Under Section 21(i) of the Defence Production Act, the Minister is authorized to conduct an audit of any defence contract, and the contractor is charged with keeping adequate accounts and records to permit such an examination.

To carry out this responsibility, the Department requires: (a) a mandatory audit of all cost reimbursible contracts, and (b) a discretionary audit of selected firm price contracts to ensure, by a sampling process, that only reasonable profits have been achieved by firm price contractors. Such audits are proceeded with at regular intervals and usually cover a period of time for each contractor selected for three or more years' work, so that the average profit obtained on firm price work can be determined for the contractor in question.

• 0950

The government agency carrying out such audits is the Audit Services Branch of the Services Sector of the Department of Supply and Services, and the audit of the *Bonaventure* contract was called up in a letter dated April 9, 1969 to G.H. Cheney, Director General of that branch.

Because of the interest of the Public Accounts Committee in obtaining information concerning the results of this contract at the earliest possible time, the audit has been given top priority over a number of other such audits currently underway or requested. It is hoped that the results will be available by the week of Monday, May 5, 1969.

Mr. Chairman, further to that, the team started the day before yeaterday, which would be Tuesday, April 15. I understand there are seven auditors employed on the team and I believe that they hope to be through by May 5. We hope that they can do even better than that.

Mr. Winch: This having been ordered under this section of the Act by the Minister, when that report is received by the Minister will it then be made immediately available to this Committee or how soon thereafter?

Mr. Hunter: Sir, these are confidential reports. I am not suggesting that they are not available to the Committee, but the reports contain certain information regarding the commercial intelligence of the company. I am sure there is a way that this report can be made available to the members of the Committee, but when you ask if it would be tabled in the Committee, I want to reserve judgment on that to see how we can get it.

Mr. Winch: Do you realize how important this is? This report is forthcoming because of the interest shown by this Committee in this matter and as a result of what it has found, and it would be an extraordinary and damnable situation if the information is not speedily made available to this Committee.

Mr. Cafik: In connection with this audit, it seems to me to be an odd procedure that the Department of Defence Production, which was one-half of the contractor in this particular case, would conduct an audit on the people that they were doing business with. It would seem to be more meaningful if some outside organization were to do that audit. That is just a comment on my part but I

think it would mean an awful lot more to me than being done by DDP itself.

The Chairman: Supplementary to Mr. Cafik's question on auditing, Mr. Cullen?

Mr. Cullen: Mr. Hunter has indicated that he might not be able to make this report available. I am just wondering, Mr. Hunter, about this. The information contained in this report might be good evidence for use against the company in the event that you saw fit to take action. I think we should see the report, and I agree with Mr. Winch in this connection, but we would not want to see it prematurely if it meant stopping the government from taking action against this company if its audit revealed that it has been had.

The Chairman: I think your point is well taken, Mr. Cullen. I think it should be considered.

Mr. Lefebvre: I have a comment on Mr. Cafik's observation. I cannot see anything wrong in this. I believe the Department of Defence Production owes it to itself to verify and make an audit. I believe that if they come to the conclusion, after what we found and what they find out, that there is probably room for an outside firm to make a complete audit, I think this would be the procedure to be taken. I believe that if this is proven—Mr. Cullen can correct me—we also have recourse to legal means of asking for a refund on parts of this contract.

Mr. Hunter: I might mention that it is merely coincidence that the Comptroller of the Treasury is now part of the Department of Supply and Services. It just happened, as you are aware, on April 1. This is the only cost audit service available to us. If we had any way of getting it done outside our Department, I am sure we would use it.

The Chairman: Would there be some co-ordination between this audit and the Auditor General's Office? Mr. Long, would you have any comment to make in this regard?

Mr. G. R. Long (Assistant Auditor General): There is an arrangement, in effect, Mr. Chairman, whereby we receive copies of all audit services branch reports, so we will certainly receive the report and will review it when it becomes available.

• 0955

Mr. Leblanc (Laurier): Mr. Chairman, could Mr. Long just tell us if the internal auditor is going into the matter now? I understand they have started their work. Have they requested any of your working papers to help them out, or do they carry on entirely outside all the work that you have been performing on that particular contract?

Mr. Long: No, Mr. Leblanc, we have had no request as yet.

Mr. Leblanc (Laurier): I think it would be helpful to them if they had the opportunity of discussing the matter with you. You have already audited the contract, you have been with us for a long time now, we have been discussing the matter, so probably you could be of help to them.

Mr. Long: Of course the audit we have been making is of the records of the Department of Defence Production, now the Department of Supply and Services. The audit services people will be more concerned with the actual books of the shipyard. Certainly we are available and we will give them every co-operation if we can be of any assistance to them.

Mr. Leblanc (Laurier): If they ask for it?

Mr. Long: Yes.

Mr. Winch: Could I ask a supplementary question for information purposes.

Mr. Hunter, do the terms of reference on the seven auditors which are now a part of the team under this special audit include a study of the Davie shipyard's books on actual cost as related to the individual contracts and the estimate of your Department?

Mr. Hunter: It would cover the whole operations of the yard for the two-year period, I believe, Mr. Winch, because this company has had the overhead portion of their books audited in connection with certain payments of subsidies not related to the work done for us. This is why we believe having had the overhead portion for the two years' audit done by the audit services section it will considerably shorten the period of the audit. This covers the whole operation of the shipyard, it determines what their overhead is, and it ensures that the amount allocable to our work is proper and reasonable.

Mr. Winch: I want to get it very clear Mr. Chairman. Is the special audit going to deal only with the fifteen hundred and one additional contracts to the original contract?

Mr. Hunter: It deals with the main contract and with the 1500 firm price additions, sir.

Mr. Winch: Thank you.

The Chairman: I would just throw this out to the Committee for their suggestions. In view of the fact that we work with both departments, the Auditor General and the government department, would it be the thinking of the Committee that a member of the Auditor General's staff should be with this audit group?

Mr. Leblanc (Laurier): There is no doubt about that, but under the Act mentioned by our witness can that be achieved? It could be achieved through co-operation between the two members of the audit staff, but if one group is not interested, then what? The Auditor General just mentioned that he wants to co-operate, but if the other group does not request it then I do not think that they can do much about it.

Mr. Winch: In other words, Mr. Chairman, would it be possible for the Auditor General's Mr. Cross, who is most concerned with this and has followed it up, to be there at the same time, or is that not an accepted procedure?

Mr. Hunter: Sir, I have no special opinion on that. It was my understanding that the Auditor General has access to any and all records of the Canadian government. If they wish to have a representative present I would think they are entitled to do so. It has never been done before, to my knowledge. Perhaps Mr. Long would comment on that.

Mr. Long: Mr. Chairman, Mr. Hunter is right when he says that it has never been done in just this way before. We have never participated in an audit together. We have visited where auditors of the Audit Services Branch are employed, more particularly during wartime when there were resident auditors in a number of the plants. We have reviewed the work they were doing, reviewed their programs and generally satisfied ourselves that they were doing the job they were supposed to be doing there. There has not been very much of this in peacetime. I do not think there is anything to prevent it from being done. It might be a little confusing if we were to try to come out with a joint report. I think that might not be the best.

• 1000

The Chairman: Mr. Winch?

Mr. Winch: The reason I raised it, Mr. Chairman, is that I think it is a little bit of an intriguing point. According to Mr. Hunter's information it is hoped to have this audit report in the hands of the Minister by May 5. Of course, we hope to receive it, too. A copy will then go to the Auditor General. The thought I had in mind is that perhaps we might be able to speed up the operation between your special audit and consideration by the Auditor General if at least a member of the Auditor General's Branch were there at the same time as an observer, not for the purpose of any joint report, but in order to speed up consideration between the two departments. That is all I had in mind.

The Chairman: Mr. Cullen?

Mr. Cullen: I agree; I think someone from the Auditor General's Department should be a part of this team because when the Department comes up with its report—I do not like to use the word "whitewash"—but, let us say, it puts their position perhaps better than we think it is at the present time, the Auditor General's Department would be in a better position to either agree or disagree with it if they had this information right at the time the study was being made.

The Chairman: Mr. Cafik?

Mr. Cafik: I am presuming—and I gather I am right, Mr. Hunter—that the department would pay particular attention to those contracts in which we in this Committee have expressed particular interest, such as the furniture contracts and paintings and a few other areas that seem to be, on the surface, really in need of further investigation. I presume that would be done without really having to ask too much about it.

Now, while we are on the subject of Davie shipyards and this whole *Bonaventure* contract I wonder, Mr. Chairman—and I apologize for not being here right at the beginning of the meeting—whether a representative of Davie shipyards could be at the meeting next Thursday that we discussed in subcommittee, along with the departments. I would like to make that request at this time. Did you pass a resolution here this morning with respect to solving professional consultant...

The Chairman: Right.

Mr. Cafik: Thank you, very much. I have one other point. I do not know whether it is possible, but during the course of this audit is

it within the framework of possibility that representatives—one, two or more—of this Committee may be able to visit that audit and see how it is being conducted in specific areas? I think that might clarify a lot of confusion. For instance, for the furniture contracts I would very much like to see how that audit is conducted, what information they get and what conclusions they reach right at the time, and if everything in looking good at that stage I would feel a lot better about it than I would just by receiving a report. Is that possible?

The Chairman: I think it is hardly fair to address that to Mr. Hunter. It is a matter of policy, Mr. Cafik. I think your thought is a good one. I doubt very much at this stage whether we should recommend that. However, I am in the hands of the Committee, but I would rule that it should not be directed to Mr. Hunter.

Let us put it this way: We will take under consideration, Mr. Cafik, your thought that a member of the Committee be on the job while the audit is being taken.

Mr. Cafik: I do not think it should be during the whole time, but I think we should at least make clear that we would like to have the right to attend if we decided as a Committee to do so.

Mr. Winch: For the purpose of understanding how they are conducting the audit.

Mr. Cafik: That is correct.

• 1005

The Chairman: We shall take your request under consideration.

Mr. Lefebvre: Mr. Cafik mentioned calling the Davie shipyard people here. Should we not have a motion to that effect? I think it is a good idea and I would second a motion if he is willing to make it.

Mr. Cafik: I move that at our meeting next Thursday when we will be discussing this contract again they be asked to be present.

Motion agreed to.

The Chairman: Now, it just might happen that we will have to sit on Thursday afternoon next week if we are going to have people from Davie shipyards here; we will want to continue with our meetings, so be prepared to meet Thursday afternoon as well as Thursday morning.

After considering this—we will have the Davie people here—but it is a question whether we should have them next Wednesday. Perhaps the preliminaries next Thursday would be sufficient, and then at the following meeting we would be ready for them.

Mr. Lefebvre: I would like to raise a point here, if I may.

The Chairman: Mr. Lefebvre?

Mr. Lefebvre: If it is next Thursday afternoon it might cause a bit of difficulty for members because on Thursday afternoon and Thursday night there is a wide-open discussion on NATO and defence.

The Chairman: Can we settle it this way: we will not ask the Davie people for the next meeting but we will get into the preliminaries and open it up with the idea of having them at the following meeting. Would that suit you, Mr. Cafik?

Mr. Cafik: I wonder if I could say this? Yes, of course it will suit if that is the will of the Committee. I do not know what Davie shipyards feelings must be but I am sure they are aware of the fact that all this discussion is going on in this Committee and perhaps it might be advisable for us at least to inform them that we are willing to allow them to come and participate or defend themselves if they care to.

I am inclined to think that at this stage of the game they would very much like to be here to put their case forward, and in all justice I think we should hear it before we get too far.

The Chairman: All right. It is agreed that they will attend our meeting at the call of the Committee.

I think that covers all the points, except your suggestion about a member of the Committee looking in on the audit at one time or another. This will be taken under advisement at the moment.

We did not settle the issue of a member of the Auditor General's staff being part of this audit team that is now at the Davie shipyards.

Mr. Winch: I would like to move. That if possible and if considered advisable by those concerned, the Auditor General's Department take up with the Department of Defence Production the matter of an observer from the Auditor General's Department being present during the audit.

The Chairman: Mr. Leblanc, you were speaking on this subject. Have you anything further to add?

Mr. Leblanc (Laurier): I do not know whether Mr. Long will agree to that because a group of auditors may be working in one way to a program they build themselves and the Auditor General might like to work some other way. Even if they are all auditors, all do not work in exactly the same way. If they have a particular program of work I do not know how another group can come into that program and work with them. It might be confusing at times. I do not know if it can be worked out unless, as Mr. Winch mentioned, you are there only as observers. Perhaps that would be the easier way to get around. They do the audit as they are requested and you are just there as observers to report to us.

Mr. Winch: I thought I made that clear—"if advisable" and "as observers."

Mr. Leblanc (Laurier): Yes.

Mr. Winch: I thought it might speed up things a little.

The Chairman: All right, gentlemen. It would appear...

Mr. Leblanc (Laurier): I do not believe it will speed things up; it might delay them a little.

The Chairman: It would appear from the conversation that the Committee would like to see a member of the Auditor General's staff as part of this team as an observer if agreeable to all concerned. Just before we start on this paragraph you are all aware that the Auditor General's 1968 report was referred to our Committee yesterday along with the volumes of the public accounts.

• 1010

Now, Auditor General Report 1967 page 61, paragraph 109, Cost of disposal of aviation gasoline reserve. I think we had enough discussion about that at the last meeting to consider it handled unless anyone objects.

Turn to page 63, paragraph 113, Additional Cost of Using Unsuitable Material in the Department of National Defence. I might say that Mr. Armstrong has with him this morning, Mr. G. T. Holmes, Director of Clothing and General Engineering, Department of National Defence, to whom you might address questions if you wish. Mr. Armstrong, I think you could proceed. The members have read this paragraph and they know the background. Mr. Winch.

Mr. Winch: May I ask this question in order that Mr. Armstrong can deal with it at the same time as he speaks. This paragraph 113 is rather important in what it says, in view of the fact that I read in the paper that about a $5 million contract has now been let for the supply of cloth for the new uniforms, and, therefore, in view of that fact, that it is to be supplied by the Crown to those who make the jackets and trousers, that this matter be clarified, because on a contract of that size we do not want the same situation to develop again.

Mr. Armstrong: I do not think, Mr. Chairman, I have very much to add really to what is said in the observation. The cloth that was supplied to the manufacturer of the coveralls did, in fact, prove to be difficult to sew. There were tests made of this to determine that fact and it was proven to be so. As a result of that there was an adjustment made on the contract, as indicated in the Auditor General's observation, and the balance of the cloth was then reworked by the original supplier and the Crown paid half the cost of reworking it and the original supplier absorbed half the cost.

The cloth when it was received did meet the specifications for the particular cloth but proved to be difficult to sew when it was given to the manufacturers to produce garments.

As a result of this, if I just might go on, although this perhaps is an area that Mr. Holmes would deal with better than I, there were extensive tests made of this to determine the problem: NRC and others were asked to look into it. One of the outcomes of this examination was a suggestion that we include in the specification the requirement, which I think the Auditor General mentions here, that the fabric shall be capable of being sewn without difficulty under normal conditions of manufacture. It was thought that this kind of requirement would be preferable than an effort to specify in detail the kind of tests that would be required to determine sewability. This has now been done and will be done in the future.

Perhaps I should not say this is the only time that this difficulty has arisen, as there

has been at least one other occasion where there was a problem of this kind, but it is certainly a very exceptional situation; there is no question about that.

The Chairman: Mr. Winch and then Mr. Cafik.

Mr. Winch: That is my point. Mr. Armstrong has said that tests were made. All right. That was for the production of the cloth. What I cannot get through my head is why, when tests are made for the production of cloth, tests are not made to see whether or not it can be sewn? I find it absolutely inconceivable that on production of cloth you should not include tests to see whether it can be sewn.

•1015

The Chairman: Mr. Winch, your question I think should be directed to Mr. Holmes and would be: was the manufacturer given a sample of the cloth before he quoted on it?

Mr. Winch: And was a test conducted by whoever let the contract and had charge of it to show that on the production of a specified cloth it was possible to sew it.

The Chairman: All right. That is the question, Mr. Holmes.

Mr. G. T. Holmes (Director of Clothing and General Engineering, Department of National Defence): Mr. Chairman, I presume we are talking about the manufacturer of the garment: was a piece of fabric made available to him?

Mr. Winch: Supplied by the Crown and which could not be sewn.

Mr. Holmes: At the outset of the contract, at that stage, the answer, sir, is no. Since that time all contractors on garments are being given a piece of the fabric to try out themselves before they start the contract.

Mr. Winch: I am sorry again, Mr. Chairman, but I must ask a supplementary, because this statement does not make sense to me either: that is, that the manufacturer is given a sample of cloth to see if it can be sewn. Surely, it is logical to believe that before you manufacture the cloth and lay down the specifications for the cloth you should know whether or not it can be sewn.

The Chairman: Did the manufacturer of the coveralls demand to see a sample of the material before he quoted, Mr. Holmes.

Mr. Holmes: I cannot answer this question, Mr. Chairman.

Mr. Hunter: Mr. Chairman, I can answer that. The contractor who was to cut, make and trim the cloth was given a sample, but there were two different sources of this material. The sample that he saw was one from Dominion Textile, which he accepted. However, when he was given the cloth he also got some from a second manufacturer which had been bought earlier and was in stock, and it was the cloth from the second manufacturer that he had the difficulty with. We were told, and as Mr. Armstrong mentioned, that both of these cloths had met the specification: the colour was right—in fact everything was right, but for the difficulty of sewing it.

I believe it was the first time that this difficulty had occurred and, as Mr. Holmes has just said, we now have a warning in all of the contracts to the cut, make and trim people that this is a such-and-such synthetic type fabric and that particular care should be taken to see that they have needle coolers, that they use the smallest size needle, that they have thread lubricants and one thing and another. This is in all contracts now.

Mr. Winch: Could I ask then, in view of what Mr. Hunter has just said, were both firms given the same specifications and, if so, why was one sewable and the other not?

Mr. Hunter: Perhaps Mr. Holmes can answer better than I. We asked them if both met the specifications and they said that they did. Perhaps Mr. Holmes could tell you.

Mr. Holmes: Mr. Chairman, both firms were working from the same specification. There were certain elements of the specification in which you can measure the properties, and we can specify certain essential performance requirements. There are other characteristics of a piece of cloth where you have to rely on descriptive information. Finally, there are other characteristics you have to rely on the integrity and knowledge of the manufacturer. There is always an element of judgment to be exercised here. You can tie down with innumerable test methods every possible aspect of the performance of a piece of fabric, but if you do that you have to inspect against it and you have to pay for it; you have to pay for the cost of inspection.

Mr. Chairman, this cloth is of commercial standard. It is not peculiar to the Department of National Defence. It is a commercial standard, and for very many years we have been buying this cloth satisfactorily to this specification.

In this particular instance the contractor who produced the piece of fabric which could not be sewn initially had a low strength factor in his production. He applied for a change to the terms of his contract to permit our purchasing the fabric with this low strength requirement. Before the permission could be

• 1020

given he produced another sample of cloth in which the strength requirement exceeded the specification. In our opinion, based on the tests they have carried out, the additional strength was obtained with the use of finishers, which is a manufacturing practice in the commercial trade. The finishers applied unfortunately adversely affected the sewability of the cloth. But the Department did not know that the manufacturer had applied the finishers.

The Chairman: Mr. Cafik.

Mr. Cafik: I have a rather simple question. I do not know how you will answer it but what is cloth that is not sewable? This completely baffles me. I do not know why you cannot sew cloth. What is difficult? Will the needle not go through it, or does it tear or something or is there just too much wear and tear on the needles when it is being sewn?

The Chairman: Mr. Holmes will try to answer that.

Mr. Holmes: In this particular case you could sew, but it would leave needle holes, actually with an area of burnt resin around the periphery of the hole. This is objectional and undesirable.

Mr. Cafik: I gather that this cloth was ultimately used. You just paid extra because of this difficulty. Is that correct? What was the effect on the normal life of the garments that were made, then, if they were ripped? For instance, would they be able to be repaired on the job after issue or did this affect the life of the garments that were being made?

Mr. Holmes: Mr. Chairman, the effect of refinishing this cloth meant that we could salvage the whole of the stock of fabric and use it for its proper end use. The refinished fabric suffered only slightly from a little lower tensile strength which, for this particular end use, which is coveralls, was acceptable.

Mr. Cafik: So the coveralls, after they were refinished, were quite sewable?

Mr. Holmes: Absolutely.

Mr. Cafik: Thank you.

The Chairman: Mr. Lefebvre?

Mr. Lefebvre: I have just one short question. Was this some new type of cloth that had never been used commercially before, were we trying another experiment or just what was going on?

The Chairman: Mr. Holmes?

Mr. Holmes: Mr. Chairman, this cloth has been standard in the Canadian cotton industry since the nineteen-thirties.

Mr. Lefebvre: Why the sudden difficulty with the sewing?

Mr. Holmes: The sudden difficulty, Mr. Chairman, as I explained, was the trouble the company had in meeting the strength requirement and deciding to overcome it by the use of water soluble resins which adversely affected the sewing.

Mr. Lefebvre: Had this company been using this cloth before if it has been on the market since the nineteen-thirties?

Mr. Holmes: It is a normal producer of this type of fabric.

Mr. Chairman: Mr. Lefebvre?

Mr. Lefebvre: Why would he experience this sudden difficulty if had been using this cloth since 1930? It must be something that he was quite accustomed to and had the proper equipment, and so on. This is what I think the Committee is getting bogged down with.

The Chairman: Mr. Holmes?

Mr. Holmes: Mr. Chairman, I find it difficult to answer what went wrong in the manufacturer's plant, but having been a refugee from the textile industry myself I can tell you there are quite a number of things that can go wrong in a manufacturer's plant, particularly where you are working with a natural basic material.

In this case it was cotton. When you are working with synthetics you can measure the properties and control them as you are mak-

ing the fibre. When you are working with cotton and wool you have a certain number of properties over which you have no control. On top of that, the very basis of textile manufacturing is the human element and if there is some fault there then it is certainly beyond the control of the Department. Things can go wrong, even on a fabric which has been made by a company for a number of years.

The Chairman: Mr. Holmes, maybe you could explain to the Committee why you agreed to pay the fabric supplier $550 when you have just told us that it was his mistake. He produced the wrong kind of material and yet your Department recommended, no doubt, to DDP that he be paid $550 to refinish the cloth.

Mr. Armstrong: Perhaps I could say that we did not make a recommendation. We merely reported our findings to DDP and I think that Mr. Hunter should answer this question.

The Chairman: All right, Mr. Hunter, why did your Department pay him $550?

• 1025

Mr. Hunter: It was our view, Mr. Chairman, that the cloth met the specification because we asked DND to tell us if it did or did not, and they said that it did, but it was still very difficult to sew. The reason we made the adjustment was that this contractor had been shown a sample that he could work, and then with half of the material he received he could only work at about half the rate for the reasons of broken needles, and one thing and another, and difficulty of handling this cloth.

Mr. Winch: Why was it not charged to the supplier?

Mr. Hunter: Mr. Winch, we were told that this cloth met the specification. There was no specification saying that it had to be sewable.

The Chairman: Mr. Leblanc?

Mr. Leblanc (Laurier): Mr. Chairman, I do not think this is a very large issue. It is another contract that the government did not have properly made up. What I am glad of is that in future there will be a clause to the effect that the fabric shall be capable of being sewn without difficulty. That should cover any problems that will come later on in having those fabrics made up.

The Chairman: Gentlemen, I am prepared to leave this part. Mr. Noble, do you have a question?

Mr. Noble: Yes, I would just like Mr. Holmes one question, Mr. Chairman. In his long experience in textiles, has he found this problem of socks manufactured from wool and cotton to be a rare or a common occurrence?

Mr. Holmes: It is a comparably rare occurrence, but you never know when it is going to happen next. It is something you cannot predict, unfortunately.

The Chairman: Mr. Cullen?

Mr. Cullen: I understand it would be the additional strength that would be required in these coveralls. Would they have a longer life expectancy as a result when the job was finally finished? Would they last longer so we would not have to get into another contract immediately?

Mr. Holmes: Not necessarily.

Mr. Cullen: Not necessarily.

Mr. Holmes: There is no direct correlation between tensile strength found in the laboratory and the durability of the garment.

Mr. Cullen: Thank you.

The Chairman: May we wind this up by asking...

Mr. Winch: I have a brief question for Mr. Holmes.

The Chairman: Mr. Winch?

Mr. Winch: There is no possibility, I hope, of a similar problem now occurring on the very heavy contracts being let for the new uniforms. Tests will be sufficient that this matter cannot arise again?

Mr. Holmes: Mr. Chairman, all I can say is that every precaution has been taken in the light of not only their experience on this contract, but our total experience on all previous contracts. There is more quality control being exercised on the green uniform program than on any previous program. Not only are there precautions in the specifications, there are precautions in quality control measures and precautions, I understand, in the contractual documents.

The Chairman: Thank you. Mr. Noël?

Mr. Noël: I have just one question, Mr. Chairman. Is the Department still buying from that manufacturer who manufactures material that cannot be sewn, just wound around our bodies or used for some other purpose without being sewn? Are they still buying from that same manufacturer?

Mr. Hunter: Yes, we are, sir. This is a reputable firm and I think this was just one unfortunate incident. There is certainly no record of this firm's not being able to produce. They are one of the better firms in Canada, I believe.

The Chairman: Gentlemen, I think precautions will be taken to take care of that simple, but yet far reaching question of Mr. Cafik's, and all specifications will include that the cloth must be sewable. In other words, the Department is going to draft up specifications so that this will not happen again.

On page 28, paragraph 63:

Disposal of surplus plant.

I would like Mr. Long to give us an introduction to this. We have with us Mr. J. R. Brisson, former President of Canadian Arsenals Limited, this morning to answer questions. If you would care to come up and take a seat, Mr. Brisson, we would be glad to have you.

Thank you, Mr. Holmes, for being with us and giving your testimony.

Mr. Long, please give us a brief introduction to this.

• 1030

Mr. Long: Mr. Chairman, one of the three plants of Canadian Arsenals Limited which was offered for sale in 1964 was the Val Rose plant near Valcartier, Quebec. Its original cost was $22.7 million and over the previous 12 years it had had an operating deficit of $5 million exclusive of any charge for depreciation.

Future annual losses of $600,000 had been forecast by Canadian Arsenals Limited who were operating the plant. Two bids were received, one from a well known chemical and munitions manufacturer of $3,150,000 plus the book value of inventories. This offer was rejected. The Department continued negotiating with the firm which had made the other offer and succeeded in having its offer increased to $3,150,000 plus the book value of the inventories. However, the payment was to be spread over eight years. The sale was made in December 1966 after Canadian Arsenals had incurred a further operating deficit of $515,000. The file indicates that in May 1966 the company expressed the opinion that increased efficiency and so on would enable the plant to operate without loss in future.

I think that covers the main points of that, Mr. Chairman.

Mr. Cafik: I have a question for Mr. Long. What is the standard depreciation rate on buildings of that nature—write-off?

Mr. Long: I think it would be 10 per cent on the diminishing value.

Mr. Cafik: In other words, over the 12-year operating period if one operated this as a regular business the value of the establishment would have been just about totally written off, is that not correct?

Mr. Long: It is 10 per cent of the diminishing value.

Mr. Cafik: Yes, but it would be approaching that though. It would be a pretty modest amount, I presume.

Mr. Leblanc (Laurier): Mr. Long, where do you get a 10 per cent figure? What type of building was that?

Mr. Long: I took this as one of the allowable rates, Mr. Leblanc. I am not sure that we have all the technical details of the building.

The Chairman: Mr. Leblanc, Mr. Brisson will tell you about the construction of the building.

Mr. Winch: And how much he allowed on depreciation.

Mr. J. R. Brisson (Former President Canadian Arsenals Limited): Under the accounting system of a Crown corporation—this is an agency corporation—there is no depreciation put in the books. The values are carried at original acquisition value right through the books, so we do not have a depreciated figure like a private company would have.

The Chairman: What is the construction of the building?

Mr. Brisson: I would say it is a 98 per cent permanent building with concrete foundation, concrete structure, block structure—a permanent building.

[Interpretation]

Mr. Leblanc (Laurier): Would such a construction, in regular business, and according

to the schedule of depreciation in the Income Tax Act, not cause a depreciation of 5 per cent rather than 10 per cent?

Mr. Brisson: Yes, the buildings themselves would be depreciated by 5 per cent or perhaps even 4 per cent because they are permanent buildings, at least by description.

Mr. Leblanc (Laurier): The method used by the Minister of National Revenue, which is a method adopted especially for income tax purposes, might not be entirely similar to the administrative methods used in business. I wonder whether this method of calculating the depreciation of the value is not obsolete? In that case, could the other method of calculation be applied or should the depreciation still be calculated at all times on the complete amount?

Mr. Brisson: As I explained at the outset, a Crown Corporation, according to schedule C, is not subject to depreciation.

Mr. Leblanc (Laurier): No, this I know.

Mr. Brisson: But if it were a private firm, it would be 5 per cent or 4 per cent on the balance of the capital invested in the building.

[*English*]

The Chairman: I think perhaps we are digressing a little bit.

• 1035

Mr. Cafik and then Mr. Winch.

Mr. Cafik: On a point of information, what does the maintenance of the plant's military capability mean? Does it mean that it has to be in production of military equipment or that it simply keeps the equipment in repair so they can produce military equipment.

Mr. Brisson: The retention of the military capability means that the equipment has to be available for use, the tooling has to be available on site, and the technical staff has to be available to produce on a requirement.

Mr. Cafik: All right. Is there any commitment on behalf of the government or the department to the purchaser that they will be given contracts for the production of military hardware?

Mr. Brisson: No.

Mr. Cafik: There is no commitment whatsoever.

Mr. Brisson: There is no commitment that contracts will be given. However, there is an understanding that as this is the sole manufacturer of military ammunition currently in Canada he will be approached on any requirements of the government—but there is no commitment that contracts will be given.

Mr. Cafik: All right. I would like to know in respect of the purchaser, the one that ultimately purchased this, if contracts were given subsequent to the purchase.

Mr. Brisson: Yes.

Mr. Cafik: Would you have any idea of the sort of value of the contracts from that point until now?

Mr. Brisson: I think this would be a question for the Department of Defence Production.

Mr. Hunter: This information is available, Mr. Cafik. I do not have it with me but we did continue to place contracts with them. They also had certain export work.

Mr. Cafik: Was there any expectation by the purchaser? It would seem to me that if they are going to buy a $23 million plant for $3½ million they must have had some idea that they were going to secure some business for this plant. Was there any kind of suggestion that they would be getting roughly so many million dollars worth of business a year or did anything like this happen? I cannot imagine their entering into it without that.

Mr. Hunter: Mr. Brisson could answer that.

Mr. Brisson: When the contract for sale was negotiated there was a certain knowledge of DND future requirements. So tied in with the retention of capability there was also the forecast that there might be a certain number of contracts over a certain number of years based on forecast requirements of DND. This was simply on the basis of a forecast. There was no guarantee or commitment on the part of the Crown. It was simply a guideline to what business could become available based on known facts at that time.

Mr. Cafik: So this purchaser then really was purchasing a building as well as the potential of doing a great deal of business with the government?

Mr. Brisson: As a potential, yes.

Mr. Cafik: I would certainly like to know what estimated production was anticipated at

the time of that purchase? I think it is quite relevant. You may not have the facts before you now but I think they should be tabled before this Committee in due course.

Now in respect of the military capability that they had to retain, I presume the manufacturer was allowed to use this capability for any other purpose in the interim—if it was not tied up by a first priority of DDP. Is that correct?

Mr. Brisson: That is correct.

Mr. Cafik: Could he use the same tooling? In other words could he produce what was tooled up for Canadian Arsenals and sell that armament to another country?

Mr. Brisson: You are specific in saying "tooling", not machine tools.

Mr. Cafik: Of course he bought the machine tools. I am talking about the tooling. Did he own that tooling but had to retain it for your use during that period.

Mr. Brisson: You mean like dies?

Mr. Cafik: That is right—dies and so on.

Mr. Hunter: Mr. Cafik, he had the right to use this on any contract for any NATO or friendly country.

Mr. Cafik: Was he tied up by contract on the limited use of that tooling?

Mr. Hunter: He was aware what the limitations were. We have an arrangement with the

• 1040

United States and with certain other associated NATO countries whereby anything they procure in Canada and for which we have tooling they get free use of such tooling. This is a written arrangement with the United States. As it happens, a certain amount of the production of this plant did go to the United States—in fact, as far as I know, it went no where else other than for our own forces.

Mr. Cafik: That was done not through you but they would negotiate directly the sale of these goods.

Mr. Hunter: It is done through the Canadian Commercial Corporation which is really part of the Department of Defence Production.

Mr. Cafik: Right. They would have to pay no royalty or anything like that for the rights to this tooling? That was part of their purchase, was it—to have the rights to the use of all tooling?

Mr. Hunter: As long as they were keeping the tooling for the Canadian Government and the Canadian Government had an arrangement with the United States, Germany and the United Kingdom that they could use the tooling, then he could use our tooling. There would be undertaking there, that he maintain the tooling. Tooling wears out, and his job would be to keep that in operable condition so that if there was a long run for the U.K. or for the United States and he wore out the tooling he would be expected to replace it out of the proceeds of that sale. Therefore, we always have it for the requirements of the Department of National Defence.

Mr. Cafik: Yes; but the replacement of tooling, although it is a big factor, is not much of a factor if you are producing and find yourself in the position that you have to replace it.

Mr. Hunter: That is true.

Mr. Cafik: I think you are in a good position.

What was the reason for the rejection of the first bid of $3,150,000?

Mr. Hunter: Sir, if I might just go back, we offered three Canadian Arsenals plants for sale at this time, the Valleyfield Explosives Plant, the Val Rose Small Arms Ammunition Plant, and the Small Arms Plant in Long Branch, Toronto. We had certain proposals from people. There was one proposal for the Valleyfield Plant, which, in fact, was the only one. It happened to be by the same firm that had bid the $3,150,000 on this plant that we are now speaking of.

It was the government's decision that if we were going to put these plants in the hands of commercial industry we must have the broadest base—the greatest distribution; that we should not sell two plants to this one firm which, although it is a large firm, is controlled in the United Kingdom.

Mr. Cafik: You are talking about the first bid? That was a U.K. firm?

Mr. Hunter: This bid that was rejected was by a U.K. firm.

Mr. Cafik: What about the second bid?

Mr. Hunter: The second bid was by a wholly-owned Canadian company which operated

in that area, the St. Lawrence Manufacturing Company.

Mr. Cafik: Were they in the manufacturing of arms prior to making this purchase?

Mr. Hunter: No, they were not, sir. They are in the business of making quite a number of things, but chiefly they happen to be the largest skate manufacturers in the world. They make pole line hardware and they are in the plastics business. They are in a number of things. It was felt by the government that they were a good firm to take this plant over, when there was no arms business, to diversify and expand their markets for their own products.

Mr. Cafik: I have a question of the gentleman from Canadian Arsenals Limited. I am sorry I do not recall his name.

Would you care to comment on this? I have been involved a little in this field with the John Inglis Company in small arms production, and so on. It is a highly specialized field. I think you will probably agree with me that an ordinary manufacturer of skates, or washing machines, or cars, is in a type of manufacturing completely different from that of armaments. Armaments are highly specialized, with extremely small tolerances and special specifications. I would have thought that one would have looked for someone with experience in this field. It seems odd to me that you would sell it to someone with no experience at all in the manufacturing of armaments.

Mr. Brisson: I agree with your thinking. However, one must realize that when this plant was sold it was not only buildings and equipment. With the plant went 350 employees. The minimum service of these employees was about 15 years. Some of them had been with the company for over 35 years.

• 1045

The technical staff, the skilled tradesmen and the operators had been in this plant for, as I mentioned, a minimum of 14 years. The administration of that plant was complete. It was a plant that was self-sustaining. It was transferred to private industry, so private industry simply had to add in there its income financially and top management. The technical aspects were already there and were up to date. It was an operating plant that they took over.

Mr. Cafik: I am sorry to take so much time, Mr. Chairman. I have one further question.

If they had to take over 350 men and were obligated to maintain a manufacturing plant with military capability for a ten-year period, were they contractually obligated to retain this technical staff?

Mr. Brisson: Not the 350; but they were committed by the agreement of sale to retain a capability, which required a nucleus of technical people, skilled tradesmen and key operators. That was their commitment.

Mr. Cafik: Was this commitment in writing? Did it spell out how many technical men, or who they should be, or anything like this?

Mr. Brisson: The number was not specified; but they have committed themselves by agreement in writing to retain the capability.

Mr. Cafik: Did you define capability as tooling and equipment and technical ability?

Mr. Brisson: Yes.

The Chairman: How many are employed today?

Mr. Brisson: They are up to, I think, 1,500.

The Chairman: Have you finished, Mr. Cafik?

Mr. Lefebvre: I have a supplementary. How can you prevent employees from leaving the employ of this plant? How can you tie down employees? They are not conscripted.

Mr. Brisson: No, we do not tie the employees down, but the new management, or the new company, has the responsibility of maintaining a capability. If its employees leave it is the new company's responsibility to get new technical people and train them in the field.

Mr. Cafik: I will conclude my questioning now, Mr. Chairman. I would like to have a look at the contract of sale in due course and pursue it a little bit and find out just what the obligations were. I would also like to see what they bought other than the building, and whether, as I suggested earlier, they bought a going business. I would like to have some idea of what the projections were over that ten-year period, and what actually was done with the government in terms of contract.

The Chairman: Mr. Hunter, that would be available, I presume?

Mr. Winch and then Mr. McCutcheon.

Mr. Winch: Mr. Chairman, basically I think Mr. Cafik has asked my first question, but I would like to express amazement and, if I may say so, a little bit of disbelief, that a company would purchase a plant with a commitment to the Crown to maintain the plant's military capability for ten years at no cost to the Crown without a definite understanding that the Crown was going to give them contracts for the manufacturing of ammunition on the ten-year period. It is just beyond belief, so far as I am concerned.

However, I would like to ask this question: In view of the fact that this plant and its buildings, machinery and equipment cost approximately $23 million on what basis was it sold for $3,150,000, and what was the assessed value of the plant and the machinery including the possibility of a ten-year contract on ammunition, because it must be involved?

The Chairman: Mr. Hunter?

Mr. Hunter: I expect Mr. Brisson could answer the question on the assessement. He was directly involved with this at the time.

Mr. Brisson: I would like to repeat that there has been no commitment by the Crown to give any contract to that firm, or to any firm that was bidding.

Mr. Winch: Then, before you proceed, may I ask why the Crown demanded that the 10-year military capability be maintained, if there was no understanding that they were going to give them contracts?

• 1050

Mr. Brisson: There is a military function that has to be retained. The manufacture of small arms ammunition in Canada is necessary as long as we have a Department of National Defence. It was on that understanding that the Crown requested that the military function be retained. There is no commitment to any contract being given. There is, as I mentioned, however, the fact that this plant, under a private company, would still be, or was at that time, the only manufacturer of small arms for the military.

Mr. Winch: And it still is?

Mr. Brisson: And it still is.

Mr. Winch: Therefore, there was a definite understanding, it being the only one, as it still is, that in maintaining this they would get work from the Crown?

Mr. Brisson: Not necessarily; it was very clearly indicated at the time that providing they could meet delivery schedule, price and quality, they would be considered to quote on contracts because they are the only Canadian manufacturer. But the ammunition can still be purchased anywhere else.

Mr. Winch: Well, the implication is clear. It is to me anyway. The implication to me is definitely clear.

Mr. Brisson: Because they are the sole manufacturer the Canadian government will go to them for quotations. There is no commitment of contract.

Mr. Winch: That might be a nice suave way of saying there is not commitment, no contract. However, on the question of assessment...

Mr. Brisson: The figure mentioned there of roughly $22 million is a book value, and that is the acquisition cost from the date that the equipment, the buildings and the land were acquired. Now relating to this Val Rose plant, the land has been in the possession of the Crown since the first world war. Some of the buildings were started in 1938. The majority—I would say about 80 per cent—of the buildings date back to the 1939-40 period and there is a small number of buildings that have been added since, the latest one in 1952. Therefore the buildings range in age from 31 years to about 17 years. The equipment, again 80 per cent of the equipment, is Second World War vintage and it is equipment that was used during the last war. A portion of it has been replaced in the course of the years and therefore we have to take into account the age of most of the buildings and of the equipment, which increases depreciation. The assessment of land and buildings was performed by an outside appraiser hired by the Department for that purpose. Because equipment is specialized, the appraisal on equipment was performed by officials of the Department.

Mr. Winch: For appraisal at the time this was sold, what was the acreage covered by this plant and what was the land assessment?

Mr. Brisson: The appraised value was $97,000 for the land.

Mr. Winch: On what acreage?

Mr. Brisson: It is 472 acres.

Mr. Winch: I do not need to comment.

Mr. Brisson: I would add that this plant is located a fair distance out of the city, in the country, and therefore it has the value of the land surrounding it. It is on farm land. This is a fair value. This plant is over 20 miles away from the City of Quebec. It is out in the country.

Mr. Winch: How many acres?

Mr. Brisson: 472.

Mr. Winch: And it is 20 miles from the City of Quebec.

Mr. Brisson: Yes, sir.

Mr. Winch: And it is valued at $97,000?

Mr. Brisson: This is the figure of a professional appraiser.

The Chairman: We might as well keep in order. Mr. McCutcheon, is your supplementary to this point? Mr. McCutcheon and then Mr. Noble.

Mr. McCutcheon: Thank you, Mr. Cafik actually asked the question that I wanted to ask, but I refer to the sentence which says:

> Payment, however, was to be spread over a period of eight years.

How much actually did we lose by accepting this second offer? For example, there is $515,000 in operating deficits and $350,000

• 1055

interest earnings on the sale procedures. Now this shows a $865,000 poorer offer than the first one. Do these payments over the eight-year period not draw interest?

Mr. G. W. Hunter (Deputy Minister, Defence Production): Mr. Chairman, that is the Auditor General's comment made at that time. But there is one thing that I would like to comment on, if I may. It is on the $515,000. The decision to sell this plant was made in August 1964, and our experience with the other arsenal plant we sold indicated that under the best of conditions it would take us about four months to do all the paper work, search the title and make all the arrangements for the employees, and those four months were the four poorest months the Company had in the next two years. In fact $440,000 in losses occurred in those four months and could not under any conditions, even had we taken the first bid, been obviated.

Mr. McCutcheon: In other words you are saying that had we accepted the first offer which was cash we would still have suffered a $440,000 loss.

Mr. Hunter: That is right, sir.

Mr. McCutcheon: How much poorer is this second offer actually in dollars and cents to Canada? And are we collecting interest on those eight annual payments?

Mr. Brisson: The sale price of $3,150,000 by agreement was made up of a down payment and the balance in payments on which the Crown has the first mortgage and is drawing interest. I do not remember the actual rate of interest but the policy was the going mortgage rate, the first mortgage rate of interest at the time.

The Chairman: Gentlemem, I am sorry the time is 11 o'clock. I hate to cut this short. Mr. McCutcheon, have you finished?

Mr. McCutcheon: I am just interested to know what the interest rate is.

Mr. Brisson: It is bearing interest definitely. I cannot state the exact amount but it was the going rate at the time of the contract.

The Chairman: I think the Committee could be furnished that at a future meeting. Mr. Noble, one short question.

Mr. Noble: Mr. Chairman, I am thinking about the incentives that must have been offered these people to take this plant over and some of them have been mentioned already but there is one that enters my mind here. This may have been partly answered, but would this firm acquire contracts from the Department of Defence Production under competition or would there be some other arrangement?

Mr. Brisson: This firm being the sole manufacturer in Canada it would be a negotiated contract. A request for bid would be received but it would be negotiated according to the rules of the Department.

Mr. Noble: One other question, Mr. Chairman. I would like to ask if this plant was promised or guaranteed by the Department of Defence Production any business from outside the country when it took over.

Mr. Hunter: There was no guarantee of any kind, sir.

The Chairman: I think, Mr. Noble, that when Mr. Cafik gets the agreement and so on some of this might be in the picture. Mr. Leblanc, one real short question.

Mr. Leblanc (Laurier): We have a special corporation to look after the disposal of the assets of the Crown. Now I was just wondering why these plants were not turned over to our Crown Assets Disposal Corporation instead of being sold directly by the Department.

The Chairman: Mr. Hunter, that is a good question.

Mr. Hunter: Mr. Chairman, the Minister of Defence Production at the time had all the powers to dispose of, deal with or handle all surplus Crown assets. He also has the right to have it done through Crown Assets Disposal Corporation but he may do it himself if he feels that there is someone in the Department who is probably more capable and more knowledgeable to handle it. Mr. Brisson was at that time President of Canadian Arsenals Limited. He had actually been Director of this plant. He knew it better than anyone else and it was felt that he and certain people in

• 1100

the Department who were very familiar with it could better deal with all of the arrangements that had to be made to have it taken over. The final sale did go through Crown Assets Disposal Corporation and it is recorded in their books as a sale.

Mr. Leblanc (Laurier): The negotiations went through Canadian Arsenals Limited and the final disposition went through the Crown Assets Corporation?

Mr. Hunter: Through Crown Assets, sir.

The Chairman: Do these same privileges still prevail with the Minister of Defence Production that you have just outlined or has this been changed?

Mr. Hunter: No, this has not been changed, sir. It is the Minister of Supply and Services now but he has all these powers. In the latter half of the Act it says he may use the Crown Assets Disposal Corporation if he wishes.

The Chairman: I think, Mr. Winch, you brought out a very important point here this morning, that 472 acres of land 20 miles from Quebec City were sold at an average price of roughly $200 per acre. Mr. Cafik.

Mr. Cafik: Mr. Chairman, one question that they might seek out the answer for is this. They talked about selling inventories at book value. I would like to know how you determine the book value of these goods. Is it their sale value or cost price?

Mr. Brisson: It is the manufacturing cost as compiled in the books of the company.

Mr. Cafik: In other words, the deficit would be included in that.

The Chairman: Gentlemen, we must adjourn. Next Tuesday morning we will leave the front door of the main building at 9 o'clock, and I mean 9 o'clock. If you are not there you will find your own way to the Printing Bureau either by hoof or by taxi. Next Tuesday morning at 9 o'clock at the front door. The meeting is adjourned.

HOUSE OF COMMONS

First Session—Twenty-eighth Parliament
1968-69

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: Mr. A. D. HALES

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 30

TUESDAY, APRIL 22, 1969

Public Accounts, Volumes I, II and III (1968 and 1967)
Reports of the Auditor General to the House of Commons (1968 and 1967)

WITNESSES:

(*See Minutes of Proceedings*)

THE QUEEN'S PRINTER, OTTAWA, 1969

Mr. Hunter: There was no guarantee of any kind, sir.

The Chairman: I think, Mr. Noble, that when Mr. Cafik gets the agreement and so on some of this might be in the picture. Mr. Leblanc, one real short question.

Mr. Leblanc (Laval): We have a special corporation to look after the disposal of the assets of the Crown. Now I was just wondering why these plants were not turned over to our Crown Assets Disposal Corporation instead of being sold directly by the Department.

The Chairman: Mr. Hunter, that is a good question.

Mr. Hunter: Mr. Chairman, the Minister of Defence Production at the time had all the powers to dispose of, deal with or handle all surplus Crown assets. He also has the right to have it done through Crown Assets Disposal Corporation but he may do it himself if he feels that there is someone in the Department who is probably more capable and more knowledgeable to handle it. Mr. Brisson was at that time President of Canadian Arsenals Limited. He had actually been Director of this plant. He knew it better than anyone else and it was felt that he and certain people in

• 1150

the Department who were very familiar with it could better deal with all of the arrangements that had to be made to have it taken over. The final sale did go through Crown Assets Disposal Corporation and it is recorded in their books as a sale.

Mr. Leblanc (Laval): The negotiations went through Canadian Arsenals Limited and the final disposition went through the Crown Assets Corporation?

Mr. Hunter: Through Crown Assets, sir.

The Chairman: Do these same privileges still prevail with the Minister of Defence Production that you have just outlined or has this been changed?

Mr. Hunter: No, this has not been changed, sir. It is the Minister of Supply and Services now but he has all these powers. In the latter half of the Act it says he may use the Crown Assets Disposal Corporation if he wishes.

The Chairman: I think, Mr. Winch, you brought out a very important point here this morning, that 472 acres of land 50 miles from Quebec City were sold at an average price of roughly $200 per acre. Mr. Cafik.

Mr. Cafik: Mr. Chairman, one question that they might work out the answer for is this. They talked about selling inventories at book value. I would like to know how you determine the book value of these goods. Is it their sale value or cost price?

Mr. Brisson: It is the manufacturing cost as compiled in the books of the company.

Mr. Cafik: In other words, the deficit would be included in that.

The Chairman: Gentlemen, we must adjourn. Next Tuesday morning we will leave the front door of the main building at 9 o'clock, and I mean 9 o'clock. If you are not there you will find your own way to the Printing Bureau either by hoof or by taxi. Next Tuesday morning at 9 o'clock at the front door. The meeting is adjourned.

HOUSE OF COMMONS

First Session—Twenty-eighth Parliament

1968-69

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: Mr. A. D. HALES

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 30

TUESDAY, APRIL 22, 1969

Public Accounts, Volumes I, II and III (1966 and 1967)
Reports of the Auditor General to the House of Commons (1966 and 1967)

WITNESSES:

(*See Minutes of Proceedings*)

THE QUEEN'S PRINTER, OTTAWA, 1969

20089—1

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. A. D. Hales

Vice-Chairman: Mr. T. Lefebvre

and Messrs.

Bigg,	Leblanc (*Laurier*),	Roy (*Timmins*),
Cafik,	Mazankowski,	Tétrault,
Cullen,	McCutcheon,	Thomas (*Maisonneuve*),
Flemming,	Noble,	Trudel,
Guilbault,	Noël,	Winch,
Harding,	Rodrigue,	Yanakis—(20).

(Quorum 11)

Edouard Thomas,
Clerk of the Committee.

ORDER OF REFERENCE

MONDAY, April 21, 1969.

Ordered,—That the Standing Committee on Public Accounts be authorized to retain the services of an engineering consultant on an as-required basis during the consideration of the Auditor General's Reports.

ATTEST:

ALISTAIR FRASER,
The Clerk of the House of Commons.

20089—1½

MINUTES OF PROCEEDINGS

TUESDAY, April 22, 1969.
(32)

The Standing Committee on Public Accounts assembled in front of the Parliament Buildings at 9.00 a.m. this day, and proceeded by bus to the Canadian Government Printing Bureau. The Chairman, Mr. Hales, presided.

Members present: Messrs. Bigg, Cafik, Flemming, Hales, Leblanc (*Laurier*), Lefebvre, Mazankowski, Noël, Rodrigue, Winch—(10).

Also present: Mr. Knowles (*Norfolk-Haldimand*), M.P.

Witnesses: From the Canadian Government Printing Bureau: Mr. C. B. Watt, Director General, Printing and Publishing; Mr. F. E. Everett, Production Manager (Main Plant); Mr. J. A. Kiefl, Production Manager (Outside Plants); Mr. N. J. George, Comptroller; Mr. L. J. Walsh, Chief, Financial Services.

From the Auditor General's Office: Mr. G. R. Long, Assistant Auditor General.

At approximately 9.25 a.m., the Chairman opened the meeting in the Board Room of the Canadian Government Printing Bureau. After the Chairman's opening remarks and introduction of the media representatives present, Mr. Watt made an opening statement. He was followed by Messrs. Everett, Kiefl and George.

The proceedings were adjourned at 10.00 a.m. and the members were conducted on a tour of the Printing Bureau until approximately 11.55 a.m.

The meeting was resumed in the Board Room of the Printing Bureau. Members questioned the Officials about their operations, with particular reference to comments in the Auditor General's Reports, 1966 and 1967, dealing with publishing and printing activities. Mr. Long also participated in the discussion.

Messrs. Watt and Walsh were asked to forward additional information to the Committee concerning idle time costs and cash discount losses, respectively.

On completion of the questioning, the Chairman thanked the officials and at 12.40 p.m., the Committee adjourned until Thursday, April 24, 1969.

Hugh R. Stewart,
Acting Clerk of the Committee.

MINUTES OF PROCEEDINGS

EVIDENCE

(Recorded by Electronic Apparatus)

Tuesday, April 22, 1969

The Chairman: Gentlemen, will you come to order. This will constitute a regular meeting of the Public Accounts Committee.

I would like to have our visitors introduced. Mr. C. B. Watt, Director General, Printing and Publishing, from the Canadian Government Printing Bureau, has kindly set up this whole tour and meeting for us, so I would ask Mr. Watt to introduce his officials. Then I will call on Mr. G. R. Long, Assistant Auditor General from the Auditor General's Office, to introduce the members of the Audit Staff and then I think we should introduce the press or anybody else that is here. Mr. Watt?

Mr. C. B. Watt (Director General, Printing and Publishing, the Canadian Government Printing Bureau): I think if you do not mind I would prefer to leave the introductions until a little later when they will come up and make a few remarks. Some of them are guides and I think it might be just as well to delay their introductions until the tour is ready to start so that you will know them.

The Chairman: That is fine. Mr. Long?

Mr. G. R. Long (Assistant Auditor General, Auditor General's Office): Mr. Chairman, first is Mr. Hayes, whom I think everybody in the Committee knows; Mr. Laroche is sitting next to him. Mr. Laroche was the director in charge of the Printing Bureau audit. He is just in the process of turning it over to Mr. Cook who is sitting next to him. Then there is Mr. Beeman who is our Section Head in charge of the Printing Bureau audit. He is located here in the Bureau.

The Chairman: All right; we are ready to proceed. Mr. Watt, could you tell us what the general outline is? The only thing I would like to say at this moment is that I want to have a full hour reserved for questions at the end of our tour. We could come back to this room and have an hour's Committee meeting here.

Mr. Watt: We have taken the liberty of preparing the agenda for you gentlemen this morning. You have a copy of it in front of you. I thought it might be of some assistance to you in understanding our operations if we were to give you a brief introduction to our operations before we take you on the tour. In doing so I would like to introduce myself and also some of the people who will be with you this morning. As your Chairman has said, my name is Watt and I am Director General of the Operations. I am a registered Industrial Accountant and a Fellow of the Chartered Institute of Secretaries. I joined the Printing Bureau in 1951 as the result of an open competition, and prior to that time I had 14 years experience in commercial printing firms and also was comptroller for Eldorado Mining.

I know you are not accustomed to reading stories in the Minutes of your meetings, but in view of the fact that this is a little personal, perhaps I can start my remarks with a little story. It concerns three elderly gentlemen who were sitting one day in the sun reminiscing and one of them said to the other two: "You know, as you get older, you start to lose certain of your faculties, and the first one you lose is your memory." So this gentleman stopped and then said, "I cannot think what the other ones are." In my particular case I started to lose my teeth, so will you please pardon me for the gap that happens to be in my mouth this morning.

As I was saying, this was originally known as the Department of Public Printing and Stationery and when we moved into this building in 1956, not only did we have printing facilities but we also supplied the government with its stationery requirements of all types. We operated a typewriter repair section and we had the sales distribution and publication of books, and certain publishing functions.

As a result of the Glassco Commission Report in 1963, the stationery and purchasing functions were transferred to what then was known as the Department of Defence Produc-

tion and became part of the Canadian government supply service. The typewriter function became the Canadian Government Typewriter Repair Service. The Queen's Printer publishing function was transferred to the Secretary of State and the printing function became known as the Canadian Government Printing Bureau with myself as General Manager.

At that time, we occupied almost the entire area of this building which is roughly 1 million square feet. Now, a result of reorganization changes the contraction within our own facilities, we have reduced the space to where we occupy only perhaps a little better than one-third of the building. At the present moment in the building there are five other government departments occupying space. Some of the Inspection Services of DND occupy most of the first floor and part of the second floor. The Department of National Defence have a large computing centre in the southeast corner of the building.

The Mint have quite an extensive area in the northeast corner of the building, and also UIC have warehousing down in the basement and, of course, the Department of Supply and Service also operate a big warehouse in the basement, so this now is really a multi-department building.

As a result of the last change in government reorganization and Bill C-173 which you gentlemen passed quite recently, there has been another change within our organization and the printing and publishing functions have now been merged again, and I am now Director General responsible for both printing and publishing.

Over the years we have developed our own policy manual and I would like very briefly to tell you what we consider to be the prime function of the Printing Bureau. It is to provide to the government a printing service for all parliamentary papers, security work, work that requires close liaison with the customer department, and work of an urgent nature. Other printing is obtained from departments to allow sufficient load-balancing to produce an efficient, economic printing operation.

In order to accomplish this, the Bureau management has evolved the following policies: to establish and maintain the principle of management by objectives; to obtain the maximum value to the government and the people of Canada for resources of money, materiel and staff which are provided for the Bureau; to define within the limits of government policy the methods to be used in achieving the Bureau's objective and to see that these methods are used effectively; to seek methods for increasing the productive value of resources of the Bureau.

Because of the variety and urgency of parliamentary printing, we are obliged to handle a wide range of jobs. We do everything from calling cards, dinner menus, place settings through to publications of all kinds which could be considered almost equivalent to a daily newspaper. We are obliged, due to the pressure of work, to maintain this place in operation 24 hours a day and, on many occasions, 7 days a week. Specialized printing, such as multi-colour work, continuous forms and so on, are purchased from commercial printers. We do not attempt to get into that field at all. We, in turn, also use typesetting trade houses in Montreal and Toronto for our own work overload.

For the year 1966-67, which was our last printed annual report, our printing sales through our main plant were $8.7 million. During the same period of time $11 million worth of printing was purchased from commercial printers. So you see that we do roughly 50 per cent, it runs between 40 and 60 per cent, of the total volume of work while the balance goes to commercial printers.

As a result of the new organization, I am also in charge of the publishing section. You gentlemen will be taken, as part of your tour this morning, through our mail-order house.

We are responsible for publishing all government publications as well as for the distribution process. We operate a very large mail-order business here which you will see this morning, and six book shops which are located in the larger cities in Canada, from Halifax to Vancouver.

This is a very large volume of business. We have received over 20,000 letters and orders in the past month, and we ship books all over the world.

I think that will be sufficient for my introductory remarks. I would like other members of my organization to carry on and to deal with their own specific sections. We are providing for you to be back here at 11.30 a.m. or thereabouts. I am sure that at that time we

will be glad to answer any question which you might like to ask. May I now call on Mr. Everett.

Mr. Everett is our Production Manager in charge of the Main Plant. He is a Bachelor of Engineering from McGill University. He entered the Bureau in 1956 as plant engineer, and progressed through open competitions and closed competitions to the position of Production Manager of the Main Plant in 1961. Mr. Frank Everett.

Mr. F. E. Everett (Production Manager, Main Plant, Canadian Government Printing Bureau): Good morning, ladies and gentlemen. Mr. Watt has given you a very good rundown of the workings of C.G.P.B. It is not my intent to delay this tour of yours. What I would like to do is to give you some supplementary information and I will only take two or three minutes, Mr. Chairman.

What I want to do is try to give you some supplementary information to that which you will receive from the guide and from the supervisors in the plant. The idea of this is to make your tour as comprehensive as possible, so I will give you some simple facts for the next two or three minutes.

First of all, I speak for the Main Plant as Production Manager and only that. The function of the Main Plant, I think you all know, as you are the prime customers of the main plant, is to produce parliamentary papers. This is very simple as far as you are concerned.

This is important to us, however, in that your service demands over a 24 hour period some 500 to 600 pages. Consequently, we are equipped and manned for this volume of work in this time. In order to use this equipment effectively and efficiently, we fill in with other volumes, such as Public Accounts, and Insurance volumes. These volumes are chosen for a total budgeted business of about $19 million. They approximate, as closely as possible, the characteristics of parliamentary papers. In this way our operations become more effective and we obtain optimum efficiency.

In going through the plant I think it would be wise if you think, firstly, in terms of composition. Composition differs from other industrial processes in that it does not really have an end product, although you think in terms of metal or film. Actually, what we are processing is information. People will talk to you about computerized composition. Remember that computerized composition is essentially first input; second, processing—which means hyphenation and justification, and third, output. So you have three phases: input, process and output.

I am not going to explain these but you will hear these terms as you go through. Input is simply the keyboard input for manuscript which your system in Parliament delivers to us. The processing is a computer process whereby hyphenation and justification is obtained in the printed output. The output is by an Elektron machine, which is, as you will see upstairs, the hot metal machine, or a very new machine of which we are very proud called the Linotron 505 film processor.

So much for that. The guides will fill out this information for you.

Mr. Watt spoke about changes in the plant. Let me add now one or two facts. Formerly in this plant, the printing processes occupied an area of 475,000 square feet. In the past two or three years, through new processes and running equipment on additional shifts, we are now down to an area of 275,000 square feet. Mr. Watt referred to the other people in the building.

The Main Plant also has cold composition units in Ottawa, Montreal and Toronto to supply over-the-counter service for composition. In other words, they produce copy ready for camera.

Our estimates for sales from the Main Plant this year, that is, in the last fiscal year, should be about $9 million. May I point out to you that the size of the Main Plant is essentially defined by the requirements of Parliament. Over a great number of years the number of employees has remained just about the same, approximately 700.

What else can I tell you? There is one area that you will walk through called Patent Printing. Formerly, as you have probably seen in other countries, these patents were produced by a hot metal process, on Linotype machines. In 1956 the process required 64 people for a production of 16,000 patents per annum. Progressively through the years, we have changed this process so that we are using now 21 people. In about six months we will be using about 18 people to produce

26,000 patents annually. I am giving this figure because, as you go through patents, some of you may remember, or will have seen, other patent processes.

I have tried to give some of the data that will help you to comprehend the plant as you go through, because this process does become complex and a guide will explain this to you. Gentlemen, I thank you.

Mr. Watt: Thank you, Mr. Everett. I would now like to ask Mr. J. A. Kiefl who is the Production Manager of our outside printing units to tell you about our outside plants. Mr. Kiefl is a B.A. from Ottawa University. He joined the Printing Bureau in 1940 and progressed through various positions to his present position as Production Manager of all our outside plants. Mr. Kiefl.

Mr. J. A. Kiefl (Production Manager Outside Plants, Canadian Government Printing Bureau): Ladies and gentlemen, I will try to give you a brief outline of the context of the outside printing plants of the Canadian Government Printing Bureau.

Early in 1950 in the printing of patents, we had very little use for the offset process. The offset process was introduced with the result that two offset presses, working on one shift, were able to meet the production of three letterpress machines working on three shifts. All our backlog was completely picked up on the one shift. We were rapidly looking for work to keep the shift going.

In conjunction with the efforts of the financial comptroller of the Department of National Defence, a very extensive survey was carried out on the excessive use, as we deemed it, of spirit and stencil duplicators in the Department of National Defence. The copies produced by these were highly inferior to those produced on offset duplicators. The price was considerably higher and they were scattered all over.

In a survey made of the three buildings at Cartier Square, we were able to pick up 89 stencil and spirit duplicators and replace them with one centralized operation of 15 offset duplicators. This had very extensive economical effects as far as the Department of National Defence was concerned. This carried on until 1955, at which time a committee was set up consisting of Printing Bureau personnel, Treasury Board personnel, the Comptroller of the Treasury, and representatives from two or three other government departments. They finally came to a unanimous recommendation that all existing printing units in the government should be consolidated under the Canadian Government Printing Bureau outside plants.

We have worked fairly hard on this and feel that we have practically accomplished our full purpose, with the exception of a couple of existing plants, which we do not interfere with because of the high security regulations that they are following.

These outside plants range from Halifax on the east coast to Esquimalt on the west coast. We break them into two sections. One we call main printing plants and the other subprinting plants. The main printing plants number 33 from coast to coast and the subplants number 54 from coast to coast. These printing plants will vary in personnel from two to fifty-five people. The entire process, with one exception, is completely offset. The copy is provided which we photograph and reproduce on the machines.

The one process where we do not comply strictly with offset work is in our Dominion Bureau of Statistics plant, where we have a small letterpress operation which is purely hand composed for the purpose of covers. We have letterpress equipment which we use for scoring.

The average price on the jobs which we are processing in these 87 plants comes to $9.27 each. The total number of personnel involved fluctuates between 600 and 615. We would prefer it to be higher, but the Treasury Board has a freeze on it, so much so that we are having difficulties meeting the requirements that we are now called upon to do.

In the course of your tour you will see one of our so-called outside plants located in this building here. We call this our central unit. Its main purpose is to act as a funnel for overloads of work from all other outside plants which we have in this area.

The outside plants are divided into five sections. I am the Production Manager and have what I call five Area Production Managers. I have two for Ottawa, one for all of Ontario, one for Quebec and the Maritimes, and one for all the western provinces. The central unit is one of the few units I have which operates on a three shift basis. I think with

that I will probably let you see it yourself. If you have any questions to follow up on I will be very pleased to answer them.

Mr. Watt: You might just mention your jet units. They photocopy.

Mr. Kiefl: Three years ago, the Director General became quite concerned about the high cost of photocopying units with all the high-pressure personnel working night and day to get them in the government departments. This resulted in very high costs. Quite a survey was carried on and we wound up with a price that we were able to charge 1.5 cents per copy. This compared quite favourably with metered machines which were placed throughout the government and were costing anywhere from four cents to as high as seven cents per copy.

These jet plants have been installed in practically every spot where we could effect a saving. One and a half cents per copy is your price for the first 100 copies. Over 100 copies, we go on to our printing rate which comes to roughly .4 cents per copy.

I think Mr. Watt has a complete brochure on the whole study. I do not know whether or not he is able to provide everybody with them. Do you have copies?

Mr. Watt: I could probably get them.

Mr. Kiefl: I think they would be quite interesting.

Mr. Watt: I would just like to make sure, gentlemen, that you understand the difference between the two types of operations, the main printing plant and the outside units.

The main printing plant corresponds pretty well to any type of commercial printing plant. The outside units are really what is known as in-house printing and you will find that most large businesses, most offices of all descriptions, have within their own facilities a multilith or some method of reproducing copy. If the government were to do that, we have found that it would be a very expensive proposition because one would have a lot of machines being used on a part-time basis.

That is the reason why we have gone into this in-house type of printing. Wherever there is a major concentration of civil servants, we put in a small printing unit consisting generally of a 1250 Multilith to handle their own day by day type of printing. Ministers' speeches are one thing that come off quite quickly, training manuals, the types of things that are really paper work within their own organization. This is what we call our outside units and these we have, as Mr. Kiefl said, from one coast to the other.

There are a few minutes left for our Comptroller, Mr. Norman George, who is a chartered accountant. Mr. George is a newcomer to our family. For some reason or other we seem to be losing all our comptrollers. We pick them so excellently that other people want them as soon as we have them. Mr. George has been with us only about a year. He has had a wide experience in commercial industry in Toronto and other places before joining the Printing Bureau in June 1968. Mr. Norman George.

Mr. N. J. George (Comptroller, Canadian Government Printing Bureau): Ladies and gentlemen, as Mr. Watt has indicated, I recently came out of industry and I have faced boards of directors many times, but this is ridiculous.

As you have gathered, we are running a commercial type operation, a manufacturing operation, and consequently the accounting and the financial problems inherent in it are very close to those in the industrial sector. We are a little different from most other government departments in terms of accounting, as the Auditor General constantly points out. We operate from a revolving fund, in effect our share capital, and we have a dual purpose in our accounts: one is to make the statutory accounting to Parliament, the other one is to provide information upon which management can base its decisions and run the operation. Consequently we run a fairly complex, sophisticated standard costing system. We produce daily, weekly, and monthly reports by responsibility centres down to general foreman level, measuring actual performance against the predetermined standards in the budget. These indicate by means of variance analysis where their attention should be directed, if they are off course, to get back on course.

We try to give management the advice it needs and recommendations on the financial implications of alternate courses of action, on make/buy decisions, and similar matters. Costing is of particular importance in that we want to know how much to bill and who to

bill. We also use it as a means of comparing our rates with those of the commercial sector, after allowing for the costs of such items as accommodation, light, heat, power and so forth for which we are not charged for the moment.

We use the computer extensively. Our profit and loss is prepared on the computer. Following the recent Task Force on government reorganization, the financial services group in the printing sector was transferred to the control of the Director General, Administration, in the Department of Supply and Services. We operate with a staff of 40. I think that gives you a brief run-down on my operations. Mr. Watt.

The Chairman: Just before we break into groups, Mr. Watt, I would like to thank you gentlemen for the introductions that you have given to what we will likely see in the plant. You have answered the question that has been asked by me and other members of the Committee. That is, why did we come to the Printing Bureau or why did we pick this department first as one of the projects of the Public Accounts Committee?

When you told us this morning that your sales were $9 million, that you have 87-odd outside plants, and of the scope and the size of your operation, these are some of the reasons why we came. Also, we are your best customers, as you said. So I think those are the reasons why we came to the Printing Bureau.

Mr. George, I think I could tell you now that many of the questions that the Committee will be asking when we return will have to do with the financial operations of the organization. The Committee will want to see the stock rooms, the inventory control. They will want to see the way in which the sales are handled, accounts receivable, and things like that. So during the tour maybe you would make it a point to show all members of the Committee these particular aspects of what they are interested in.

I think this has been a very fine introduction to the Printing Bureau. Mr. Watt's idea is that we will break up into groups and there will be a guide for each group. I will leave this in your hands, Mr. Watt.

Mr. Watt: Yes. Excuse me, Mr. Chairman. We would have liked to have had you here for the whole day because we think we could have very well taken the whole day touring the building and also talking to you. I understand you want to get back. Is it 12 o'clock or shortly afterwards?

The Chairman: I had better give them until 12:30.

Mr. Watt: We had not intended in your tour of the building this morning to take you down to the basement and show you the stock rooms. I did not think we would have time for that. Would you like to leave it until we come back and then see what time you have? You could push the time now.

The Chairman: As for the Committee, I think this is the sort of thing they are interested in. It is a large operation.

Mr. Watt: We will be glad to show it to you if you can give us the time.

The Chairman: Does anyone wish to make any comment? Mr. Cafik.

Mr. Cafik: Mr. Chairman, I think one of the great weaknesses sometimes of Parliamentary committees is that they do not get an in-depth look at things. I think we would be making a serious mistake, if we are serious about this project, to spend a half day trying to catch everything and not really doing anything very thoroughly. I would suggest that perhaps we look at what portion they can show us today properly. If we feel it is necessary, we can come back and look at the remainder of the area that we have not been able to deal with.

The Chairman: That is a good suggestion. We will follow their plan as laid out and if there is anything further we wish to know we can see it at another time.

Mr. Watt: Fine. We have a number of guides who will identify themselves and take you around in groups. We think five or six persons for a guide is best. In that way you get a chance to understand what is going on. We will start off with two groups.

Now, we are going to make a little diversion. One group will start off with production and one group will start off with publishing, but you will all come back eventually. We trace the same pattern so that you will all see everything exactly the same. It has the effect of spreading the groups out a little more.

The Chairman: There have been two lines of thought advanced here, that either we would continue our meeting by referring to

certain chapters in the Auditor General's report or, if you had enough questions relative to the tour that you have just completed, we would entertain those questions and do these paragraphs at a later date. I am at your disposal on this point. There might be a number of questions that you want to ask from your observations during your tour. If not, we will go by chapters. Are there any comments?

Mr. Cafik: I have a couple of general questions.

Mr. Bigg: I think Mr. Cafik's idea is very good, Mr. Chairman.

The Chairman: Mr. Bigg?

Mr. Bigg: That is, if we could ask questions about the tour now while we have it fresh in our minds...

The Chairman: All right; Mr. Cafik.

Mr. Cafik: I have a number of questions but rather than pursue them all, I am sure a lot of you have questions that might duplicate mine. I would like to ask one question first. As your operation is geared to such a large extent to production of papers for Parliament, what happens during the recesses in Parliament, which are Easter, Christmas and during the summer?

Mr. Watt: Normally there is a sufficient carry-over of work to take care of the between sessions and the Easter recess. This year you had 14 days. I think we actually had only 10 working days. We had a considerable backlog of committee work which we then processed. Normally in the summer time we are working on the revised edition of *Hansard*. Those are your bound volumes that have to be reprinted and go through a normal printing process. That, by and large, keeps us pretty well occupied. Of course, during the summer time we also have a certain amount of holiday leave on our own staff, so it fits in.

Mr. Winch: Could I just ask why they have to be reprinted?

Mr. Watt: On account of the corrections made.

Mr. Cafik: This is the bound volume?

Mr. Watt: The bound volume.

Mr. Cafik: There is one other question in this regard. There has been a lot of talk recently, with the great emphasis on committee work in the House of Commons, that committees suffer a great disadvantage in not having their minutes produced in the same manner as is done for *Hansard*—in other words, on a daily basis. If this were to be done as matter of policy, what sort of capital investment would it require here in the Printing Bureau, and what basic changes would have to be made, in order to produce minutes of committee meetings with the same degree of efficiency and dispatch you presently have with *Hansard* itself?

Mr. F. E. Everett (Production Manager, Canadian Government Printing Bureau): I cannot answer about the capital investment. To produce them overnight, I think, is the question.

Mr. Cafik: Yes, it is.

Mr. Everett: It would probably mean some more men, but we are gradually now coming to the point where we can produce overnight. We are now handling the committees on the basis of priorities. If there is a demand for a committee to be produced overnight we do so. Then, on priorities, some are not required overnight and we are right now meeting your schedule. As this develops through your parliamentary system we will act to conform to your requirements.

Mr. Cafik: If the House of Commons were to give instructions immediately that all committee hearings were to be done overnight, would this be possible? Do you have the facilities and the staff?

The Chairman: Mr. Everett.

Mr. Everett: I think we would be hard pressed to do all of the committees at this time overnight. At the present time, in order to do the committees, we are working on the weekends. So consequently we would require some enlargement of staff to meet this.

The Chairman: Mr. Lefebvre.

Mr. Lefebvre: I would like to follow up on Mr. Cafik's questioning on the printing of Committee reports. There is a great delay at times as he pointed out, but there is even a more serious delay in the French copies of these committee reports. Is it because you are not set up for that here, or is it because translations of the English texts are slow in coming from the House of Commons?

Mr. Everett: We tried, as I said, to meet the priorities that are given by the House of

Commons. Our work starts when they have manuscript ready. In some committees they are ready immediately but at other times there is delay. I think that this delay occurs in the transcription and translation process.

The Chairman: For an example, sometimes the French copy of the committee reports have been up to two months behind the English copy, which is in itself already a month behind the date when the committee meeting took place. You would say that it is due to translation and not the tie up of work here?

Mr. Everett: Yes, this is why. We would have been able to produce that in that length of time. We can most certainly do better than two months.

Mr. Lefebvre: I have one more question. You say "priorities". Could you give us an example. In what order of priority does the Commons Public Accounts Committee compare to other committees who have a higher priority?

Mr. Everett: I could not give you that priority off the top of my head. Does anybody have a list of priorities relative to Public Accounts?

Mr. Lefebvre: Mr. Everett, you spoke of priorities of committees.

Mr. Everett: Yes.

Mr. Lefebvre: Actually what are these committee priorities?

The Chairman: I think it is a good question but I do not think the Printing Bureau will have the priorities. They are already established at the Committees Branch.

Mr. Cafik: Does the House Leader establish the priority?

Mr. Lefebvre: Somebody establishes a priority for printing. They must have a list here.

Mr. Everett: We take them as they come over. If we have a choice of committees we then turn to the parliamentary people who tell us which ones should be done first.

Mr. Lefebvre: This is by telephone or are they written orders?

Mr. Everett: This is both written and telephone.

Mr. Winch: Whom do you mean by parliamentary authority?

Mr. Everett: This is done with our editorial people in Parliament. We have a committee group in Parliament.

The Chairman: Mr. Everett, would you explain who that is. Is it the Committees Branch or the Speaker's Office?

Mr. Everett: It is the Committees Branch.

Mr. Lefebvre: So the Committees Branch would tell you that we want this committee first, this other committee second, and so on.

Mr. Everett: They would give us priorities, along these lines. If they ask for ten then we would meet this ten. It is when we get into large volumes that the priorities become necessary.

The Chairman: All right. Any other questions?

Mr. Cafik: On the same line, there was some mention in the tour that consideration was being given to have the input into the computer for composition of type direct from the House of Commons or from the Committees Branch. Is this being pursued or is this an idea that is pie in the sky at the moment?

Mr. Watt: It is in the future. We are working on it. We already have one part of the installation but I think it will be another year before we are actually able to get into production on it.

Mr. Cafik: You are studying the methods?

Mr. Watt: Right.

Mr. Cafik: I presume that the translation staff and recording staff and so on in the House of Commons, and in the Committees Branch, are a separate entity altogether from the Printing Bureau.

Mr. Watt: Yes, sir.

Mr. Cafik: Do you see any advantages to having that side of it, the picking up of the source documents itself, under your control? Has this ever been considered in part of re-organization?

Mr. Watt: I think that at times they have thought of whether or not some of the translations being done by the translating bureau could be done over here. However, it has never been completed or carried to a conclusion.

The Chairman: All right. Mr. Bigg and then Mr. Mazankowski.

Mr. Bigg: Who has the responsibility for buying such things as paper? Do you buy it within the Printing Bureau itself, or is it bought from another department?

Mr. Watt: We prepare a requisition and the specifications and send it over to the purchasing branch of the Department of Supply and Services. They are our purchasing agent for all things. We have no purchasing agents as such.

Mr. Bigg: We have been told there is a difference in the quality of paper and so on. Do you have good liaison to get the kind of paper you want?

Mr. Watt: I would say so, sir. Yes.

The Chairman: Mr. Mazankowski.

Mr. Mazankowski: Mr. Chairman. It occurred to me that a fair amount of work is awarded here to other commercial printing firms. What procedure is exercised in awarding these jobs to other commercial printing firms?

Mr. Watt: I will have to speak in terms of both the past and the present. We have just gone through a change as of April 1 with re-organization. There are two types of printing, there is the commercial publication side, which is your books and periodicals and so forth, and then there is the other type of printing, your flat forms, continuous sets, snap-out sets, and that type of special printing.

There are two buying agencies. The Queen's Printer had one for publications and the Defence Production had one for the other type of printing. All printing requisitions come to us first and then we determine, according to our workload and our capabilities, whether or not we want that type of job. If it is the snap-out set, we are not geared to handle that type. Automatically that would be subcontracted out through the purchasing people over at DDP on a tender basis. If it is the publication side, the same thing applies to us. If it is a multicolour work we will not touch it. That will go directly to a commercial printing agent a tender basis on contract.

The Chairman: Now, Mr. Mazankowski, you have opened up a question here which is in paragraph 131 and I think we will deal with that. You have opened up the subject matter of purchasing from commercial plants and the cash discounts that are offered by the various firms. There is one question I imagine the Comptroller would answer, or Mr. Walsh. Do you accept these tenders on the amount of the cash discounts they offer? According to this paragraph you do not take advantage of these cash discounts. The Auditor General tells us you have lost $18,000 by not accepting cash discounts.

Now, the Committee would like to know why you let this $18,000 slip through your fingers. Mr. Walsh?

Mr. L. J. Walsh (Chief, Financial Services, Canadian Government Printing Bureau): In dealing with this there are two aspects as to why we lose discounts. The receipt voucher is made out by the various government departments for which we are doing the printing. We have no control over this. If they do not prepare these receipt vouchers in a timely fashion within the time limit, we have no alternative but to lose discounts. There is another aspect that should be brought out...

The Chairman: Excuse me; before you leave the voucher, will you explain that more fully? I did not follow you.

Mr. Watt: It is a receipt voucher for receipt of goods.

The Chairman: From where, other suppliers or what?

Mr. Watt: No, from other government departments for which we are doing the printing.

The Chairman: For which you are doing the printing?

Mr. Watt: Yes.

The Chairman: That is not for the buying of raw materials.

Mr. Walsh: These are made out or should be made out by the various government departments. Excuse me; may I just clarify a point here? I think I should just take a moment to clarify it. When we buy printing it does not necessarily follow that it is delivered to us. In most cases it is delivered by the printer to the department ordering the goods. They in turn forward a receipt voucher to us which we then use to support the payment of the goods. Now, if we do not get the receipt from the department in time to meet the cash discount period, the cash discount is lost.

Mr. Watt: That is what Mr. Walsh was talking about.

The Chairman: Mr. Watt, why do you not follow it up and ask the department to forward their voucher for you?

Mr. Walsh: We have done this to a considerable extent but this requires extra staff in a sense. You have to know just where the goods were received and get the man who actually received these goods to prepare the particular receipt vouchers.

The Chairman: Mr. Cafik has a question here. I am sorry to be cutting these answers short, but we are pushed for time and we have to be on the button and short and snappy with the questions and answers.

Mr. Cafik: Concerning the $18,000 that you lost as reported by the Auditor General, obviously then, according to what you say, there are various departments that are responsible for this loss by not giving you receipts for goods received. Will you provide for us a list of the departments involved, the amount of money and the number of contracts involved in which you did not receive the adequate discount?

Mr. Walsh: Yes, I can do that, sir. I do not have it here at the moment.

The Chairman: This would be for the year 1968, Mr. Cafik?

Mr. Cafik: For the year in which Item 131 of the 1967 Auditor General's report is concerned with.

The Chairman: The year 1967, then.

Mr. Cafik: I think it would also be advisable to have it for subsequent years where the same situation may prevail so that steps can be taken.

The Chairman: Mr. Leblanc?

Mr. Leblanc (Laurier): If you are the buyer, why do you not give instructions to the suppliers to supply you with the answer that you need, that the goods have been delivered to the right place? Then you could check with the department.

The Chairman: I think what Mr. Leblanc is saying, Mr. Walsh, is that the day the outside printer ships or invoices the goods he should send a duplicate invoice to the Printing Bureau saying that they have shipped the goods to such and such a department. Then you know the goods have been delivered. Is there anything wrong with this system?

Mr. Walsh: I think what you mean here is that when the goods are delivered by a particular commercial supplier he should supply a packing slip and the receiving department will sign the packing slip. We do get these the odd time from the suppliers but not regularly.

Mr. Leblanc (Laurier): Why do you not receive them regularly?

Mr. Walsh: Well, it is not within the contract for them to send these out.

Mr. Leblanc (Laurier): It is a good suggestion, though.

Mr. Watt: I am sorry to interrupt again, but we cannot pay on proof of delivery. We have to pay on proof of receipt and I think the Auditor General will sustain me in that.

Mr. Lefebvre: If on the same day it is delivered to another department you got a copy of the invoice, then you can check quite quickly with the department, even by telephone or messenger, to see if this is correct. Then you here will be aware of this and be able to pay within the cash discount period. I believe this is what we are getting at, Mr. Chairman. Could arrangements be made for this to be done?

Mr. Walsh: Yes, and I would also add that in checking with the Auditor General's representative just the other day I understand that at present there are very few cash discounts being lost. This happened during a certain period of time, but as of now I think there are very few.

The Chairman: I think that will settle that. I think the Committee would like to have the assurance that no cash discounts will be lost in future.

The Chairman: Mr. Cafik?

Mr. Cafik: Just one last point. I think it might be worth while for you to add to the contract that the cash discount period would be so many days following receipt of goods by the supplier. If that were built right into the contract it would not matter a darn. It would be their responsibility and I am sure if they want the job, they would not object to it.

The Chairman: All right, gentlemen. Are there any more questions?

Mr. Lefebvre: I have a question connected with this. I do not have the figures for 1967-68, but I understand in 1966 idle time cost the plant here $103,000. Would the fact that you are farming out some of your work have anything to do with this, or would it be solely because you do not have the necessary plant equipment to publish these special volumes or publications?

Mr. Watt: Now you are back on the printing aspect.

Mr. Lefebvre: They are related, though.

Mr. Watt: I think first of all you must understand that we are a production department and every minute of every person's time out in the plant is accounted for. If, for some reason, we do not have work for five minutes or ten minutes, they record that time as being idle. Now, we can be idle from many reasons. We can be idle for lack of work, we can be idle for down time on the press. If the press breaks down and we call for maintenance, that man may stay idle for half an hour while his press is being fixed up. That is recorded as idle time so far as we are concerned.

Mr. Lefebvre: So none of the work given out is actually causing idle time because you do not have the necessary plant here. Is that correct?

Mr. Watt: No, I could not say that exactly, because a lot depends on the conditions at the time. Idle time is made up of many things. Last year, you will recall, the House went home very abruptly. That gave us quite a problem at that time in trying to get work in fast in order to take up that slack time, so we are faced with a balancing workload again. There is a little idle time there. At the end of the year, when departments have run short of money, they may not have sufficient work. We do not have enough time then to go and look for work to fill out, so we may have some idle time, but it is broken up in many little bits accumulated over the whole year.

Mr. Lefebvre: To save time, Mr. Chairman, could we have the last three years, starting with 1966 which amounted to $103,000, broken up into the main reasons why this occurred?

Mr. Watt: May I refer these to the Committee at a further date?

Mr. Leblanc (Laurier): Could you tell us if the percentage of your idle time compares favourably with the percentage in the private sector of the printing industry?

Mr. Watt: After the comment in the Auditor General's Report—I think it was in 1966—I checked out with a number of printers in the area to find out how their figures compared with ours, and we were well below the average for the industry.

Mr. Leblanc (Laurier): When you give us your figures, then, could you at the same time give us comparative figures that you could pick up from DBS?

Mr. Watt: I will try. I cannot do it from DBS; I have to do it from the printer himself.

The Chairman: All right, gentlemen. Mr. Bigg, another question on this?

Mr. Bigg: I should just like to say that, during our tour of the plant, I was impressed with the bustle and attention everybody seems to be putting into their work, and I think that the whole plant should be complimented on that. I wish to put that in the record.

The Chairman: Thank you, Mr. Bigg. I am sure that Mr. Watt and his staff will appreciate that.

Mr. Cafik: I have one other question. In your printing—I did not get this quite clear earlier in the opening statements—do you do the stationery for the House of Commons, the envelopes, and all that sort of thing?

Mr. Watt: Yes, we do some of the stamped envelopes, but not all of them.

Mr. Cafik: Do you fabricate your own envelopes?

Mr. Everett: No, we do not fabricate envelopes.

Mr. Cafik: Do you have any idea what the volume would be?

Mr. Everett: No, I cannot give you volume figures here off the top of my head, I am sorry.

Mr. Cafik: Have you ever looked into the advisability of going into this field yourself, as opposed to subcontracting? The capital expense involved is not very great.

Mr. Everett: No, we have machines to do part of this work. Oh, you mean form envelopes?

Mr. Cafik: Fabrication.

Mr. Everett: No, this is a business which we can best buy outside, in our opinion.

The Chairman: Mr. Everett, along that line about the envelopes for the House of Commons, who are they purchased by, the Supply and Services people?

Mr. Everett: They supply us the blank envelopes and then we simply die-stamp them...

The Chairman: And if we wanted to complain that the mucilage or the glue on them is not worth a hoot and they do not stick, who do we complain to?

Mr. Everett: You complain to Purchasing.

The Chairman: I would like to register a complaint.

Paragraph 264 will bring into focus a number of questions that you have concerning the tour. It referred to the printing and publications, the sale, and so on. I am sure there are questions here.

Mr. Lefebvre: This was about the last stop on our tour, and I do not want to take too much time of the Committee, but according to the Auditor General's Report there is no control over the books in mail order stores and over those on consignment to other departments. How can you maintain proper financial control by producing reliable periodical financial statements in the absence of accurate inventory control records?

I understand from questioning the gentlemen down in the book stores that there is no actual inventory except once a year. The only way you can count up is to calculate the amount of money you have been charged with and the value of books against the number of sales. But if there is any discrepancy, nobody seems to know what caused it. I think in answering it would be possible to give the Committee the amount of money involved for the last five years, by year.

The Chairman: Mr. Walsh, would you like to answer that?

Mr. Walsh: This comment has a far reaching effect on the publishing operation of the former Public Printing and Stationery Department. One aspect of this, which runs through all our activities, was the lack of adequate professional personnel to carry out the various functions. One other aspect was the handling and warehousing of the publications, and I am referring particularly to the mail order bookshop which you just recently visited. The partitioning there was just erected last March, and since that time we have been endeavouring to take inventories of the publications within that area; to set up proper bins, proper shelving; so that we can break up our inventories into the various parts.

There is one other aspect here that should be brought out. Any moneys coming into this Department for the purchase of publications are received in my particular area in the financial services, clocked in, so to speak, through a particular cash register, and deposited in the Bank of Canada each day. These particular orders, after that particular point, are sent to the mail order bookshop for filling.

The Chairman: Mr. Walsh, we can verify what you have said about the purchases, because I made a dummy purchase down there this morning. I went through the motions and was given a cash receipt marked by the cash register, so we know that the money was taken, put in the cash register, and stamped on that receipt. I do not think, therefore, that anything but the best system exists as far as handling the money is concerned; but we are concerned about the inventory of the books. For instance, could you tell us what is the inventory value of the books in the bookshop across from the Chateau? On Mackenzie Avenue, there, you have a bookstore selling all your books. Could you give the Committee a cost inventory of the books in that shop?

Mr. Walsh: We have these figures. I do not have them readily available. I can supply this for each bookshop under our control.

The Chairman: In other words, you have an inventory of the books.

Mr. Walsh: Yes, we have an inventory.

The Chairman: At cost or selling price?

Mr. Walsh: At retail value—selling price.

The Chairman: Then this has been done since the Auditor General's Report was written?

Mr. Walsh: Yes.

The Chairman: That is within the last year?

Mr. Walsh: We have always had an inventory of publications within our bookstores

across Canada. The only inventory control that we did not have was the mail order because of the area in which it was located. We did not have security in this particular area. Therefore, it was extremely hard to control the input and output of publications.

The Chairman: Excuse me for asking questions; I should not be doing this, but it just came to mind. Have you or your officials ever called in large publishing companies like McGraw-Hill, who do a tremendous business in books, to see what system they use for control of inventory and cash?

Mr. Walsh: To my knowledge, no—we have not done this, sir.

The Chairman: Are there any questions?

Mr. Watt: May I answer that? As you know I have just taken over the publishing side. In view of the Auditor General's comments, the first thing that I have asked for has been a group of consultants from those within our own Department. They are now preparing for me a systems study on the entire publishing field, and will, I hope, come up with a better method of controlling our inventories. Unfortunately, though, it would take from six to nine months to start implementing it. We intend to put it all on our computers as soon as we can.

The Chairman: The Committee is glad to hear that. Mr. Bigg and then Mr. Mazankowski.

Mr. Bigg: I would just like to know if the year-end inventory over the years has shown a discrepancy between what they expected to have in the cash box and what was left on the shelf? If there was any large scale decrease or increase, it should have shown up somewhere in the yearly check.

If they said, we have so many volumes of *Canada; a year of the land* and we got in here and found that you did not have any, you would expect there would be several thousand dollars in the . . .

The Chairman: I am going to ask Mr. Long to comment on that question.

Mr. Long: Mr. Bigg, there are a number of factors that enter into this that have not been controlled in the past. Many publications are sold at a 40 per cent discount to the trade. There is no record kept of discounts as they are allowed. All publications were not charged to the book store at retail price. Basically, they were charged at retail price, so you have the question of your profit entering into this. To take stock at the book store—as we mentioned in the report, we took stock at one store—we could not tell how close we were because the errors in the Headquarters account, which was supposed to be controlling the total value of that stock, were so numerous that you could not pin it down to get a cut off.

Mr. Cafik: In your 1967 report, on page 208, section 264, you have an excess over expenditure of $2,982,000. I wish you would fill me in on precisely what that means.

Mr. Long: I think, perhaps, I should let the publishing accountants mention that. It means really just what it says. There was more expenditure than revenue received by this amount, but, of course, you have Parliamentary appropriations and you have responsibilities of the Printing Bureau, so you expect at least some of that.

Mr. Cafik: Does this mean that $2,982,000 represents the inventory of goods remaining in stock printed during that year?

Mr. Long: No.

Mr. Cafik: It is taking that into account, is it?

Mr. Long: I should let the Printing Bureau people answer that, but I think this includes the cost of official documents.

Mr. Walsh: Yes, this figure here, although showing an excess of expenditure over revenue, contains, as it says here in the middle, an "estimated value of major services provided without charge by government departments". That total is $1,177,000. We had no control over that, so I think we can eliminate that figure and come up with a loss, you might say, of $1,800,000. This is . . .

Mr. Cafik: May I ask another supplementary there? Are you saying that the $1,177,000 is really too little for the value of goods provided, for services provided; that there should be a $2 million and some dollars figure? Is that what you are saying?

Mr. Walsh: No, I cannot comment on that. All I say is that these charges in the middle, estimated value, are the ones that are chargeable as common services, provided by other government departments. Now, we have no control over that. These are estimated by the

departments and charged to us as a memorandum account. That is all that is.

Mr. Cafik: Do you not bring that into your revenue side?

Mr. Walsh: No, we do not bring these in. These are strictly memoranda.

Mr. Cafik: What you are suggesting now is that, if you bring it in, you reduce that deficit by over $1 million.

Mr. Walsh: Well, if we delete it, we will reduce the deficit.

Mr. Cafik: Or bring it in on the revenue side, whichever way you want to handle it.

Mr. Mazankowski: Mr. Chairman, my question has to do with the inventory control and cost records. I am prompted by a question that I put on the Order Paper some time ago asking what was the total revenue, or what was the actual cost of production of *Canada; a year of the land*? My answer was given as follows, and was printed and produced by Carswell Printing Company for a price of $433,478.15. Now, I am going to refer for a moment to the 1968 Auditor General's Report, in which we are told that the 25,000 copies were printed at a cost of $514,000. I would like to know, firstly, why there is this discrepancy and, secondly, I would like the Printing Department to comment on this statement in which it states

> The Department does not maintain a revenue record for each publication but as it is estimated that 80 per cent of the copies were sold to independent retailers at an authorized discount price of $15 a copy, . . .

There are many things there. For example, there is no revenue record and they were working merely on estimates. I would like to get some clarification on those points.

The Chairman: The first question was why the two prices submitted . . .

Mr. Mazankowski: The discrepancies. My question that was answered on the Order Paper, supplied by the Department of Public Printing and Stationery, amounted to the figure of $433,478.15. The Auditor General's Report states that the cost of printing and producing the 25,000 copies of the book, *Canada; a year of the land*, was $514,000, excluding costs of direct advertising, distribution, administration and postage.

The Chairman: Subtracted, then what is the discrepancy, the difference?

Mr. Mazankowski: About $80,000 to $85,000.

The Chairman: That is a sizeable amount. Mr. Walsh do you have any answers?

Mr. Walsh: I do not have any comment on that. I do not have the actual figures available here for this.

Mr. Cafik: May I ask a supplementary on that? Following the question raised, those books were sold, I gather, at $15 retail . . .

An hon. Member: The wholesale price.

Mr. Cafik: The wholesale price was $15. Is that correct?

Mr. Watt: May I answer this question, just for a minute? I do not think that we were entirely responsible for the price of *Canada; a year of the land*. This was not determined by ourselves. The price of $25 set for the sale of *Canada; a year of the land*, came from the Treasury Board. It cost us, I think, about $17.50 per copy to sell these at $25 each. Normally, sales in toto are about 20 per cent from the Printing Bureau through our own sales outlets and 80 per cent through book sellers. The latter obtain a 40 per cent discount, so if the sale price is $25 the 40 per cent discount which they receive brings the price down to $15. For every copy we sold to a book seller we lost $2.50, and that is one of the reasons why it was sold at a loss. Now, somebody else determined that the selling price was going to be $25. If it was sold at $30, the way it should have been, and probably the next issue will be, there should be a better profit picture.

Mr. Mazankowski: Mr. Chairman, I am not concerned about the price established. I am concerned about the discrepancy in the two figures.

The Chairman: From the information you were given? Mr. Long, maybe you could answer that.

Mr. Long: Mr. Mazankowki, the price or cost that the Printing Bureau gave you was, I believe, the Printing Bureau's own cost. There was considerable cost—that of photographic plates, and the like—incurred by the National Film Board, who sponsored it. I believe this accounts for the entire difference; $80,850 was the National Film Board's design cost.

Mr. Watt: That is not part of our cost.

Mr. Mazankowski: That clarifies my question.

Mr. Cafik: May I ask another supplementary? Is it now the policy of the departments or the Printing Bureau to have a revenue record for each publication?

Mr. Watt: We hope to, but not at the present moment. We have 80,000 titles; and to try to keep an inventory control on 80,000 through the entire office is currently impossible. At the present moment we do not have the facilities to be able to do it.

Mr. Cafik: Yes, I can appreciate that.

Mr. Watt: We hope to be able to arrive at that.

Mr. Cafik: Would it be possible in view of the multiplicity of volumes, and the short runs, I presume, on so many of the volumes, to divide them into groupings, into categories, and have records according to categorization rather than to individual publications? You might find it possible to do that.

Mr. Watt: We will certainly try that. You will appreciate the point, at least Mr. Hales will, that when he bought that book this morning we would have to have some method of identifying that particular catalogue number, that particular book, on the cash register when we processed it through.

Mr. Cafik: Yes, but they do that sort of thing in the Supermarket.

Mr. Watt: Not by individual items, though. They take all your fruit but they do not take how many tins of soup and fruit you are going to buy.

Mr. Cafik: No, but you could group your books into, maybe, eight or ten categories.

Mr. Watt: I hope to come to that, sir. Yes.

Mr. Mazankowski: Mr Chairman, I still want to pursue this point just a little further, regarding my line of questioning. I asked for an answer to what was the actual cost of production of *Canada; a year of the land.* Should not the $80,850 that was supplied by the National Film Board be included as a part of the production cost?

Mr. Watt: Maybe, in answer to your question, sir, it should be. But normally, when we are asked that type of question, we do not know what the other departments have spent for preparing the document, or the editing and copyrighting, and so forth. We know only our own figures. The Auditor General, in this particular case, has those sets of figures, but they would not be available to us.

Mr. Leblanc (Laurier): You were not billed for that amount, either?

Mr. Watt: Oh, no.

Mr. Leblanc (Laurier): You would not know, because that was done entirely by another department, so you could not consider that with your own cost.

Mr. Watt: We do not know what the cost of producing *Hansard* is. We do not know the cost of the staff of the House. All we know is what it costs us to print it.

Mr. Mazankowski: Then it may have been wise to include in my answer that it was $433,478.15 plus other incidentals incurred by the National Film Board.

The Chairman: One question arises here, speaking of books. You must have a lot of obsolete books, books for which the demand has ceased. What do you do with these? Have you many of them?

Mr. Watt: Yes, that is quite true. This is one of the things I am taking a good look at. In the past, it has been the practice, I understand, to put a lot of obsolete books under the knife and just scrap them. I am now trying to find if there are any better ways of disposing of obsolete volumes than by cutting them up. I have arranged with one university to take three or four skids of obsolete material. I am pursuing this matter, through the National Librarian, to see whether some of the underdeveloped countries would like to have some of these books. I am also considering whether some time or other I could have bargain sales and put some of these things on at bargain prices. I see no reason why we should not. I think to cut a book up is the worst thing we can possibly do, sir.

Mr. Cafik: Did you ever try to sell them through Coles, or something like this?

Mr. Watt: I have been thinking about that.

The Chairman: Mr. Flemming.

Mr. Flemming: This morning, Mr. George I think it was, spoke about the calling for competitive bids on any work that you wanted

done outside your own activities. I believe that was part of your report, was it not? I may have the wrong individual.

Mr. George: No. What I said, sir, was that we have tried to develop a costing system, whereby we could compare the rates we charge our customers with the rates a commercial printer would charge his.

Mr. Flemming: Well, my question was this: In connection with the placing of orders with the general printing operators throughout the country, do you ask them to meet your cost? In determining this I understand you do not charge anything for office space and such like. Before you give them the order, do they have to meet the actual out-of-pocket expenses as estimated by you?

Mr. George: No, sir. This is not so. The placing of contracts is, as we have heard, done through general purchasing. They go out on tender after we have had a look at the job and Mr. Everett has decided, whether or not his plant has the capability or the capacity to handle it.

Mr. Flemming: Then I take it that the competitive angle is only between various printers and has nothing to do with your costs.

Mr. George: We only establish these as a guide to our own efficiency in comparison with the industry.

Mr. Flemming: That would be the basis of my question.

Mr. Cafik: Do you indicate to the Department of Supply and Services, as it is now called, what you think you ought to pay for a job that is going to be subcontracted? This is more or less the same question that you have asked, but I am not sure that we received a clear enough answer.

Mr. George: Obviously, the purchasing department is aware of our printing rates.

Mr. Cafik: But do you give a preliminary estimate of what you think that job should cost before you send it to Supply and Services to be farmed out?

Mr. George: In most cases, no.

Mr. Cafik: But you do in some cases?

Mr. George: In some cases, particularly in terms of our outside plants.

Mr. Cafik: Do you know if Supply and Services prepare an estimate? I noticed that on the *Bonaventure*, for instance, they prepared some preliminary estimates. Is that standard policy on all material that is farmed out?

Mr. George: No.

Mr. Cafik: I guess they are happy about that.

The Chairman: I was almost going to rule you out of order, Mr. Cafik.

Gentlemen, we will take one or two questions.

Mr. Lefebvre: You farm work out. Do private plants approach you to do some of their printing too?

Mr. Watt: We are not allowed to do anything, sir, under government funds. I might just add, sir, though, to your question of estimates, that, really, the only time we would prepare a fixed estimate for the benefit of the commercial printer is as a rush job, when there is no time to go out on competitive tenders. Then we would advise the department of what the price of that job should be, but that is very seldom. Usually it is on the tender basis, with a number of people quoting on it.

The Chairman: Gentlemen, I think we will have to conclude at this point, but I would like to tell you of one observation that I made personally this morning, and I think Mr. Watt should know about it, too.

We were in the one area, a printing section, and, as you know, they use a terrific amount of ink in the printing business, so a couple of us went into the stock room where they kept the ink.

We asked them if they kept a perpetual inventory of the ink. The gentleman said, "Yes, we do." We said, "May we see a card?" He produced a card. We went to the shelf and counted the tins, the number of which did not coincide with the information on the card. He said, "Well, the balance of it is downstairs in the large stock room." I said, "May I go to the large stock room?" He took me there and I learned two things. First, the gentleman who told me that the statistics were kept upstairs, all on one card, was incorrect. He was not the man in charge of the Department, so maybe he did not know all the facts.

When I went downstairs and counted the tins there, the gentleman told me that they kept an inventory control in the major supply

room downstrairs. Those supplies, and the ones upstairs, were counted, and the figures were correct, according to the card. The only observation I make is this. There were two inventory controls kept, one upstairs and one downstairs, and it seemed a duplication of work. One control would take care of the whole thing. Other than that, I am pleased to report that the control of the inventory was 100 per cent correct with that one particular little item called buff ink.

Mr. Watt, we do appreciate this very much, and as our Vice Chairman, Mr. Lefebvre said, what we should have planned was a tour this morning, had lunch with you, and then had a question and answer period or a meeting in the afternoon. It would have been perfect.

However, we operate on a tight schedule, as you people do. We appreciate your time. It has been wonderful. I think we all have a much better appreciation of how *Hansard* is produced and the amount of work that is behind the production of *Hansard* and, particularly, Committee Reports.

There have been several valuable points discussed here this morning, namely, the rapidity with which Committee Reports are published, inventory control of books, and sales. We are glad to know that you are about to rectify some of the irregularities in these areas which have been brought to our attention through the Auditor General. Mr. Cafik, have you a question?

Mr. Cafik: I just wanted to say one thing. I have been associated with some very large firms in the printing business for about 15 years, and I can say honestly, to you and to everybody on the Committee, that I have never seen a printing operation which impressed me any more than this one.

The Chairman: Thank you.

HOUSE OF COMMONS

First Session—Twenty-eighth Parliament

1968-69

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: Mr. A. D. HALES

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 31

THURSDAY, APRIL 24, 1969

Public Accounts, Volumes I, II and III (1966 and 1967)
Reports of the Auditor General to the House of Commons (1966 and 1967)

WITNESSES:

(See Minutes of Proceedings)

20177—1

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. A. D. Hales

Vice-Chairman: Mr. T. Lefebvre

and Messrs.

Bigg,	Leblanc (*Laurier*),	Roy (*Timmins*),
Cafik,	Mazankowski,	Tétrault,
Cullen,	McCutcheon,	Thomas (*Maisonneuve*),
Flemming,	Noble,	Trudel,
Guilbault,	Noël,	Winch,
Harding,	Rodrigue,	Yanakis—(20).

(Quorum 11)

Edouard Thomas,
Clerk of the Committee.

MINUTES OF PROCEEDINGS

[*Text*]

THURSDAY, April 24, 1969.
(33)

The Standing Committee on Public Accounts met this day at 9:40 a.m. The Chairman, Mr. Hales, presided.

Members present: Messrs. Bigg, Cafik, Cullen, Flemming, Hales, Harding, Lefebvre, Mazankowski, McCutcheon, Noël, Thomas (*Maisonneuve*), Winch—(12).

Also present: Messrs. Forrestall, Guay (*Lévis*) and Knowles (*Norfolk-Haldimand*), Members of Parliament.

Witnesses: From the Department of Supply and Services: Messrs. G. W. Hunter, Deputy Minister of Supply; R. D. Wallace, Associate Director, Shipbuilding & Heavy Equipment Branch; I. J. L. Palmer, Project Officer, Shipbuilding & Heavy Equipment Branch. *From the Department of National Defence:* Captain J. A. Lynch, Acting Director General, Programmes; Lieutenant-Commander R. J. Hanlon, Principal Naval Overseer for the Province of Quebec. *From the Auditor General's Office:* Messrs. G. R. Long, Assistant Auditor General; A. G. Cross, Assistant Audit Director.

The Committee accepted the Chairman's suggestions regarding the agenda for this day's meeting, and resumed its study of the cost of the refit of *HMCS Bonaventure.*

In answer to a question, the Chairman replied that Davie Shipbuilding Ltd. had been advised that a representative of their firm would be called to appear before the Committee in the near future.

Mr. Hunter made a statement pertaining to the role played by the Department of Supply and Services in contracting for the refit of the *Bonaventure.* He also gave details concerning the contracting for furniture repair and refinishing.

Mr. Cafik made comments regarding articles which have appeared in the press recently. He then proceeded, as agreed, to the questioning of the witnesses.

During the examination that followed, questions were answered by Captain Lynch, Mr. Palmer, Lieutenant-Commander Hanlon, Mr. Wallace and Mr. Hunter.

Mr. Long and Mr. Cross were also questioned.

The Chairman referred to the Order of Reference of April 21, 1969 authorizing the Committee to retain the services of an engineering consultant. He indicated that the Subcommittee on Agenda and Procedure would study applications received.

20177—1½

It was recommended by Mr. Cafik that the Committee seek legal counsel in order to clarify the question of "contracts", to establish the obligations of Davie Shipbuilding Ltd. in the matter, and to determine if there is a legal right to the recovery of funds if such a measure should prove to be warranted. The Chairman indicated that arrangements would be made for the tenders or contracts to be presented to a legal person for an opinion.

As requested by the Committee, Mr. Wallace will endeavour to produce estimates pertaining to contracts X-81 and X-427.

Mr. Long undertook to supply Mr. Cafik with the list of amendments to the original contract.

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

Fernand Despatie,
Acting Clerk of the Committee.

EVIDENCE

(Recorded by Electronic Apparatus)

Thursday, April 24, 1969

•0941

The Chairman: Gentlemen, if the meeting will come to order we will proceed.

This morning we will continue the Committee's investigation into the cost of the refit of the aircraft carrier *Bonaventure*. These investigations originated with the Auditor General's 1967 Report on page 54, Chapter 101. I would suggest to the Committee that we deal only with the moving, repair and replacement of furniture which was listed amongst the work arising at a total cost of $226,000. This amount was not included in the original estimates and was one of the items examined by your subcommittee.

Mr. Lefebvre: Mr. Chairman, on a point of order. I understand that you have written to invite the officials of Davie Shipbuilding to appear before this committee.

The Chairman: We wrote to them on April 21 saying that we would have them before the Committee and would advise them what meeting they would be expected to attend. They were not invited to attend this meeting this morning. They were advised they could come as witnesses, as all people can, as it is open to the public, but that we would advise them at what meeting we thought they should be here.

Mr. Cafik: Mr. Chairman, perhaps it might be advisable to point out as well, at least from the information given to me, that there is someone from Davie Shipbuilding in the audience here today, as a guest, as a member of the public. Is that correct?

The Chairman: Yes, I believe so. However, he is not here in a position to answer questions.

There were five main contracts, all of which were let to Davie Shipbuilding Limited with respect to the moving, repairing, and replacement of furniture. In order that we might have some order in discussing these, I will list them for you and for those who were not on the subcommittee. I think you should write these numbers down and the amount regarding each contract.

Contract number X427, for $4,173, was for moving 26 double chairs from the briefing room to be inspected and later repaired by the Department of National Defence at a cost of $3,880.72, making a total cost for these 26 double chairs—although we should say that there were 64 chairs in that room—of $8,053.72.

• 0945

The next contract, X81, for $2,600, was for moving various furniture items.

The next, X782 for $145,008, was for repair and replacements of furniture.

The next one, X784 for $61,853, was for repairs and replacement of furniture.

The last one, X1237 for $19,728, was for manpower or labour to do some moving of furniture and other general work.

As I have said, we will take each of these by itself and keep our questioning within these realms. In view of the fact that one of our Committee members, Mr. Cafik, was Chairman of the subcommittee which examined these contracts in great detail and took charge of the investigation aboard the *Bonaventure*, I would suggest, in order to have some continuity, that he should be allowed to start the questioning and direct his questions to the witnesses. All other members should make notes as we go along and reserve their questions until Mr. Cafik has completed his questioning. Is that outline agreeable? Mr. Cullen?

Mr. Cullen: Mr. Chairman, on a point of order. In view of the considerable publicity that has been given to Davie Shipbuilding Limited's comments that the figures we have are not correct, are these the alleged incorrect figures?

The Chairman: These are the figures that were accepted and paid by the Department of Defence Production to Davie Shipbuilding Limited.

Mr. Lefebvre: Mr. Chairman, should we not start off with a statement from those responsible for giving us these figures, either accepting or denying the statement made by Davie Shipbuilding Limited?

The Chairman: That was my next note, Mr. Lefebvre. I have been advised, before we start, that Mr. Hunter has a prepared statement of about three pages, of five minutes in length. If it is the wish of the Committee to hear that, we will do so.

Some hon. Members: Agreed.

Mr. Thomas (Maisonneuve): All the items you have enumerated concern furniture, moving, labour and so on. You have given some individual costs and so on. Do you have the total?

The Chairman: Of the furniture?

Mr. Thomas (Maisonneuve): Yes.

The Chairman: It is $226,000. I do not know whether those add up to $226,000, but there are other incidental items.

Now we will hear a statement from Mr. Hunter, Deputy Minister, Department of Supply and Services.

Mr. G. W. Hunter (Deputy Minister of Supply, Department of Supply and Services): Thank you Mr. Chairman. Over the past six or eight weeks, there have been many critical comments by the Canadian press, radio, and television, on the role my Department has played in contracting for the refit of the *Bonaventure*. If the press comments are correct, then either I or my officers have misinformed the Committee, or the Committee members have not understood our role, or our procedures. We have avoided replying to the press stories directly, because we believed that a matter before the Committee should not be argued outside. However, I feel at this time I should briefly review the project so that the Committee clearly understands the situation.

The contract under discussion was awarded to Davie Shipbuilding on the basis of a competitive tender for work to be performed in accordance with a given specification. The firm contract price was $4,913,541. It was known, at the time the contract was awarded that extra work would be required and, on the basis of information provided by DND, the company was asked to quote an hourly rate for performing 200,000 hours of extra work. It is important to note that this rate • 0950 was used for negotiating firm price additions to the contract. It is not correct to say that the extra work was charged at this rate. Once a firm price for additional work was negotiated, the over-all firm price was increased by this amount.

There were approximately 1,700 changes and additions to the original specification. These were all negotiated and added to the contract and a final firm price of $10,290,090 was arrived at. To summarize, the initial contract, plus estimated unspecified work, was for $5,768,682; the final firm price was $10,290,090, in an increase of $4,521,408.

This was a very large increase from the shipyard's viewpoint. It caused changes in schedules, changes in employment, and a lengthening of the time for the refit, because it was not physically possible to perform all the work in the original estimated period.

On our side, it meant a tremendous amount of extra work to negotiate each item and to agree on a price. Delays in authorizing the work meant delays in completion of the ship with a consequent further increase in the over-all price.

It was our objective to provide the best incentive for the contractor to complete the work at the earliest possible date and at the lowest cost. This incentive is provided in a firm price contract. Therefore, we made every effort to retain a firm price.

Were we successful? In order to determine that, it is necessary to say what constitutes a successful contract.

First, was the customer, DND, satisfied with the work and did it meet the specifications? On this point you have heard testimony by the users, and by the technical staff of the navy, that the customer was very satisfied.

Second, was the work completed in a timely fashion? All parties concerned with the supervision of the work agree that the contractor made every effort to get the work completed and the ship out of the yard as soon as possible. Had a very large amount of additional work not been required, the contractor could have easily met the original completion date.

Third, was the work performed for a resonable price? We believe that the best measure of this aspect is whether or not the contractor made only a fair and a reasonable profit. On a firm price contract the difference between the contractor's cost and the price is his

profit. The contractor will make every effort to reduce his costs to increase his profit.

Since he, and not the government, is in the best position to say how work will be done to minimize cost, and since it is the contractor, and not the government who will lose if costs rise, the only practical method of assessing the reasonableness of the price is to review the contractor's cost and profit figures. This review will have to await the results of the audit. I am informed that the work is well advanced on the audit at the moment. Although I cannot forecast the audit results, I am confident that the controls we exercised during the negotiations will produce satisfactory results.

I might just add a word on the furniture, as Mr. Cafik suggested I do. First, I would like to say and to make it clear that at no time did Davie Shipbuilding Limited submit estimates to us for the repair and refinishing of individual items of furniture, such as medicine cabinets, wardrobes, et cetera.

Second, I can assure you that at no time did my Department negotiate with or contract with Davie Shipbuilding Limited for the repair and refinishing of furniture on an individual item basis. The Committee has not been given, nor does there exist, a contract or contracts with Davie Shipbuilding Limited for the repairs of refinishing of individual items of cabin or office furniture.

It has been inferred in the press that this Department contracted with Davie Shipbuilding Limited to undertake repairs and refinishing of a medicine cabinet at an estimated cost of $258.20. This is not true. Nor is it true that any of the other equally ridiculous individual furniture repair figures that have been given to the press were any more accurate.

The Chairman: Thank you, Mr. Hunter. At this point I would simply like to say in response to this statement, that Mr. Hunter has said that it was their objective at all times to obtain and to establish the fact that they

• 0955

received reasonable prices for the work done. The Committee is of the opinion, after our investigation, that this might not be so. We have picked out the furniture items to establish this point.

Without having a discussion on the announcement that is made—because we have discussed many phases of it before—I think we should go immediately into the furniture contract, and try to establish this point: were reasonable prices given to the Crown for the work performed? Mr. Cafik?

Mr. Cafik: Mr. Chairman, just one point, if I may. If I need to I will put it forward as a point of order or a question of privilege, but I think it is only fair at this stage that I be allowed to make a very short, brief statement of about, I would say two minutes, in response to what Mr. Hunter has said in regard to misleading information in the press.

At no time have I seen in the press, and I have followed it fairly closely, any statements to the effect that those dollars were paid for medicine cabinets, or whatever it was.

The simple fact is that, on the basis of information given to us, submitted by the Department of Defence Production—which are working papers, working out what they considered to be reasonable estimates of costs for individual items which added up to a total figure in each of these contracts that I am referring to—you end up arriving at these particular figures for individual items. Although we have not said that that is what was paid for those items, if you add up all the items you end up with the total amount of money that we were talking about.

I think there may be some misleading information as to the nature of the contract. I do not think any of the information is misleading as to what, in fact, this government paid for those things in the over-all term. I just make that statement before I begin questioning.

Mr. Chairman, I would like to proceed, if I may, on...

The Chairman: Excuse me, Mr. Cafik. I wonder if it would be agreeable to start with the 1X-427, which discusses the moving of those briefing room chairs, because the Committee have all been there and have seen these chairs. I realize that X-81 also concerns moving of furniture, but the fact is that the Committee are familiar with the briefing room and the chairs. Would you direct your question to that primarily?

Mr. Cafik: All right, Mr. Chairman. The reason that I had earlier indicated a preference to go into X-81, is that I have reason to believe that Contract X-81 is for the performance of exactly the same work as contract X-427. As it precedes Contract X-427, it would seem reasonable to me to establish whether or not the jobs described in these two different contracts are, in fact, the same

job. That is the reason I wish to proceed with X-81, but if it is your wish I will go with X-427.

The Chairman: You may proceed in whichever way is most convenient.

Mr. Cafik: All right. I will try to establish this fact, or at least establish the truth of the matter; that is the important thing. In contract X-81, in the job description which is attached to this contract, on the bottom of the page, there is reference to the moving of 26 in number of seating arrangements and 20 in number of writing trays. Both of these items are in the briefing room, which is described in both cases in the subsequent contract as the same briefing room. Are these chairs, in fact, the chairs that are also being asked to be removed by contract X-427?

The Chairman: Mr. Cafik, we will have to call the proper witnesses to the table. Mr. Hunter, I would think, as the head of that Department of Supply and Services which requested this tender, or his assistant, should take the stand to answer these questions.

I would like these witnesses to be ready to take the stand, the witnesses who have signed the tenders: Lieutenant-Commander Hanlon—

• 1000

whose name appears on one of these contracts —, Captain J. A. Lynch, and Mr. Palmer of the Department of Defence Production.

Mr. Cafik: Perhaps Mr. Lynch is the man that we should question as he signed the authority to do this work, according to information I have.

The Chairman: Captain Lynch, will you take the stand?

Captain J. A. Lynch (Acting Director General, Programmes, Department of National Defence): Yes, sir.

Mr. Cafik: The question, if you wish me to repeat it, concerns Contract X-81, which is the contract describing the removal and the bringing back of certain furnishings aboard the *Bonaventure*. The repair work I believe was to be done by naval stores, or by the Department in any event. Are you familiar with this contract, Captain?

Captain Lynch: I was very familiar with it, Mr. Cafik. The contract was signed by me. I must say that my memory of the details of something like 3,000 individual contracts at a date two years after the event...

The Chairman: May I interject here? Perhaps, Captain Lynch, you could tell the Committee what your position and responsibilities were in connection with the refit, so that all the Committee will know.

Captain Lynch: Yes, sir. My responsibilities were to specify work to be estimated on. On receipt of a detailed estimate from the contractor, I would examine the total, compare it with my priorities and the money available, and decide whether or not to proceed. At this point it was handed over to the Resident DDP Production Officer who validated the estimates. He had responsibility for all contractual dealings with the contractor.

Upon receiving my signature and that of the Resident DDP Production Officer, the paper became a contract and the work was then performed. When the work was performed, it was my responsibility to inspect the work, to see that it was done in accordance with the specification and if so to accept it, and then to hand it over to the Commanding Officer of the ship, the ship being in commission at the time.

The Chairman: Were you present during the whole refit?

Captain Lynch: Yes I was, sir

The Chairman: Proceed Mr. Cafik.

Mr. Cafik: Perhaps then, we will not delve into your memory of details that happened at that time, as it is very understandable that you would not be able to remember all the details on so many items. You are quite familiar with the ship itself, I would presume?

Captain Lynch: Yes.

Mr. Cafik: The information that leads me to believe that the answer to the question that I originally raised—that these are indeed the same chairs as referred to in a subsequent contract—is based upon this: It is described as a Briefing Room, FR 112½ -124, 2 Deck Starboard. Are there two such rooms that could be described that way on that ship or can that only mean a specific Briefing Room?

Captain Lynch: That description describes one briefing room.

Mr. Cafik: All right. Are there two briefing rooms aboard that ship, Captain?

Captain Lynch: As I recall, there were. I think we turned the other one into something else.

Mr. Cafik: In any event, there is only one briefing room that can be described along the lines that I have previously quoted.

Captain Lynch: That is correct.

Mr. Cafik: This perhaps is not so much a question as an observation. In Contract X-784, there is on page 7 in the job description, an item called Briefing Room, FS 112½ -124 2 Deck Starboard—the same description—which refers to repairing those particular chairs. Contract X-427, which is the next contract I

• 1005

will be going into, describes the removal of the same chairs.

Would you give, or is there anyone in the Department of Defence Production or the Department of National Defence who can come forward and give, evidence here today as to whether the chairs referred to in X-427 are indeed the same chairs that are described on page 1 of the job list on X-81?

The Chairman: Mr. Palmer, would you take the chair? Mr. Palmer is representing the Department of Defence Production.

Mr. Cafik: Mr. Palmer, of the two contracts that I am referring to, do you have copies in front of you?

Mr. I. J. L. Palmer (Project Officer, Shipbuilding & Heavy Equipment Branch, Department of Supply Services): I see them here now, yes.

Mr. Cafik: All right. What is the answer, then, to the question that I have raised?

Mr. Palmer: Mr. Chairman, at the time X-81 was raised, the briefing room was used as a store-room, to the best of my knowledge. There was a lot of loose furniture in there and I only remember it because it was dimly lit. I go back three years in my memory also. I think there was only one light burning in this room. I made the inquiries regarding the furniture referred to by Mr. Cafik.

On the lower level in the briefing room, to the best of my recollection, there was a large stack of loose furniture non-native to the briefing room. On the top level of the briefing room behind the top tier of chairs there were also a few chairs in there.

When I made inquiries as to what was involved on X-81, I cannot remember whether I was told by the DND representative or by the contractor that that called for the movement of the non-native furniture which was in the briefing room.

Mr. Cafik: All right. Could I pursue that for a moment? Does it not strike you as being at least extraordinarily coincidental that the number of seating arrangements—and I know of no other case in any contract where other chairs are called seating arrangements—happen to be the same quantity? There are 26 in this contract X-81, and in X-427 they are described as 52. However, in the case of X-427, they are counting them as individual chairs. In the other contract they are counted as they really are, pairs of chairs, because they are attached to each other. Does that not strike you, or would that not give you reason to believe, that we are in fact describing the same items?

Mr. Palmer: Mr. Chairman, it may be coincidental, but they are not the same items, because when X-427 was raised I again visited the briefing room and the chairs were in there. Subsequent to that, I saw the briefing room chairs up on the flight deck covered in plastic. However, all the loose furniture had been removed prior to that time.

Mr. Cafik: I am sorry. I do not follow that argument. Would you repeat it please?

Mr. Palmer: When I went back to the briefing room on the raising of the X-427, all the loose furniture was then out of that room. The only furniture that I saw in there at that time were those chairs which were native to the briefing room, the pilots' chairs. This was two months later.

Mr. Cafik: That does not necessarily mean that X-81 did not call for the removal. It would simply mean to me that they were not removed.

Mr. Palmer: Mr. Chairman, work was done on X-81. The loose furniture was all removed from the briefing room.

Mr. Cafik: Could I pursue that for a moment? X-81 calls for more than the removal of those particular seating arrangements and writing trays. It calls for a number of other items. Are you indicating that the other items so described were, in fact, in the briefing room as loose furniture?

Mr. Palmer: No.

Mr. Cafik: I did not want to misunderstand you there. Are there any other seating arrangements aboard that ship in which there are writing trays?

Mr. Palmer: I do not know.

Mr. Cafik: Another peculiarity of these briefing-room chairs is that they have writing trays attached. You are talking about the writing trays here and I know of no other case, after a pretty thorough analysis of these contracts, where there is any mention of writing trays of that nature anywhere else.

Mr. Palmer: I could not answer yes or no,
• 1010

Mr. Chairman, to that question.

The Chairman: If you want a definite answer to that maybe Lieutenant Commander Hanlon of the Department could give an answer.

The Chairman: Lieutenant Commander Hanlon, would you have any light to throw on this? Would you take the chair, please?

I might say at this point that the Committee will not be too receptive to anyone's putting blame on memory. These Proceedings are all recorded and we expect a definite answer. We do not want to keep falling back on the excuse of memory. I say this with due respect.

Mr. Cafik: Lieutenant Commander, do you think the chairs of that item of X-81 are in fact the same chairs, the same seating arrangements, as described in X-427? I raised this question by letter to the Department earlier. I have not had a reply but they were kind enough to tell me that they did not have all the information. They may have worked out a reply. Mr. Wallace was on that. He may care to comment later as well.

Lt. Cdr. Hanlon (Principal Naval Overseer for the Province of Quebec, Department of National Defence): From the description of what you are talking about it would certainly appear so, Mr. Cafik. X-81 was raised on the June 20, 1966...

Mr. Cafik: Yes.

Lt. Cdr. Hanlon: ... at a cost of $2,600 and I believe it is X-427...

Mr. Cafik: Yes, that is correct.

Lt. Cdr. Hanlon: ... raised on October 6. X-427 is strictly these 52 chairs we are talking about.

Mr. Cafik: That is correct.

Lt. Cdr. Hanlon: Whereas X-81 included an attachment with a lot of miscellaneous bits and pieces on it.

Mr. Cafik: That is correct.

Lt. Cdr. Hanlon: X-427 is a cost of $4,173.

Mr. Cafik: Yes.

Lt. Cdr Hanlon: The only thing I can say is that if X-427 was in with X-81, I would assume the cost should be approximately $6,700.

Mr. Cafik: You are working on the premise that the charge made for X-427 was a reasonable charge, which I do not subscribe to.

Lt. Cdr. Hanlon: The charges, unfortunately, Mr. Cafik, are not within my jurisdiction.

Mr. Cafik: You agree with me that we have very good reason to believe that those are the identical chairs?

Lt. Cdr. Hanlon: The description would indicate this, yes.

Mr. Cafik: That is correct. Thank you very much. The location, the description, and the number would all indicate that they are the same item. Unless I hear some pretty strong evidence to the contrary, then I insist that the Department request the money back for X-427.

The Chairman: On the basis, Mr. Cafik, that the company was paid twice?

Mr. Cafik: For the same job. That is correct.

The Chairman: That it is the same job. Would you like to spell that out just a little more fully for the record?

Mr. Cafik: On the basis of information that is available to me—everything is always subject to that condition—my contention is, and the Department agrees that it is a reasonable contention; the Lieutenant Commander has agreed that contract X-81, which describes the removal of 52 individual items from abroad that ship at a cost of $2,600, one group of items, 26 in number of the 52 items are, in fact, or appear to be on the basis of evidence received, exactly the same items as are described in contract X-427.

There are a number of questions that follow from this. First, if that is true, then the job was done for X-427 before X-427 was issued, or at least it was contracted to be

done, and therefore contract X-427 was not performed and we need $4,173 back. The second question that arises from that...

The Chairman: Now, Mr. Cafik, before you leave this, the Committee is going to make a recommendation that $4,173 be returned to the Crown.

• 1015

Mr. Cafik: That is correct.

The Chairman: If there is any member of either Department present who thinks this is incorrect or unfair, please take the stand.

Mr. Bigg: I have a supplementary, Mr. Chairman.

The Chairman: Mr. Palmer, please take the stand. Mr. Bigg, I suggest that we keep our questions brief.

Mr. Bigg: I take it that the first two contracts were strictly on removal and are not to be confused with the actual repairing of the chairs.

The Chairman: No, that is right. Mr. Palmer, we have asked you to come to the witness stand and dispute this statement that has been made.

Mr. Palmer: I would not care to dispute anything, Mr. Chairman, but I would like to make a comment. Subsequent to the approval of these individual items, a document is promulgated by the Department of National Defence. In this instance, I think it was the second supplementary specification collating all these items. In reading through the items which refer to X-81 and X-427, they are the same, to the best of my memory, as they are on these two work orders.

At the end of the contract there is a document signed by the Department of National Defence, known as the D-448, and herein there are no comments on work which has not been done or on work which has not been completed. I looked through the D-448 and to the best of my knowledge again, there is no reference to either of these two items.

Mr. Chairman: Mr. Cafik.

Mr. Cafik: Mr. Chairman, that is all very interesting but I do not see that it is relevant. I am not maintaining that those chairs were not removed and not put back, or not repaired. That job, I am sure, was done. What I am concerned about is, did we order the job to be done twice at two different prices and pay for it? It has nothing to do with whether or not it was done.

The Chairman: All right.

Mr. Cafik: I would like to pursue this further because there is another question arising from the contention that I put forward. It bears on the subject as to whether the prices that government has paid for this refit are reasonable. The contention has been that these prices are reasonable.

If the presumption that I have made so far, based on this evidence, is indeed factual, then that argument put forward cannot hold water. X-427 calls for the removal of these chairs and the bringing back of them, not the repair of them, for $4,173. A preceding contract calls for that job along with many other jobs spread out aboard the ship at a cost of $2,600. Either X-81 was underbid or X-427 was grossly overbid. We paid, I presume, both of these figures. We not only paid for it twice...

The Chairman: Mr. Cafik, maybe we should establish that point. I will ask Mr. Cross or Mr. Long of the Auditor General's Department whether or not we paid these two sums of money. It might take a little while to look it up. You can tell us later, unless you have it right there.

Mr. A. G. Cross (Assistant Auditor General): I would like to refer to the material we have here, Mr. Hales.

The Chairman: Mr. Cross will refer to this and report.

Mr. Cafik: Perhaps we could ask him another question. Mr. Cross, you have heard the argumentation here so far. Have you had time, prior to this meeting, to look at both of these contracts and arrive at a conclusion as to whether or not the items referred to in both are identical?

Mr. Cross: I did note the similarity. I noted one other odd coincidence. Mr. Hales asked it I would give you information as to where these particular chairs were repaired. One of the people here from the Department of National Defence provided me a day or so ago with a paper indicating that these chairs had been repaired in Montreal.

The point I wish to bring to your attention now is that these papers appear to me to indicate that the chairs were in Montreal in late September, 1966, whereas the $4,000 job

you are discussing here apparently originated in October; that it was raised after the fact.

Mr. Cafik: The evidence that you are giving there would really lead one to believe that

• 1020

the job was removed by X-81, if they got into Montreal prior to the issuing of X-427.

Mr. Cross: This is possible.

Mr. Cafik: So that would be a further indication to believe that these contentions are correct.

The Chairman: I think Captain Lynch wishes to make a statement. Captain Lynch.

Capt. Lynch: Yes, sir. I am afraid that you cannot always prove things by chronology, by the dates on various documents. This was the biggest industrial job of this nature that has ever been done in Canada. One of the reasons it was done on time, which was very important costwise was that frequently we had to cut red tape. Sometimes I did tell Davies to do something at a certain point in time. I am not saying that I did this in the case of the briefing room chairs, but when circumstances were such that it was practical to give verbal instructions, I stepped outside my line of authority and gave them in the interest of overall economy.

The Chairman: I thank you, Mr. Lynch. Of course, the Committee have nothing more to go by than the data submitted to us. That is the only chronological thing that we can follow.

Mr. Cafix: One other question also on X-81. I hate to take so much time on one contract but I think it is a very important principle that must be answered in respect of these two things in the interest of the public. I do not think we can allow the thing to be dropped without pursuing all avenues.

In contract X-81, was there, a job description and an estimate of anticipated cost prepared by the Department of Defence Production prior to the letting of this contract, so that the fixed price contract that came back could, in fact, be related to these DDP Estimates, as was the case in other contracts?

The Chairman: Mr. Wallace, I would imagine that you or someone you would suggest could answer that?

Mr. R. D. Wallace (Associate Director, Shipbuilding and Heavy Equipment Branch): Mr. Chairman and gentlemen with regard to this question of the briefing room chairs, I would concur with the remarks that have been made, in so far as the apparent similarity of the two specifications is concerned.

In so far as X-81 is concerned, the amount of the total estimate, $2,600 comprised the moving of some 89 or more pieces of equipment from different locations within the ship contract X-427 concerned itself solely and only with briefing-room chairs. I do not have a piece of paper or a document that would indicate that the briefing-room chairs listed on X-81 were deleted or that there was any communication between the contractor and ourselves to exclude from X-81.

The assumptions that you have made, Mr. Cafik, are not unreasonable. However, one could not take the briefing-room chairs out plus all the other stuff for the same price.

As far as I am concerned, there is obviously a similarity here. My feeling is that the briefing-room chairs were not taken out under this X-81 and that the costs estimated for removing the chairs under X-427, as we have stated before, are fair and reasonable.

I would also like to say and have the Committee clearly understand that these are not individual contracts. These are estimates of prices. We do not know what we paid for X-81 or what the actual costs are. We do not know what the actual costs are for X-427, or for any of these other additional contracts.

Mr. Cafik: But you do know what you paid for that.

Mr. Wallace: No.

The Chairman: Let us clear this point very clearly because we have asked the Auditor General to say whether or not this money was paid.

Mr. Cafik: I want to follow that up, Mr. Wallace, in all fairness. Did contract X-81 cost the Canadian people $2,600 to do the work described therein.

Mr. Wallace: It was introduced into the contract, the firm price contract, at that amount.

Mr. Cafik: In other words, that is what was paid for doing the job described?

Mr. Wallace: It was put into the contract. If the contract...

The Chairman: Mr. Wallace, I think we want a definite answer. Yes or no.

Mr. Wallace: I do not believe I can give a definite answer.

Mr. Cafik: Mr. Chairman, just a moment. I want a clarification of something. I have in

• 1025

front of me a document which is Serial No. X-81, dated June 20, 1966. I have been lead to believe, up until this very moment, that this is a fixed price contract, one of 1,500 contracts for the refit of the *Bonaventure*. Now is that such a document, or is it not?

Mr. Wallace: It is not in itself a separate contract.

Mr. Cafik: Is it then a supplementary contract?

Mr. Wallace: It is introduced into the main firm price contract at that amount.

Mr. Cafik: I want to pursue this. Call it whatever you will. Does this tell Davies Shipbuilding to do a certain job for which they are going to be paid a certain sum?

Mr. Wallace: Yes.

Mr. Cafik: Then I call it a contract.

Mr. Wallace: Call it as you wish, sir.

Mr. Cafik: Legally you can call it anything you like, but it is what I would describe as a contractual arrangement to do a certain amount of work for a certain price.

An hon. Member: Right.

Mr. Wallace: If I may pursue this further, Mr. Chairman?

The Chairman: Mr. Wallace.

Mr. Wallace: I am not saying that our Department, my Branch, or the people that were involved on the *Bonaventure* did not make mistakes. I think that where you have a job of this magnitude mistakes are bound to occur. If, in fact, it can be proven that these chairs were taken out under X-81, then I would say that we would have no alternative as a Department, and we would do this without any suggestions or pressure from the Committee, but to negotiate with the contractor for the return of this sort of money.

The Chairman: Mr. Wallace, when I asked this morning would anyone come forward and dispute this matter of our going to the Company and asking for X number of dollars to be returned on this contract, you did not come forward and offer any other reasons why we should not do it.

Mr. Cafik: I would like to pursue this because I think Mr. Wallace is right. I think they would certainly make a request if they believed that both of those items were the same items. Any reasonable person would do so. I want to ask you right now whether or not you believe that there is a duplication here?

Mr. Wallace: It would appear so.

Mr. Cafik: All right then.

Mr. Wallace: From the evidence presented so far, it would appear to have happened.

Mr. Cafik: It is now not for us to prove that they are identical, but it is for someone to prove that they are not the same thing.

Mr. Wallace: Or that they were not moved twice.

Mr. Cafik: We do not care whether they were moved twice. As a matter of fact, I am sure they were not. Were they paid for being moved twice; that is the question.

Mr. Wallace: From the evidence presented so far I would say, yes.

Mr. Cafik: What steps do you propose to take in order to recover this money?

Mr. Wallace: We would pursue it as we do any in any other case.

The Chairman: Mr. Hunter.

Mr. G. W. Hunter (Deputy Minister of Supply, Department of Supply and Services): Mr. Chairman, might I comment on that? I think Mr. Wallace made the point that these become an addition to the firm price contract. They are additional work and the cost of these is added and becomes a part of the firm price contract.

I mentioned that there were 1,700 changes to this main contract. When the contractor appears before you he will confirm certainly that, with 1,700 additional pieces or packages of work to be added, he will be up on some and down on some. I am sure the contractor would take the view, and we would have to, that some may be a little high, some may be a little low. I think really that the final test is whether or not he made an unreasonable profit on the over-all contract.

Mr. Cafik: This is the key question, and until we resolve this we cannot really get anywhere. The contention is that this is a supplement to the firm, original contract which grew and grew and grew and became the ultimate figure of approximately $13 million.

I maintain, and I think I am right in maintaining, that this piece of paper represents an agreement to perform certain work for a certain sum. Whether they made or lost money on other contracts has nothing to do with this contract.

Some hon. Members: Hear, hear.

Mr. Cafik: As far as I am concerned, I would have to hear some pretty strong evidence to indicate to the contrary that this is,

• 1030

in effect, a contractual arrangement for a specific job for a specific sum. If we wanted to say the price was too high, you might have to look into the profit structure through an audit of this or the whole contract. However, that is not the contention. The contention is that this and another contract describe the same work, for which I do not believe the Canadian people want to pay twice. I believe that it is our job to see that they do not.

Mr. Hunter: Mr. Cafik, we have done our best to determine whether, in fact, there was a duplication. We were not able to confirm that.

Mr. Cafik: It has been agreed that it is a reasonable presumption that these are the same contracts. A person would have to be completely blind, I think not to come to that conclusion.

Mr. Winch: Mr. Chairman, might I ask a supplementary here for clarification? Mr. Hunter is using the term "over-all contract". I just want to be clear. Does that mean that you are putting together 1,700 additional items, along with the original contract, to decide whether or not there was a fair profit?

Mr. Hunter: That is exactly right, sir.

Mr. Winch: Then I want to state here and now that as far as I am concerned it has nothing to do with it. the original contract is the original contract. What we are concerned with is the basis of return—if you want to put it that way—of the 1,700 additional items which were then put into the firm contract.

Mr. Cafik: Mr. Chairman, in effect, what we are being told here today is that our whole investigation is into the details of these 1,700 contracts. They were described in evidence many times before this Committee as being fixed price contracts by the Deputy Minister and others. Now we are changing the whole premise. In effect, it means that before we can decide whether or not we are being paid for a job twice, or whether or not any prices are reasonable, we have to break open the whole $13.5 million and add up every single item to come to any kind of conclusion.

I say that that is completely unreasonable and inconsistent with what has been said in the past and the approach that we, as a Committee, and both departments, have taken up to this moment.

Mr. Hunter: Mr. Chairman, if I might answer that, I do not recall saying that these were separate, firm price contracts. I said they were firm price adjustments to the main contract. If I did not say that, then I was wrong in the first instance. I do not recall saying it.

Mr. Cafik: I would go on record now as saying that I am of the very firm opinion—and we will know in the next Committee, because we will check the evidence, I would like the Clerk to do that—that is exactly what was said. I believe I am pretty accurate in saying that they were described at that time—it has gone up to 1,700 now—as 1,501, "fixed price contracts."

Mr. Hunter: I could perhaps answer that. The 200 were change orders to the other work that was described in the main specification for the original contract.

Mr. Cafik: But we cannot move ahead until we, as a Committee, at least decide that as far as we are concerned we are treating these things as individual contracts that stand or fall on their own merit and are not in any way interdependent upon whether Davie made or lost money on other contracts that were made which were part of those 1,700 contracts. That we must conclude and if we do not come to that conclusion then we may as well forget the function of this Committee in respect of a lot of the work that we will have to do in the future.

The Chairman: Mr. Lefebvre, I will take one more supplementary.

Mr. Lefebvre: This is not exactly a supplementary, Mr. Chairman. I do not know what

your opinion is, but it seems to me that we are starting right back where we started a couple of months ago.

The Chairman: It is not our wish to do that.

Mr. Lefebvre: Do you have any idea when this consultant that we have been authorized by the House to hire will be part of the staff on this Committee?

The Chairman: The House has given us the authority and we have had many firms apply for the position. As soon as the steering committee goes over these applications, we will then submit our recommendation to the proper authority and hire the person. I would think that within a week or 10 days it could be done.

Mr. Cafik: Mr. Chairman, there is no point in having that consultant—which I originally suggested in that steering committee—if these contracts do not stand or fall on their own merit.

Mr. Winch: I would like to add to that.

Mr. Cafik: It is a waste of time and a waste of money.

Mr. Winch: I was going to speak along the same lines. I would like to make it quite clear that, as far as I am personally concerned, no decision has been made or should have been made about employing a consultant. We now have the authority, but that will have to wait until we see whether or not we get satisfactory explanations in the meetings that we are now holding.

• 1035

The Chairman: I would like to ask Mr. Hunter, as Deputy Minister of DDP, this question: Do you not look upon X-81 as a firm contract to Davie Shipbuilding Limited to do certain work for $2,600?

Mr. Hunter: No, sir, I do not look at it as a firm separate firm price contract. It could not possibly be with the 1,500 additional pieces of work that were added to this contract and the 200 change orders.

About seven weeks ago I recall explaining to the Committee that we, having estimated 200,000 hours for possible additional arisings, had used up those 200,000 hours approximately by August. Then we had to sit down and negotiate a rate, for estimating purposes, for further work that would probably come in the period after the 200,000 hours had been worked out.

It would be impossible to make any kind of a costing arrangement that would follow the costs of the additional work, starting in August and all the way through the following year.

The Chairman: I would like to follow this question one step further. You say you are not in a position to accept this, because there were changes, perhaps two of them. Therefore, attached to this there should be a number of changes that were made, which would spell out any changes that they were originally asked to do. With those attached to that then you would say: "Yes, $2,600 was paid for that plus any changes that might be attached to it?"

An hon. Member: Mr. Chairman...

The Chairman: I would like to have an answer to that, because we must have this settled.

Mr. Lefebvre: Mr. Chairman...

The Chairman: I have asked Mr. Hunter a question and I think the Committee is entitled to an answer to it, because we have five of these to go through.

Mr. Hunter: Mr. Chairman, concerning that addition to the main firm price Contract, if there had been no other furniture in the contract it is probable that the contractor would have set up a separate account for it. It would be possible, since there was very little furniture in the original contract, that the accounts of the company were kept in broad categories of furniture, and other things.

I am sure he did not keep 1,700 separate contracts. In fact, he could not do this.

The Chairman: I am asking you, did your Department?

Mr. Hunter: No, we did not.

The Chairman: Then we have to accept this as the authentic document. We have nothing else to go by.

Mr. Cafik: Mr. Chairman. We are both looking at this thing in a different way. I think perhaps the Department has a fixation on the audit that it is doing of Davie Shipbuilding. This is fine and dandy, but it is not related to this furniture contract. I agree that in your audit you probably have no choice but to look at the over-all problem.

If they threw all these contracts into this one account, then you probably have to look at the whole thing and come to a conclusion as to whether they made too much profit or did not make too much profit. That is probably the only recourse you have.

However, in terms of these individual contracts, this is a different story altogether. We are talking about whether the work described in these contracts was performed, whether it was paid for once or twice, or whether the price was reasonable. If you conclude that these are so interdependent that they cannot stand or fall on their own feet, tell me why, and with what justification, the Department sat down and prepared all these working jobs, working descriptions, and details as to estimates of the cost of knobs on medicine cabinets and the fixing drawers and door handles.

Why was there such detail to judge whether the bid for one of the fixed price contracts, one of the 1,700 of them, was reasonable or not reasonable, when now you say it does not matter whether is was reasonable or unreasonable, duplicate, or anything else? Why go to all that work at a tremendous cost in order to arrive at a figure that you could judge their bid by, if their bid, this price, and the job description cannot stand or fall on its own merits? Why would you have done that?

Mr. Hunter: Sir, there must be some basis for making any estimate. This happened to be the work order that had been made out by the Department of National Defence many months earlier. I would say this was done in a rather cursory fashion, because when we gave this basis or specification to the company they actually returned it and said it was incomplete and we agreed with them.

The contract was advanced to a point at this time that to have sat down and actually copied down the specification of every item done would have taken much longer, would have run the cost and the time taken on the

• 1040

refit many months longer.

Mr. Cafik: I will pursue that in a different contract, but...

Mr. Hunter: Yes.

The Chairman: Let us get away from contracts now.

Mr. Cafik: May we not conclude this right now by just coming to a decision that as far as this Committee is concerned, those contracts—fixed-price contracts or call them what you like,—stand or fall on their own merit? If we conclude that, then there is no point in lowering this thing to an argument. We are in general disagreement on this, somebody has to conclude something, and I conclude that they must be treated separately.

The Chairman: I would ask members of the Committee to express any views on this one point.

Mr. Bigg: I have a supplementary on this point, Mr. Chairman. This document, D448, appears to me to be relevant. Is it not true that this document, D448, mentioned by one of the witnesses, is, in fact, a change of the original of what we have been calling the cleared contract—the $2,600 contract? If Davie Shipbuilding wanted a change in that contract, it should show up in D448. Then they would have justification for coming forward, even to the amount of $4,173, if the original contract was unfair or unjustified and misleading. Surely D448 would show that up, in which case we would have no basis to stand on if the Department had looked it over and said they did, in fact, do this work. Is that correct?

The Chairman: That is right.

Mr. Cafik: No, they would have to remove it from one and leave it in the other; in fact, it is in both at the present moment.

Mr. Bigg: Yes, but D448 appears to show that somebody missed it entirely and that there is, in fact, duplication.

Mr. Cafik: You are saying that there was not a correction order or a deletion order.

Mr. Bigg: No.

The Chairman: Mr. Long or Mr. Cross, have you an observation at this point?

Mr. Bigg: Well, could I get an answer on that? Am I right about D448? Is that the correction order which we could usually rely upon?

The Chairman: Captain Lynch, I suggest you would answer that.

Captain Lynch: I am a little confused about this mention of D448 in this context. As I recall—I am subject to correction by my colleagues—the D448 is an acceptance document for transferring the ship from the yard to the Principal Naval Overseer and thence to the

Maritime commander, the commanding officer. It is a statement about work done, but whether it is relevant to the actual contract negotiations I am not clear. Factually, if it is not acceptable, it is not acceptable, but I do not think that this is in the chain of the contract.

Mr. Bigg: Another supplementary to that then, supposing that a gross error was made to which we all agreed, what would be the proper step to change the base contract—the $2,600 one—to make it a $6,000 contract so that we would all be happy? What proper step could be taken to resolve the problem?

The Chairman: I think you made a mistake. You said $6,000 and we would all be happy, did you not?

Mr. Bigg: Yes.

Mr. Cafik: We have copies of these defence contracts right here in our files. There are change orders, cancellation orders, and we have copies of them. I do not know what number they are. It does not matter...

An hon. Member: No, it does not.

Mr. Cafik: ... but there are such...

An hon. Member: And it was not done.

Mr. Cafik: .. supplementary contracts, adjustments and so on, and they exist in cases where such adjustments were made—I hope in all cases. There is no such evidence that one exists for X81 or for the other contracts that I have referred to.

Mr. Bigg: We have not all done your homework, Mr. Cafik.

Mr. Cafik: Mr. Chairman, can I recommend that we seek legal counsel on this matter as to whether one of these contracts is, in fact, a contract and stands up; whether Davie Shipbuilding were obligated to do that job for this amount of money; and what legal right we have to the recovery of funds if, indeed, there is an unfair charge, an unreasonably exorbitant charge or a duplication? That is the central question.

The Chairman: Mr. Cafik, our Clerk will

• 1045

make these arrangements for us. We will present these tenders or contracts to a legal person and ask his opinion. Go ahead, Mr. Lefebvre.

Mr. Lefebvre: I just have one general question. When Mr. Hunter made his statement at the beginning, he mentioned that Davie Shipbuilding had made no estimates on individual items for refinishing and repairing of furniture in this contract, but we were handed a very thick document which lists, item by item, all the medicine chests, wardrobes...

The Chairman: Mr. Lefebvre, I am sorry to interrupt you but we will come to that when we deal with the tender X782, repairs to furniture.

Mr. Lefebvre: But there is a related question here. I would just like to know how they got estimates on these items if Davie never gave an estimate on any one of them.

The Chairman: Well, if you ask your question relative to these two we are dealing with now, the question would be: did the Department of Defence Production prepare an estimate with either of these tenders, X81 and X427?

Mr. Lefebvre: Right, and were these prepared prior to Davie's getting the total contract on furniture or after?

The Chairman: Mr. Wallace?

Mr. Wallace: Mr. Chairman, our project officer did not, in all instances. He did prepare estimates...

The Chairman: Keep your remarks to these two, Mr. Wallace. Did you or did you not prepare an estimate for these two?

Mr. Wallace: Our project officer prepares estimates...

The Chairman: Mr. Wallace, I want an answer. Did you, or did you not, prepare an estimate for these two?

Mr. Wallace: The project officer prepares estimates for every single job.

The Chairman: Can you produce the ones for these two?

Mr. Wallace: I do not know if he retained tham all, because he prepares working papers, sometimes in a book, sometimes on a piece of paper. Whether he retained them all I do not know.

The Chairman: Then, Mr. Wallace, will you endeavour to produce estimates that you prepared in your Department to support these two?

Mr. Wallace: If these estimates are available, we will produce them.

Mr. Lefebvre: Well, if Davie did not prepare estimates, and we do not know if we have the documents from Mr. Wallace's Department for estimates, how did they arrive at a price? This is what I am getting at. Was it before or after the job was completed that this price was deemed acceptable?

The Chairman: Mr. Lefebvre, I think that question will have to be directed to Davie Shipbuilding Limited. No doubt they did prepare an estimate to arrive at what sum they were going to charge.

Mr. Lefebvre: Yet Mr. Hunter said in his statement that they never prepared one single estimate on any individual job, including those contracts.

Mr. Hunter: Mr. Chairman, I am sorry. In my statement, Mr. Lefebvre, I was speaking of individual estimates on line items of furniture.

The Chairman: Well, we will come to that.

Mr. Hunter: They gave us an over-all estimate for all of the cabins' furniture; they were not broken down by line items.

The Chairman: We will come to that in that contract, Mr. Lefebvre you can follow that point. Now, Mr. Long and then back to Mr. Cafik.

Mr. G. R. Long (Assistant Auditor General, Auditor General's Office): Mr. Chairman, I have not seen the details of these contracts. You asked us if those two amounts had, in fact, been paid to Davie. The documents that you are referring to, the X18 and the X427, I believe it is, are really authorizations or orders to do the work; they are not changes in the contract. They show the hours required and the estimated amount. They carry the signature of the contractor that he agrees to carry out the work at that price. Now, Mr. Cross has known me here contract amendments of the Department of Defence Production, and X81 appears with the same man hours and the same material cost as appears on the authority to do the work, contract 2LGS-307. This amendment No. 4, on August 31, 1966, but it is amendment No. 4 to that contract. Now, X81 is included in that amendment.

The Chairman: What does that mean?

Mr. Cafik: You are saying that each of the 1,500 or 1,700 contracts are, in effect, put forward as amendments to the original contract. Is that what you are saying?

Mr. Long: I think there is confusion arising. There were not 1,700 amendments to the contract; there were 1,700 additional work orders which were gathered together in a number of amendments to the main contract.

Mr. Cafik: Yes.

Mr. Long: What I am saying is that 81 is included in one of the amendments to the main contract—amendment No. 4.

Mr. Cafik: Is it included in such a manner as to indicate the price that Davie was to be paid for doing the work in that amendment, or that detail of the amendment?

Mr. Long: It is included at 650 man hours, which at the end of this amendment is multiplied by $3.95.

Mr. Cafik: How much money does that add up to?

Mr. Long: Well, at $4 it would be roughly the amount that appears on the order to do the work.

Mr. Cafik: Is it roughtly, or is it exactly? I think that is important.

Mr. Long: Exactly the same, $2,600.

• 1050

Mr. Cafik: It is exactly the same, then. Now, earlier, from listening to your opening remarks on this, I came to the conclusion that you agreed that they were, in effect, contracts that could stand or fall on their own feet. Do you remember stating that?

Mr. Long: The No. X81 that you were referring to is an order to do additional work. It is not an amendment to the contract but it has been brought into amendment No. 4 to the main contract—it is included in amendment No. 4.

Mr. Cafik: As part of the Auditor General's Department do you have a view as to whether those contracts in effect do stand or fall on their own feet—such as X81?

Mr. Long: I am trying to explain, Mr. Cafik, that is not an amendment to the contract but—

Mr. Cafik: I do not understand.

Mr. Long: —all the material in it has been included in an amendment.

Mr. Winch: It is included in the contract as an amendment in accordance with the work sheet.

Mr. Long: Yes.

The Chairman: Let us refer to it as an additional cost rather than an amendment. Would that mean the same thing?

Mr. Long: On contract amendments there are numbers. In contract amendment No. 4 there appears X81 as an authorization to do additional work in an amount of 650 man-hours and $30 for materials, which is the same figures that appear on X81.

The Chairman: Mr. Cafik.

Mr. Cafik: If your Department had discovered that X-81 was in fact duplicated in X-427 would you have recommended that the government retrieve the money for one of those contracts?

Mr. Long: If we had established that definitely, yes.

Mr. Cafik: All right. That is the answer to the question I asked, but I think we need legal advice on this.

Mr. McCutcheon: One supplementary, Mr. Chairman.

The Chairman: Mr. McCutcheon and then Mr. Wallace.

Mr. McCutcheon: This is directed to Mr. Long. Is there any amendment relative to X-427?

Mr. Long: Yes, Mr. Chairman, I had intended going on to say that X-427 is included in amendment No. 9—to the main contract—1040 man-hours and $60 for materials which is, I believe, the same as appears on the work order.

Mr. McCutcheon: Might I ask what it says?

Mr. Winch: So it is clear from an auditor's point of view that both work sheets are included in two amendments for the same work.

Mr. Long: This is right. The only possibility was to look through them to see if there was a further amendment removing one. We have done this and we cannot see one here. However, we should take more time, in all fairness, to see if one of them was removed later.

The Chairman: I have no doubt you will do that, Mr. Long.

Mr. Cafik: I would like to ask, Mr. Chairman, for a copy of the amendments to the original contract so that I might be able to do a little homework on that for our next meeting.

The Chairman: Mr. Wallace, I think you wished to say something.

Mr. Wallace: The only point I wish to make, Mr. Chairman, is that if in fact the removal of the briefing room chairs has been introduced into the contract twice then obviously we would request the contractor to refund that portion of the money. Suppose this happened during the life of the contract. If, before the ship was completed, we found that we had in fact duplicated something we would under normal circumstances go back to the contractor and discuss this with him and if we could prove our point that this was so then we would raise an X-779, one of these

"x" numbers, and get a credit from the contractor and reduce the total over-all contract as well.

Mr. Winch: But after three years you still have not done it and until this Committee started doing its homework you were not apparently doing anything about it.

Mr. Cafik: Your statement is extremely important, Mr. Wallace, because in effect you are saying that the Department itself really treats these amendments—call them what you will—as contracts that stand or fall on their own feet.

Mr. Wallace: No, Mr. Cafik, under no circumstances. I could perhaps save the Auditor General some time by saying that I believe if you were to go through the entire contract you would not find an amendment to the contract taking out either one of these two, X-81 or X-427 because to our knowledge and until the Committee sat we did not realize that there was a possibility of duplication in this particular area.

Mr. Cafik: The point is being missed here, I think. If we arrive at the conclusion that is being put forward by Mr. Hunter, that these contracts are meaningless in themselves and it is only tye over-all picture that anybody

can really grapple with, then you would have no basis on which to say that because there was a duplication we would request a change and get the money back, as it were, and not pay for it because then you would have to sit down and investigate the whole $13.5 million job to find out how much money they made.

Mr. Wallace: No. It is ridiculous to even think that.

Mr. Cafik: Of course it is ridiculous, that is why I said it—because this is the argument that is being put forward.

Mr. Wallace: Suppose we start out with a contract at $10,000 and we introduce design changes or additional work for $5,000 and it goes into the main contract and becomes $15,000. If in the course of that contract there was a duplication or some work not done and you go back, you could negotiate a credit, if it is duplication, and take out the $5,000—but not as a separate contract.

Mr. Cafik: All right. What would you do then if you got one of these fixed priced widgets or whatever you want to call them and it was $10,000 to do a certain amount of work? Let us presume it is not a duplication and you find out, having looked into it, that it was a really a bit silly, that it should have said $1,000 instead of $10,000—that the work described was so modest that it could have been done for $1,000 instead of $10,000. Would you go back and say, "Let us amend the contract downward by $9,000?". I think you would. Would you not?

Mr. Wallace: If this sort of unrealistic situation developed it probably would happen.

Mr. Cafik: Yes, in this hypothetical case. So you are in effect saying that if we conclude that any one of these contracts is unreasonable then we should go back and seek an amendment to the contract either upward or downward in order to achieve a justifiable price. That is the conclusion.

Mr. Wallace: You have no way of determining what the actual costs were on the majority of these additional work orders.

The Chairman: We will just stay with these two contracts, X-81 and X-427. There have been no changes, alterations or anything attacked to them. Mr. Long has told us that the Crown paid this much money, $2,600 in one case and $4,173 in the other one to the Davie people. Mr. Cafik has established that there has been a duplication and there should be a refund from the company to the Crown.

We have had a good discussion on this subject this morning and I think we should adjourn now. We will meet Tuesday morning at 9.30 and take up again at this point. We will then move into the contract on the Furniture, which includes that medicine cabinet which we have heard so much about.

The meeting is adjourned.

THE QUEEN'S PRINTER, OTTAWA, 1969

HOUSE OF COMMONS

First Session—Twenty-eighth Parliament

1968-69

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: Mr. A. D. HALES

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 32

TUESDAY, APRIL 29, 1969

Public Accounts, Volumes I, II and III (1966 and 1967)
Reports of the Auditor General to the House of Commons (1966 and 1967)

WITNESSES:

(*See Minutes of Proceedings*)

20179—1

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. A. D. Hales

Vice-Chairman: Mr. T. Lefebvre

and Messrs.

Bigg,	Mazankowski,	Tétrault,
Cafik,	McCutcheon,	Thomas
Cullen,	Noble,	(*Maisonneuve*),
Flemming,	Noël,	Trudel,
Harding,	Rodrigue,	Winch,
Guilbault,	Roy (*Timmins*),	Yanakis—(20).
Leblanc (*Laurier*),		

(Quorum 11)

Edouard Thomas,
Clerk of the Committee.

MINUTES OF PROCEEDINGS

[*Text*]

TUESDAY, April 29, 1969
(34)

The Standing Committee on Public Accounts met this day at 9:30 a.m. The Chairman, Mr. Hales, presided.

Members present: Messrs. Cafik, Flemming, Hales, Harding, Leblanc (*Laurier*), Lefebvre, Mazankowski, Noël, Thomas (*Maisonneuve*), Winch (10).

Witnesses: From the Department of National Defence: Captain J. A. Lynch, Acting Director General, Programmes; Lieutenant-Commander R. J. Hanlon, Principal Naval Overseer for the Province of Quebec; *From the Department of Supply and Services* (formerly Department of Defence Production): Mr. R. D. Wallace, Associate Director, Shipbuilding and Heavy Equipment Branch; Mr. L. E. St-Laurent, Project Officer, Shipbuilding and Heavy Equipment Branch; *From the Auditor General's Office:* Mr. G. R. Long, Assistant Auditor General.

The Chairman instructed the Clerk to read into the Evidence a letter received from Davie Shipbuilding Limited in respect of their appearance before the Committee.

It was agreed that the letter received from Davie Shipbuilding Limited along with contracts X-427 and X-81 be filed with the Clerk of the Committee as Exhibits,

Letter from Davie Shipbuilding Limited (*Exhibit 1*),
Contract X-427 (*Exhibit 2*),
Contract X-81 (*Exhibit 3*).

Mr. Cafik then proceeded to read extracts of the Evidence adduced during previous sittings, in respect of contracts awarded Davie Shipbuilding Limited for the refit of the Bonaventure.

Then Mr. Winch referred to a statement made to the effect that for the removal of the chairs from the briefing room aboard the Bonaventure, it was necessary to crawl in between floors, since they were bolted to the floor.

After inquiry, it was found that the statement was not accurate and that members of the Committee were given false information. The Chairman then warned the witnesses against giving false, incorrect or incomplete information to members of the Committee; answers to questions should be accurate.

Questioning of witnesses then resumed on contracts X-81 and X-427.

Mr. Cafik informed the Committee that at the next sitting of the Committee, quorum permitting, he will move the following resolution:

The Committee of Public Accounts conclude that the briefing room seating arrangements and writing trays referred to in the job descrip-

20179—1½

tion attached to X-81 on D.D.P. Form 779 dated June 20, 1966 are in fact the same items as referred to in X-427 on D.D.P. Form 779 dated October 6, 1966.

This Committee therefore resolves that X-427 is a duplication of work performed under X-81 and therefore recommends that the sum of $4,173.00 be returned to the Receiver General of Canada by Davey Shipbuilding Limited.

The Chairman then called contract number X-782 and the witnesses were questioned thereon.

Mr. Cafik made certain observations as to the cost of repair of certain items on the ship, in particular repairs of a wooden secretary and a medicine cabinet in cabin 4S-9.

At 11:00 a.m., the Committee adjourned to the call of the Chair.

Robert Normand,
Acting Clerk of the Committee.

EVIDENCE

(Recorded by Electronic Apparatus)

Tuesday, April 29, 1969

• 0937

The Chairman: Gentlemen, we shall proceed. I would ask our Clerk to read any correspondence he has received.

The Clerk: A letter dated April 25, 1969 was received from Davie Shipbuilding Limited.

> Dear Sir,
>
> Your letter dated April 21, 1969 was received by me yesterday when I returned to the shipyard from Ottawa.
>
> I confirm that we will be pleased to appear before the Standing Committee of the House of Commons on Public Accounts to discuss matters arising from and appropriate to the comments of the auditor general of Canada concerning the refit of the "Bonaventure" by Davie Shipbuilding Limited.
>
> I note that when a firm date and time has been established for our official appearance before the committee you will advise me. In this connection I would be obliged if you could give us reasonable notice, since, for example, both Mr. Lowery and I have prior commitments for the week commencing April 28th.
>
> Yours sincerely,
>
> T. Veliotis

The Chairman: Thank you, Mr. Normand. This will be filed as an exhibit. I would ask the Committee for agreement in filing the two contracts, X81 and which we referred to at our last meeting. Is it agreed?

Mr. Winch: Mr. Chairman, may I suggest that the letter from Davie Shipbuilding Limited asking for a date on which to appear before the Committee be referred to the steering committee.

The Chairman: Yes, Mr. Winch. Is there anything else that should be filed before we go on to new business? Mr. Cafik.

Mr. Cafik: Mr. Chairman, last week one of our problems was in judging the validity of these contracts—whether or not the individual contracts as X81 or X427 or X782, etc., were in fact contracts, and there was a lot of discussion about this. I indicated at that last meeting that Mr. Hunter and Mr. Armstrong had both referred to what we call contracts as fixed-price contracts. It was indicated, I think by Mr. Hunter, that this had not been done. I scanned rather quickly the evidence of our hearings and I would like at this moment to bring out a few statements in this regard made by Mr. Armstrong and Mr. Hunter so that we will understand that the position we took that these in fact were contracts which

• 0940

could stand or fall on their own merits was given to us by the officials of the departments. So if I may proceed, I would like to point out a few places where this, in fact, has happened.

On page 268 of our Evidence, Mr. Armstrong—and I think I quote him correctly here—in discussing the overhead charge of roughly $3,000 a day for the ship's being in the yard past the first-year period of the contract, I can quote him as saying:

> In this particular case, as you will recall this was a fixed price contract and the builder was responsible under the contract, as I understand it, for insurance.

I believe that here he is referring to that additional charge which, as far as I can see, is the same type of thing as we have been talking about with X-81. On page 275 Mr. Hunter says:

> Sir, but each of the 1,500 additional jobs were negotiated firm price jobs.

Mr. G. W. Hunter (Deputy Minister of Supply, Department of Supply and Services): Would you read this?

Mr. Cafik: All right. I will.

> They were negotiated and added to that original bid price. We have people who are competent to sit down with a shipbuilder and negotiate a reasonable firm price.

Further it says:

> It was our job to negotiate the best firm price we could before we started the job.

I believe that these quotations are in reference to the type of contract that we spoke of with X-81.

I have dozens of them but I will cite two or three of the more prominent ones.

One page 280, in response to a question which I raised—and I will quote the question raised at that time because it is important.

> **Mr. Cafik:** To pursue this a little further, I gather that with the 1,500 little fixed price contracts and the one major one there were 1,501 contracts let for this job. That may be an approximate figure.
>
> Do you have a file, or records, in which the 1,501 specific contracts are all laid out, with job descriptions and some verification by the inspectors—that those jobs were completed satisfactorily prior to payment being made?

The answer to that question was yes; in other words, that these were individual contracts and they had records of them.

Now if they were not contracts, Mr. Hunter should have said no and corrected the situation.

On page 287—I will go to page 288 as I do not see that one. On page 288 Mr. Hunter says:

> Sir, this being a firm price contract, the contractor himself would not know what his profit was until he finished the job, nor would we. So these were negotiations that had to be carried on while the main contract was being . .

And then he stopped; he was interrupted there. So the implication here is that these others were contracts carried on and negotiated while the main contract was obviously in operation.

The Chairman: Mr. Cafik, I think that is evidence enough.

Mr. Cafik: I think this is sufficient.

The Chairman: Mr. Hunter or Mr. Armstrong, do you want to say anything in that regard?

• 0945

Mr. Hunter: Mr. Chairman, may I quote several references. One is on page 286. At this point I had been asked by yourself to comment on whether these were open-ended contracts following something Mr. Henderson had said. At page 286, column 2, paragraph 3, I said:

> We made our best estimate for the work that might arise and got a firm hourly rate, an arrangement to cost materials on a firm-price basis, and a profit of 7½ per cent on it. So that the 1,501 additions or amendments to the original contract, as we mentioned in the last session, were all firm priced and added to the original firm price we had.

I certainly meant that to become part of the firm-price contract.

One other reference I might make. On page 273 I stated in the final paragraph in the second column:

> . . .our people sat down with the contractor and. . .

negotiated the arrangements which are referred to above.

> . . .we would agree that that first job over and above the firm price contract would take, let us say, 100 hours. We would negotiate the material and that would become a part of the firm price contract. If he did it in less hours than we had negotiated, or more, it did not matter because we had negotiated that job and made it part of the firm price contract.

And I have five or six other references.

The Chairman: I do not want to take up too much time of the Committee but the point at the last meeting was whether or not these were firm price contracts. Would they stand as a legal contract? We are having legal advice sought on this matter but regardless of the terms or reference that we get from the law people, I would say that the fact is that these contract prices, X-81 and X-47, were transferred into a legal document which was known as the contract amendment. This is a legal document and once they are transferred from there to the contract amendment and become part of the main contract, what this piece of paper is really becomes redundant.

Mr. Cafik: I think that is largely true.

The Chairman: We will proceed on that basis.

Mr. Cafik: Have we a quorum here, Mr. Chairman?

The Chairman: Not quite.

Mr. Cafik: I wonder if I might get some clarification on...

The Chairman: Just one moment. Mr. Winch had his hand up.

Mr. Winch: I just want to be certain of the procedure here, sir. I would like to ask you as Chairman, as we are continuing on the furniture deal, at what time and how we can raise what I consider a most important matter, and that is that your subcommittee of this Committee, in its meetings at NDHQ and the building opposite, on matters such as the placement of lockers and the removal of chairs from the briefing room, were given false information, and an explanation as to increased costs had proven false when we went over the *Bovanventure* itself. I think it is a most important matter, and in view of the fact that we were without doubt given false information and that it was proven false when we went over the *Bonaventure*, I would like to know just how, sir, and when this subject can be raised during our discussions whilst the furniture matters are before us.

The Chairman: Mr. Winch, last meeting we were dealing with those two contracts, X-81 and X-427, which had to do with the moving of the chairs. I would accept anything that you want to bring forward at this time concerning the moving of the chairs or those two contracts. If there has been false information given to the Committee you may do so at this point. With regard to lockers we will discuss that when we come to the contract that deals with the lockers.

• 0950

Mr. Winch: When our Subcommittee met at NDHQ, in going over the reference material on the removal of the chairs from the briefing room, we questioned the high cost. We were informed by an official of the Department that one of the reasons was that the briefing chairs were bolted completely through the briefing room deck, and in order to remove the chairs it was necessary to go through a crawl space under the floor to remove the underside bolts.

Mr. Cafik: Mr. Chairman, I wonder if I could bring up a point here. This particular problem comes up under contract 782. We are still dealing with 427, which is the removal of those chairs, and I think it properly belongs in the discussion of those particular items.

The Chairman: Well, Mr. Cafik, now that Mr. Winch has started, maybe we should let him finish.

Mr. Winch: It will not take me one minute to finish. As a result of a visit of this Committee and a special inspection made by the Subcommittee on furniture, it was found that this was not true, that they were not bolted through, as a matter of fact that it was just a case of a certain twist and out. Now in view of the fact that we were definitely told—I think there were five of us present at that time—about having to crawl underneath and the chairs being bolted through, when we discover that this is not true whatsoever, I definitely think that the Subcommittee and this entire Committee, because the Subcommittee is responsible to the entire Committee, is entitled to an explanation as to why we were given that reason at NDHQ when it proved not to be a fact whatsoever.

The Chairman: In this regard, I think it is only fair that we should ask the three gentlemen who gave us that information to make an explanation, and if they wish they could even make an apology to the Committee for giving the wrong information, or misleading information. I think that information was given to the Subcommittee by Mr. Wallace, Mr. Hanlon and Mr. Maxwell. I would ask all three, or any one of them, to come forward and say anything they wish to say about this information they gave to the Subcommittee. Captain Maxwell?

Captain T. W. Maxwell (Maritime Systems, Engineering Section, Department of National Defence): Mr. Chairman, when the special Subcommittee examining the *Bonaventure* refit asked the question about the cost of moving the briefing room chairs, we officials of the Department who attempted to answer this question, tried to find among the records of the Department in Ottawa the necessary drawings and other documents which would allow us to answer the question and we found that our records did not show whether or not these particular chairs were bolted down.

I—and I am responsible—asked a number of officers who were familiar with the ship whether or not in their opinion or their memory, these particular chairs were bolted down, and the answer from these officers was, "Yes, they were". It is customary to bolt furniture down in a ship to take account of rough weather.

The Chairman: Now at this point, Mr. Winch, I will allow you to ask a question.

• 0955

Mr. Winch: I remember that meeting very well and we were given to understand that they were bolted down, and that they were also bolted through. We were told that in order to remove those chairs a man had to go into a crawlway underneath the briefing deck in order to remove the bolts. Do you remember, sir, that we were definitely told that?

Captain Maxwell: Yes I do, Mr. Winch. You were incorrectly informed, and I apologize to the Subcommittee and the Committee for so misinforming the Committee. It was certainly not intentional. We gave you the best information we had available to us at the time.

The ship, as you will recall, was a long way away and it was very difficult to communicate with the ship under such circumstances. In retrospect, we should have taken notice of your question and telegraphed the ship for the answer.

Mr. Winch: Could I ask one question then? Do you not think it is rather unusual to give an answer like that to a Subcommittee of this Committee without having factual knowledge? In other words, it was a guesstimate of your own to try to explain the increased costs.

Captain Maxwell: I think, Mr. Winch, it is possibly not so unusual when you think back to the circumstances of the Special Subcommittee. I took this Special Subcommittee to be a rather informal fact-finding segment of this Committee. We would, under no circumstances I think, attempt to give quick answers in the main Committee. The atmosphere in the Subcommittee was, to my way of thinking, very definitely informal. The idea was to get ahold of the facts and not waste too much time doing it. This was the attitude that I felt was proper to the Subcommittee, and I think...

Mr. Winch: Mr. Chairman, I am very happy that the witness has said, "to get the facts". The thing was to get the facts, but we were not given the facts in answer to that question. We sent after facts and did not get them.

The Chairman: At this point, we will accept that apology, Captain Maxwell, from you and the other men who gave us this misleading information. But let me remind any witnesses who come before this Committee, whether it be in Committee or Subcommittee, that we want the facts and we do not want to be mislead. We feel very keenly about the information that has been given to us in many respects, and we will come to this later when we talk about lockers and some other things. I think in this case, all you or Mr. Hanlon or Mr. Wallace had to do was to pick up a phone and say, "I want to know how those chairs are fastened to the floor", whether the ship was in the Caribbean or wherever it was. Radio communications could have answered the question.

Mr. Winch: Or say, "I do not know".

The Chairman: We will let it go at that and proceed.

Is there anything further to X81 or X427?

Mr. Cafik: Yes. As far as X81 is concerned, I want to make one observation here. In my original calculations I thought there were 54 items involved in contract X81, and as a follow-up to a letter that I wrote to the Department on April 14, to which I received a reply yesterday, April 28, I find that according to the Department's information there are in fact 89 items plus the 26 seating arrangements and 20 trays.

Now, this makes the situation a little bit worse than I had originally imagined in terms of accuracy of estimates or bidding. On X81, which is for $2,600, we find that there are 89 items to be removed plus 26 seating arrangements and 20 writing trays, making a total of 129 items. If you relate that to the subsequent contract, X427, which is only for the seating arrangements and writing trays and the cost of which is $4,173, you find that one or the other of them is just absolutely absurd—possibly even both. But certainly

• 1000

X81 is getting a job done an awful lot cheaper for an awful lot more items than contract X427. This would lead me as a member of this Committee to question all of the contracts, if they were bid so indiscriminately and without having much reason behind them.

Of course, we have already pointed out that X427 and X81 are duplicates in terms of the seating arrangements as far as we are concerned, and I have a motion to put to the Committee when we have a quorum in this regard, requesting money back for contract X427. With that, I would pass both of those—not to forget them, because I want to go into

X81 in a little more depth following a letter received from the department, but in the meantime I would say we pass them and go on to X782.

The Chairman: I think, Mr. Cafik, in fairness to all concerned, it might be in order to read your motion to the Committee and then the officials of the Department can have any opportunity they wish to refute that motion before our next meeting, at which time we will have a full quorum. We would have a full quorum here this morning, but I must remind the Committee that there are five committees meeting at 0930 this morning and, with air transportation problems and everything, it is very difficult to have that full quorum.

Mr. Cafik: Mr. Chairman, I have sufficient copies, I think, to pass around if it is the wish of the Chair. It reads:

"The Committee of public accounts conclude that the briefing room seating arrangements and writing trays referred to in the job description attached to X81 on D.D.P. form 779 dated June 20, 1966 are in fact the same items as referred to in X427 on D.D.P. form 779 dated October 6, 1966.

This committee therefore resolves that X427 is a duplication of work performed under X81 and therefore recommends that the sum of $4,173.00 be returned to the Receiver general of Canada by Davey Shipbuilding Limited."

The Chairman: That motion will be put at our next meeting. Is there anything further? Mr. Winch?

Mr. Winch: I would like to ask Mr. Cafik, in order that there be no misunderstanding, if he would slightly amend his motion with which I completely agree to the effect that the two, which were the estimates as such, were included in No. 4 and No. 9 of the amendment to the contract. In that way it is clear that there can be no legal or technical challenge on those two numbers you give, because we had the evidence last week that they were included exactly the same in the actual amendment to the contract.

Mr. Cafik: I do not think at this particular stage I want to create any kind of precedent in respect of the additions or amendments of that contract. I think that the meaning of this motion is quite clear and quite sufficient. It is either a duplication or it is not.

Mr. Winch: Knowing something about lawyers...

Mr. Cafik: I think there is a point much more important than that. If, in fact, these are duplications, and I say that they are and I think this Committee has concluded that they are, and I think the department itself feels that they are, but they can speak for themselves, I think that the important principle is, are they going to go after it regardless of all these other legal technicalities and everything else which are being put forward, I think as, red herrings. I think the real question is, are they going to protect the public interest and get back the money which has been spent?

The Chairman: Mr. Cafik, it will not be a question of whether or not they will go after them. The point will be that this Committee will request them to go after them.

Mr. Cafik: There is no question about that.

The Chairman: Let us move on to Contract X782 which has to do with the repair to furniture, in the cabins chiefly, and the amount of the contract was $145,008.

• 1005

Mr. Cafik: Perhaps I will lead off with a very short statement in respect of this, because over this contract or DDP X782 there has been a lot of controversy in regard to the individual items that make up this form. We have two documents, and just for the clarification of everyone on the Committee, we have one document which is called X782, which is what I call a contract for $145,008, and attached to it is a list of all the cabins and areas in the ship where specific work is requested to be done. This particular fixed price of $145,008 is that which was bid by Davie Shipbuilding Limited to do the work which is described herein.

The Chairman: Mr. Cafik, at this point, so that there will be no misunderstanding, the Committee will want to know if that has been transferred to the contract amendment, and I will ask the Assistant Auditor General, Mr. Long, to say whether it has been transferred for the same amount of money.

Mr. G. R. Long (Assistant Auditor General): Mr. Chairman, this form X782 appears on contract amendment No. 16: 26,264 man-hours and $10,290 for material.

Mr. Cafik: That is identical to the firm bid made by Davie Shipbuilding Limited.

Mr. Chairman: All right, proceed.

Mr. Cafik: Perhaps I should carry on with the attachment to the Davie Shipbuilding contract where we have certain areas, and perhaps I should describe one.

For instance, in cabin 4F9 there is a wooden secretary and which it describes as follows: one with the code "B" which means, according to the code, medium repairs to surfaces, frameset locking arrangements, et cetera, to thoroughly clean and refinish. According to my interpretation of this contract, it means that "medium repairs of surfaces, et cetera, thoroughly clean and refinish" applies to the wooden secretary. Then it lists specific things that are wrong with that wooden secretary: for instance, two in number drawer pulls to be renewed; two in number hinges on drop-leaf to be renewed; drop-leaf to be refinished. I cannot understand "drop-leaf to be refinished" because the "B" implies that the entire wooden secretary is to be refinished. Why the duplication, I do not know. But you will find this kind of contradictory approach all the way through these items.

The one thing I want to point out, and I think it is important, is that when this job description was prepared the Department apparently went through a great deal of difficulty in order to determine the most minute thing that was wrong in that cabin. For instance, two drawer pulls to be renewed: that is a pretty small item in a fairly large cabin; or two hinges on the drop-leaf to be renewed. This is a pretty minute way of going about it.

We find secondly that in that same cabin there is a medicine cabinet also requiring medium repairs, and it says in the detail of it "mirror to be renewed; door-pull to be renewed". Again I want to illustrate that they have gone about this in a very technical in talking about the smallest items involved.

That is enough for the background on that type of job description.

I now want to refer to a document which I have in front of me which is an estimate prepared by DDP to correspond with these job descriptions which were submitted to Davie Shipbuilding so that when Davie Shipbuilding came back with a price for X782 the Department would know whether their estimate or their submission was in fact a reasonable cost. The Department then went ahead and prepared working sheets, and these working sheets describe exactly the same items in exactly the same way, but in addi-

• 1010

tion to that they have three columns by each item. One with comments as to the nature of the work; two, the estimate of the number of man-hours they would anticipate employing; and an estimate of what the material would cost to fix that particular item. I think that it is important that I go into this in some detail at this moment because I rather suspect that the Department is going to put forward a particular kind of argument here in order to justify these prices or these estimates.

It is important prior to doing that to realize that the estimate or the firm price bid by Davie Shipbuilding was $145,008; the DDP estimate of what it ought to have cost—you will pardon me if I take a moment to arrive at this—and what it ought to have cost was $142,485. Now, the difference between those two figures is 1.74 per cent; in other words Davie bid 1.74 per cent higher than the estimates prepared by DDP. I think that in itself is a very large question because when one looks at DDP's estimates, I think the laymen could do nothing but come to the conclusion that they are absurd. To find, that a professional group of shipbuilders accustomed to this work would bid on an equally absurd basis, stretches the imagination far too much. It would imply that somehow somebody knew what the other one was doing. I am not making that charge, I am saying that is certainly what it would lead one to believe, with, I think, pretty fair logic behind it.

Getting down to the details of the bids of DDP, let us have a look at them for just a moment. We take this same wooden secretary that I described earlier—in cabin 459—and we have...

The Chairman: Mr. Cafik,...

Mr. Cafik: Yes?

The Chairman: ...I wonder would you mind doing the medicine cabinet. That is the one the most talk has been about. Maybe they would follow it a little better.

Mr. Cafik: Yes, I certainly can, although the particular medicine cabinet we are talking about here is not really typical.

The Chairman: All right, proceed.

Mr. Cafik: I will be glad to do it.

The Chairman: Go ahead with the wooden secretary.

Mr. Cafik: All right. I think it will only take me a moment to do both. Now, the wooden secretary had two, in number, drawer pulls to be renewed. The same job description is on the DDP estimates as on the job description that went to Davie Shipbuilding and it says 18 hours work and $32 worth of material. Now I have seen some of these drawer pulls close and that does not make very much sense. Two in number hinges on drop leaf to be renewed, 26 hours work and $54 worth of material. A drop leaf to be refinished involved 100 hours work and $20 worth of material. It just does not make any sense at all. If the cost of that 4S9 had been paid, if these estimates had been actually paid to DSL, the cost for that job would have been $930.20; that is, $5.10 an hour, which is the agreed upon rate. Now I think it could be argued, without very much reason, that the entire wooden secretary was refinished. Well, if it were, it would still be too much money.

Getting down to the medicine cabinet there was mirror to be renewed, 15 hours work, $20 worth of material; door pull to be renewed, 9 hours' work, $16 worth of material. Then in a category that is just the medicine cabinet itself—this is other than doing the two specific jobs—there is another 18 hours work and $8 worth of material which is described as Item 3, and it says to refinish it. It gives the description actually for some other item—at least the one I am looking at—but that is to refinish the medicine cabinet.

We are just talking about phenomenal prices. According to my information and the

• 1015

adding machine—by the way, I do not have a large staff like the Department, I had to add these things up myself and I proofed some, but not all, of them so they may not be dead accurate, but they are certainly within a couple of dollars—there were 38 medicine cabinets in this particular contract and the cost of doing the work was $9,475.30 if we look upon the estimates of DDP. There were 26 wooden secretaries at $15,459.60. The medicine cabinets averaged $249.35 each, the wooden secretaries averaged $594.60 each.

There were 52 wardrobes at a cost of $19,470.20, an average cost of $374.42. I have photographs of all these items here for anybody who would care to know how absurd this really is. Metal secretaries—these are a little more elaborate. There were 34 at a cost of $32,375 or $952.21 each. There were 160 berth drawers. These are steel drawers about that wide, that deep and that high. There were 160 of these and it cost $31,667.40 for medium repairs to them or, in the odd case, to replace them. Now that was $322.92 per drawer according to the estimates of DDP.

It has been argued that we cannot use as a basis of comparison, these figures which were supplied by that Department, DDP, because, in fact, the amounts paid are not directly related to these individual items. No one has ever said that they were directly, but the total of all these absurd figures that I have talked to you about and the total for the job that was paid to Davie Shipbuilding totals within 1.7 per cent of the same amount. In fact, Davie's price was higher than the accumulation of these.

So I say that it is fair for us to maintain that the Department of Defence Production were willing to pay these kinds of costs to an outside contractor to have the job descriptions done that I have spoken about. In fact, Davie Shipbuilding came down with a contract so close that it was unbelievable to do that very same work. I think I will leave it at that for the moment, perhaps, they might like to make a comment and then I will pursue it further.

The Chairman: I would like Mr. Wallace, director of shipbuilding, and the estimator, Mr. St-Laurent, who did the estimating to come forward.

Now, whether you wish to ask questions, Mr. Cafik, or whether Mr. Wallace wishes to make an explanation or Mr. St-Laurent...

Mr. Cafik: Perhaps if I could ask a couple of leading questions it might be helpful.

The Chairman: Yes.

Mr. Cafik: First of all, I would like to know if the Department believes that the estimates they made on the cost of this work or the acceptable amount to be charged for this work, if they believe at this stage of the game, that these are reasonable estimates and they still stand by them.

The Chairman: May I address this question to Mr. St-Laurent. I noticed on the estimate sheet, Mr. St-Laurent, a notation at the bot-

tom of the page of your recapitulation of the estimates which says: "DSL estimates are considered fair and reasonable" and it is signed by yourself. Would you like to speak to that?

Mr. L. E. St-Laurent (Project Officer, Shipbuilding & Heavy Equipment Branch, Department of Supply and Services): In an indirect answer to that question, Mr. Chairman, I would have to say that the individual estimates which Mr. Cafik has referred to are, in fact, ridiculous. The estimate, that I will stand by and continue to assert as being fair and reasonable in the total figure referred to on 782 and 784.

• 1020

Mr. Cafik: May I pursue this, Mr. Chairman?

The Chairman: Yes, Mr. Cafik.

Mr. Cafik: All right. How is it that you say you stand by the over-all figure but that you do not believe in the details; that you do not believe the details were reasonable? How is it possible to have a whole series of unreasonable details and conclusions and come up with a reasonable result?

Mr. St-Laurent: May I spend five minutes trying...

The Chairman: No, I would rather you answer that question first.

Mr. St-Laurent: I cannot answer that question directly without going into some detail.

Mr. Cafik: All right, by all means, let us give Mr. St-Laurent an opportunity to do that.

Mr. St-Laurent: My role is assessing the cost involved with carrying out the work in 782 and 784, if I may, Mr. Cafik...

Mr. Cafik: You confined yourself, I believe, to 782.

Mr. St-Laurent: My role was supportive, in that I assisted the resident project officer in Lauzon, Quebec in assessing the cost to carry out additional work. When I arrived in Lauzon I was given this specification—the one that Mr. Cafik referred to—and attempted to do what I call a "bottom up" detailed estimate; that is, a conceptualization of each of the steps required to correct the defects as listed in that specification. After about a week of looking at this and assessing the factors involved, I found, in fact, that this specification did not include all of the work. It included only a small portion of the actual work that was to be carried out. The reason for that was the interpretation of the notation on the specification of the letter "B" and the description for letter "B" on the first page of the specification itself.

I found after discussions with the principal naval overseer, with the resident DDP project officer and with the contractor himself, on the interpretation of this letter "B", that it was the intent that all furniture was to be corrected for defects and that all furniture was to be refinished. Having already carried out my "bottom up" detailed estimates, if I may coin a phrase, I went back and assessed on a systems level basis, that is, an over-all basis, what this additional work would, in fact, cost and I added that to the detailed "bottom up" estimate that I had already prepared. For that reason, the individual items on the specification are, in fact, incredulous if you take a literal interpretation of each line item. However, I reaffirm my opening remark that the work carried out, the work that was intended to be carried out, and my estimate compare favourably and I reaffirm that it is fair and reasonable to the price at the bottom of the page.

Mr. Cafik: Mr. Chairman, first of all, in the preparation of these "bottom up" estimates, I presume you prepared these, worked out the prices and then discovered there was additional work. Was that the sequence of events?

Mr. St-Laurent: I, in fact, discovered that my interpretation of the specification was incorrect.

Mr. Cafik: At what stage did you determine this, Mr. St-Laurent?

Mr. St-Laurent: As I said, about a week after I got there.

Mr. Cafik: I see. When you got there, of course, you immediately began to prepare this "bottom up" estimate? Was that the reason you were sent down there, Mr. St-Laurent?

Mr. St. Laurent: Yes, that is correct.

Mr. Cafik: When you got there you immediately began to prepare these estimates? Is that correct?

Mr. St. Laurent: That is correct.

Mr. Cafik: Then you subsequently found out there was more work to be done than the small details described on the original work-sheet. Is that correct?

Mr. St. Laurent: That is correct.

Mr. Cafik: It would be reasonable, then, for us now to deduce that when you were preparing this "bottom up" estimate, when you realized there were two drawer pulls to be renewed and when you put down the number of man-hours required and the number of dollars for material, you did, in fact, at that stage of the game, feel that that was all that had to be done?

Mr. St. Laurent: At the onset, that is correct.

Mr. Cafik: Then at the onset or in the beginning, in fact, you did believe it took 18 hours work to fix two drawer pulls?

Mr. St. Laurent: Indeed, I did not, sir.

Mr. Cafik: Then why did you estimate that amount?

Mr. St. Laurent: I did not estimate that amount.

Mr. Cafik: Who did estimate that amount?

Mr. St. Laurent: Would you let me complete, sir?

Mr. Cafik: Yes, by all means.

Mr. St. Laurent: I did not estimate that amount for two drawer pulls. I stated clearly, I think, that my "bottom up" estimate was augmented by the additional work that was, in my interpretation, to be carried out.

Mr. Cafik: Excuse me. I would like to pursue the point that I have already established. You prepared this "bottom up" estimate or, at least, you began to prepare it, to come to conclusions and make estimates prior to knowing that the interpretation you put on this was wrong?

Mr. St. Laurent: That is correct.

Mr. Cafik: Then you did arrive at an 18 man-hour figure for drawer pulls.

Mr. St. Laurent: No, sir, that is an augmented value for those drawer pulls.

Mr. Cafik: An inflated value?

Mr. St. Laurent: To include the additional work.

Mr. Cafik: All right, then why would anybody be so silly as to prepare this whole sheet, to put down hours and materials beside these individual items if, in fact, at that time you realized those individual items had nothing to do with the work to be done?

Mr. St. Laurent: In retrospect, the estimating procedure is not only questionable, but, in fact, non-applicable.

Mr. Cafik: I do not know what you mean by "non-applicable". Do you mean stupid or...

Mr. St. Laurent: The technique in retrospect was not applicable. "Stupid" is not the word to use.

Mr. Cafik: I do not know what you mean by "not applicable". I know what the word means, but I do not know what it means in this particular context.

Mr. St. Laurent: In theory there are four techniques for estimating. The first one would be a "bottom up" detailed estimate derived from the conceptualization of the work and an application of the individual times for each step that is involved. The next one

• 1025

would be a parametric type of estimate which is based on unit recorded costs such as man-hours per ton of steel, and so on. The third would be a direct estimate which we derive by going out to the industry and getting several prices and getting a representative value. The fourth is a systems level estimate where there is total appreciation of the cost required to do a bundle of work, so to speak.

My error, at that time, was augmenting a "bottom up" estimate with a systems level estimate. In retrospect, the systems level estimate should have been augmented by the "bottom up" estimate. My procedure was incorrect, but the total at the bottom of the page is correct and reasonable.

Mr. Cafik: This whole argument still does not make any sense to me at all. Somebody went into Cabin 4 S-9 at some stage—perhaps he is present and, if so, I would like some evidence from him—and decided that the work to be done was that which was described on this work sheet and which was given to Davie Shipbuilding Limited to bid upon. Who made that decision? If he is here today, let us have some evidence from him.

The Chairman: Is the person who made this original sheet available today? Captain Lynch, did you prepare this original worksheet or requisition?

Captain J. A. Lynch (Acting Director General, Programmes, Department of National Defence): I am responsible for the preparation of it. It was prepared by many people. You could not possibly have them all here, sir, so I am prepared to speak to it.

The Chairman: You initialled it as being O.K.?

Captain Lynch: Yes, sir. You will find my signature on the—

Mr. Cafik: Captain, when it said on this worksheet that there were two in number drawer pulls to be renewed, did you think, in fact, that meant anything?

Captain Lynch: The specification you have there is inaccurate, Mr. Cafik.

Mr. Cafik: Why was it ever submitted as the work to be done, then, if it was not in any way related to the work to be done? The only relationship I can see is the cabin number.

Captain Lynch: I would not say that it was not related to the work that was to be done. In preparing specifications for a job such as the *Bonaventure* there is always the decision to be made whether to write a loose or a tight specification. Usually one runs somewhere in between and you have neither fish nor fowl.

Mr. Cafik: Could I interrupt here? In your opinion, did they, in fact, write a loose or tight specification for this job?

Captain Lynch: We started out with a reasonably tight specification that was out of date and we progressively attempted to improve it. The sheets which specify the work and to which you are referring, are not complete and the significant part of them, in my opinion, if my memory serves me correctly, is the coding "B" or whatever is shown. When it mentions two drawer pulls or something like that, it means, "do not forget these". There was a lot of extra work to be done. May I remind you of the—

Mr. Winch: Would you please outline the supplementary work that was done on this particular piece of furniture?

Captain Lynch: I must plead inability to answer specific questions about specific pieces of furniture, Mr. Chairman.

• 1030

Mr. Lefebvre: Mr. Chairman, may I ask a supplementary?

The Chairman: Yes, Mr. Lefebvre.

Mr. Lefebvre: Mr. Cafik has done a lot of work on this and he says he does not understand; I do not understand and I do not think you understand. Therefore, before we go any farther, I would like to know if these witnesses agree that the Contract No. X782 amounts to $145,008. Is that correct so far?

A Witness: Yes, that is correct.

Mr. Lefebvre: Mr. Cafik took all these items with which we were furnished, added them and came up with a figure of approximately $145,000, yet the witness said they have no relation to the total. If that is the case, what jobs did add up to $145,000 and where are they listed? This is what we cannot seem to understand here this morning.

The Chairman: I guess I will direct your question to—

Mr. Lefebvre: I think somebody said they were a bunch of incredulous figures or—

The Chairman: —Mr. St. Laurent. Could you provide the Committee with a correct set of working papers—that is, anything other than what you have already given.

Mr. St. Laurent: May I defer to other members of my Department, sir? I do not have those figures in front of me but they are available.

The Chairman: Mr. Cafik?

Mr. Cafik: Is there a list of the work that actually was done.

Mr. Lefebvre: Right. Have we a list and is it available to this Committee.

Mr. Winch: And, if so, why was it not supplied to the subcommittee? Why were we given these sheets?

Mr. R. D. Wallace (Associate Director, Shipbuilding and Heavy Equipment Branch, Department of Supply and Services): In subcommittee we reviewed with you the summary of events leading up to the estimating and the contracting for each of these particular pieces of furniture. I think perhaps the Committee should know, Mr. Chairman, although the subcommittee does know, that when the ship came into Quebec the contrac-

tor was given a detailed list of the furniture that was to be repaired and this list was based on a survey that was conducted in 1965, approximately a year before the commencement of the refit. Now this specification, as Captain Lynch mentioned earlier, was inaccurate and out of date and it was returned by the contractor as being unable to estimate or provide a price.

The Chairman: Mr. Wallace, may I interject that it was one year old when you gave it to the contractor.

Mr. Wallace: Yes, it was out of date.

Mr. Cafik: I think it is important here, Mr. Chairman, to establish what Mr. Wallace is really saying. He is not saying these figures are out of date, he is saying the original $550,499 one is out of date. Is that correct?

Mr. Wallace: I am trying, Mr. Chairman, to provide the committee as a whole with the sequence of events leading up to these two particular items of furniture that Mr. Cafik is talking about, X782 and X784. I think it was correct that in subcommittee we mentioned the contractor had received an outdated list of furniture; he returned it and said he was not able to quote on it.

Mr. Winch: But if my understanding is correct, this is an additional contract to the original one and is dated after the *Bonaventure* was in dry dock, when he could see what it was.

Mr. Wallace: First of all, I think it is understood—and I should have mentioned this first—that the firm price portion of the contract included very little, if any, repairs to furniture. The next sequence is that the contractor received a specification that was out of date.

Mr. Winch: After it was in dry dock.

Mr. Wallace: After it was in dry dock. Now it was returned, the RCN undertook to resurvey the furniture and came up with an order called X337 dated September, 1966 with the contractor providing an estimate in the amount of $550,499. At that time the principal naval overseer, Captain Lynch, took a look at this, he did not have the funds necessary to get on with the job, so it was held in abeyance—it was cancelled.

Early in 1967, when additional funds were provided, it was decided to proceed with the furniture in the following manner: there was X782 covering cabin furniture that Mr. Cafik has been referring to, X784 which was office furniture plus, I understand, six or seven cabins and the balance, which was primarily mess deck furniture, lockers, bunks and so on used by the crews were to be repaired by the ship's staff and/or naval repair facilities. These orders, X782 and X784, are dated February 8, 1967. In the process of estimating the work that was involved—this is at a time when Mr. St. Laurent was down in Quebec—it was found that these specifications as written were not all-embracive—that they did not in fact reflect the condition of the furniture.

The principal naval overseer at that point had either to resurvey the furniture again and provide a more accurate piece of paper or to defer it completely, or to allow the specifications as written to proceed. It was considered impractical at that time to resurvey and draft new specifications due to the lack of time and the destructive condition of the ship, and it was agreed by the principal naval overseer, the contractor and ourselves to utilize these specifications with the understanding that all of the furniture in these cabin areas would be refinished. And this was the interpretation given to the B item which indicated not only were the items that had some minor repairs to be refinished and repaired but all items in the particular spaces. Our estimate and Davie Shipbuilding's estimate takes into consideration this considerable additional work. This means that every single piece of cabin furniture in the 90 some cabins were not only refinished outside and repaired outside, and the defects listed made good, but the inside of all this furniture was repainted and refinished.

• 1035

Mr. Winch: Could I ask where the order is for that additional work?

Mr. Wallace: This was an understanding between the contractor, the principal naval overseer and our people.

Mr. Winch: Is there an order for this—an amended sheet for this?

Mr. Wallace: This is the order.

Mr. Lefebvre: Does this mean that these do not mean a damn thing?

Mr. Wallace: It means to say, Mr. Lefebvre, that each one of those individual items really bears its fair share of the total cost of refin-

ishing all the furniture, and these individual items in themselves, as we told you aboard the *Bonaventure*, are ridiculous.

Mr. Lefebvre: Well how come we have been furnished with ridiculous estimates of what we think adds up to $145,000.

The Chairman: Mr. Lefebvre, I think you have pointed up the fact again that the Committee has been given wrong or incomplete information by the officials.

Mr. Wallace: Mr. Chairman, at no time were you given incomplete information as far as this is concerned.

The Chairman: How do you substantiate that when you gave us nothing other than this sheet?

Mr. Wallace: We gave you this sheet...

The Chairman: Right.

Mr. Wallace:...and as far as we are concerned the total dollars involved is fair and reasonable. I had not, nor had Mr. St. Laurent, gone through the exercise that you did abroad the *Bonaventure* to check out each one of these particular items.

The Chairman: Therefore, you gave us incomplete information.

Mr. Wallace: I do not agree.

The Chairman: We will ask the Committee to decide that point. Mr. Cafik?

Mr. Cafik: Mr. Chairman, I would like to pursue this thing for a little bit in order to really understand it.

Did Davie Shipbuilding bid on the basis of this work description?

Mr. Wallace: No, they bid on the work description that I just gave to you.

Mr. Cafik: Who gave it to them? Did you give it to them verbally?

Mr. Wallace: It was a verbal understanding between the three parties concerned.

Mr. Cafik: All right. How many other verbal understandings are there in respect of these 1500 or 1700 contracts, how many of them are as meaningless as this one apparently is, and how many can we look at with a realistic eye and say, "This is meaningful"?

Mr. Wallace: I do not know, Mr. Chairman.

Mr. Cafik: Are there a lot of them in this category?

Mr. Wallace: I have no idea, Mr. Chairman.

Mr. Cafik: Do you feel that these are the only group in this category?

Mr. Wallace: It could be.

Mr. Cafik: It is odd that out of 1500 contracts that we thought there were originally and now with amendments and everything there are 1700, it was said at the last Committee meeting, that we pick out and happen to zero in on five of them and we find this kind of a condition.

Mr. Wallace: Mr. Chairman, I have stated to you in subcommittee and also down on the *Bonaventure* a number of times that it is practically physically impossible to prepare a detailed all embracive specification in the areas of ship repairs; that if this in fact had been done for every one of the 1500 or 1700 Change Orders that were raised on the *Bonaventure* the ship would still be there; that there has to be an understanding between the parties involved as to the work to be done.

The Chairman: Just hold your supplementaries, if you will, so we will not lose the train of thought, and let Mr. Cafik continue.

Mr. Cafik: You talk about an all-embracive work description. I think that what you say is quite true—it is impossible. But if this is not all-embracive I have never seen anything that is—where you talk about one knob on a medicine cabinet as part of the work description but ignore to mention that you are going to redo all the furniture in that cabin.

Mr. Wallace: If you look at the top of that, Mr. Cafik, this means repairs to surfaces; it does not say specifically just the furniture as outlined in these things.

• 1040

Mr. Cafik: Just a moment. First of all, in Cabin 4S-9—and let us look at this from a standpoint of just plain reason—we have four items which are detailed relative to work to be done—a wooden secretary, or medicine cabinet, or wardrobe and berth drawers. That would certainly lead any reasonable man to conclude that that is roughly what you had in mind in that cabin. With each one of those items we have a "B" beside it, meaning medium repairs to surfaces. Why not have only a "B" beside the whole cabin? One would think that if you had mentioned even the most obvious things you would have said: Repair all furniture in cabin, $1,000, or $7,000; but

you did not. You spoke about four items, and you broke it down to individual things such as knobs. Is it reasonable for anybody who would read this—the bidder, we, as part of the committee, or yourselves, or the general public, to come to any conclusion other than that to which we have come, namely, that those are the only four items to be touched and that these specific details are the specific, major items on each one that has to be fixed. Is that not a reasonable conclusion to come to?

Mr. Wallace: It is a reasonable conclusion, but on page 2 you will find, in addition, cabins that list only one or two items of furniture; whereas, in fact, every piece of furniture in the cabin was completed or refinished—actually refinished.

Mr. Cafik: You say that, Mr. Wallace, but it is for this Committee to decide whether it is right or wrong, or whether it is true, or whether we are going to buy it. If I appear before the Income Tax department and give them a whole lot of "baloney", and all my books and papers do not mean a damned thing and the only thing that counts is what I say—the books are all inaccurate, and we kept them inaccurate very accurately—that does not mean a thing to them. I am not too sure that this means anything to this Committee. It is the facts we want.

Mr. Wallace: Mr. Chairman, I would think that this Committee would be interested in knowing what work was actually done for $145,000. Our principal naval overseer is here. He is the person responsible for inspecting the work when it completed. I feel sure that he will attest that all the furniture in the cabins was refinished in accordance with the understanding that existed between the three parties, and that this particular specification was the medium by which this work was done.

Mr. Winch: I have one further supplementary. In view of what has been said, Captain Lynch, can you give this Committee any information on how much work was done by verbal agreement, without any written specification or orders, or amendments?

Captain Lynch: A great deal, sir.

The Chairman: What does "a great deal" mean, though?

Captain Lynch: I certainly recall that there are more instances than the five that the Committee is talking about now. May I elaborate a little bit, sir?

The Chairman: Yes, you may; but keep it...

Captain Lynch: It is important that you understand..

The Chairman: Yes, I agree.

Mr. Winch: And in doing that, Captain Lynch, because I would like to get it all clear, will you please say whether or not it is the usual practice, or a good practice, on government work to have verbal agreements on work to be done and moneys to be paid, but no letters kept.

Captain Lynch: I admit, and take responsibility for, a sad lack of homogeneity in the specifications given to Davie Shipbuilding, on which to estimate and work. These specifications were synthesized by many people, often transient through my office. For example, I wish it just had "B" against the whole cabin;

• 1045

but some sub-professional, if you like—a petty officer—went through making a list and it ended up with "B" against all the paper work.

You will recall that there was a $2,800-a-day charge for services to the ship. There are other charges that are directly traceable by time, and there are other hidden charges. It was most important to finish that ship by the date specified. Had I taken two more days to perfect that specification, it would have cost anywhere from $6,000 to $10,000. I suggest that I could have worked on that specification for another 30 days or 60 days and it still would not have been perfect.

Mr. Cafik: Mr. Chairman, may I ask about three questions which I think are very important?

Is the Department of Defence Production maintaining that in actual fact all the furniture within cabin 4S-9, and all other cabins that are individually mentioned in this Contract X782, was, in fact, refinished and repaired? Is that the contention?

Mr. Wallace: Yes, sir.

Mr. Cafik: And repaired and refinished at that particular time.

Mr. Wallace: Yes, sir.

Mr. Cafik: Is there anybody in the Department here who would care to refute that, or does everybody agree that that is so?

I put this very important question for the reason that I believe it is possible to have scientific people go and look at those cabins and find out, by the aging on the finishing, on what date they actually were repaired. I think that could be fairly easily done. It would be very embarrassing for everybody concerned if in fact those things were not refinished at the time you say they were refinished.

I now come to my second point. The primary argument being put forward is that these estimates beside such things as doorposts to be renewed, drawers to be done, and so on, are in fact inflations and meaningless. I draw to the Committee's attention that at the back of these worksheets of the Department of Defence Production we find an amendment giving the detailed description of each job. For example, everywhere in the DDP estimates where it says a drawer is to be repaired we have the following work description:

> Remove drawer from ship to shop: 2 hours; Remove locking arrangements and pull: 2 hours; Fair drawer...

—that means to make it fit—

> ...8 hours; replace locking arrangement and pull to meet the frame: 4 hours; refinish drawer: 16 hours; remove to ship and install matching rollers to drawer: 4 hours. Total 32 hours; material $10.

Cost at $5.10, $173.20; and that compares exactly with the figures that you tell us are inflations of what they should have cost.

If they are inflations, why go to such an extent as to inflate them even in the detail, right down to such finite items? That contention is not acceptable to me because of the detail I have just outlined.

Mr. St-Laurent: The bottom-up, detailed estimate to which I referred previously is in fact what you have just read, and it is that which I have inflated. The reference number on the line items opposite the specification reflect back to those inflated estimates.

Mr. Cafik: In fact, then, Mr. St-Laurent, who were you trying to deceive by the preparation of these things? Who were you trying to fool? If I worked there I would not prepare something that had the possibility of going before the public that gave such absurd figures as this. I would have said: General repairs to 97 offices, or cabins, $145,000. We could argue about it, but you would not look like a fool. And this makes the whole Department look foolish.

Mr. St-Laurent: I was not preparing these figures for the Public Accounts Committee or for the public of Canada. I was preparing them for the resident project officer, with whom I discussed this.

Mr. Cafik: But for what reason?

Mr. St-Laurent: To assess the cost of carrying out the repairs that were listed in the specification.

Mr. Cafik: But should you not at least have attached something to this, saying: "All the

• 1050

figures contained herein, plus the job descriptions, are absolutely meaningless and have no relationship to the price quoted"?

Mr. St-Laurent: In retrospect, that is absolutely correct, Mr. Cafik.

Mr. Cafik: And do you really think that we in this Committee are so foolish as to think that that is really what happened? I cannot believe it at the moment, or until I hear some further evidence, anyway.

Mr. St-Laurent: Mr. Cafik, if you feel that I, as a professional naval architect, am so stupid as to try to mislead the public of Canada with those figures then, indeed, there is something very seriously wrong with me and my professional capability.

Mr. Cafik: Are you not aware of the fact that the public has a right to look into expenditures, and that we as a Committee exist?

Mr. St-Laurent: Most assuredly.

Mr. Cafik: And would you not prepare your work in such a manner that it could come before the public without ending up discrediting the Department?

Mr. St-Laurent: I think, Mr. Cafik, if I had had the opportunity to discuss these figures while they were being discussed in the steering committee, I could have presented the same material I have just presented this morning and these figures would not have come before the public.

Mr. Cafik: Do you mean you would have refused to give them to us?

Mr. St-Laurent: Most assuredly not, that is not my prerogative, sir.

Mr. Cafik: Why would they not have come before the Committee because I certainly would ask for them. I did ask for them.

Mr. St-Laurent: The discussion that we are having this morning would have refuted the validity of the figures that the public has received.

Mr. Winch: Why did you not put them forward yourself?

Mr. Lefebvre: Mr. Chairman, why has it taken until this morning? On March 10 we were given these figures, today is April 29 and now we have the refutation of all these figures that we have been working on for a month and a half. I would like to know why it has taken this long when everyone in the Department knew that we were using these figures all the while we were studying this refit.

The Chairman: Mr. Wallace.

Mr. Wallace: The only reason that we have not done so is simply because yesterday was the first time that the Committee or subcommittee met and gave us an opportunity to make any explanation about these estimates.

Mr. Cafik: I do not think that is entirely true.

Mr. Wallace: It is true.

Mr. Cafik: We have had many, many subcommittee meetings. As you will probably recall, I want through whole subcommittee meetings discussing furniture and all the aspects of it, pursuing it question after question, and we never came up with this.

Mr. Wallace: When we were discussing furniture in the subcommittee we were talking about total estimates. At the time of the subcommittee meeting, like yourself, and I hope that this is true, I had not made any exercise of extending these out to indicate that they were or were not ridiculous. As far as I was aware, I was concerned with the total price. Certainly, and I hope you will believe me, if I, or Mr. St-Laurent, in fact, had been aware of these apparently ridiculous items we would have explained them to you.

Mr. Cafik: But Mr. St-Laurent prepared them.

The Chairman: I would like to ask a pertinent question at this point of Mr. Wallace and Mr. St-Laurent. The day that we were in the cabin and we examined the repair and refinishing of each of these pieces of furniture, including the medicine cabinet, I, personally, said to both of you that we were going to write on the mirror of that cabinet: "$258 cost to repair." I said, "If either of you have any reason to say that this price is incorrect or that we are unjust or unfair say so now and we will not put it on that miror and take the picture". At that time neither of you had anything whatsoever to say, so do not say this is the first chance you have had to correct these figures before the Committee. You had the chance aboard the *Bonaventure* that day with respect to the five or six pieces of furniture we examined, but with particular reference to the medicine cabinet of which we took the pictures.

I will admit that you did say at that time that we must realize it was an estimate. It does not mean we paid that much to fix that medicine cabinet. In return I said that I would not buy that argument because in the over-all picture you agreed to pay the shipbuilders $2,500 more than you estimated on the package deal. I further went on to say that if you had done a conscientious and thorough, honest job of estimating you would have come up with a figure of $40,000. You would then have gone to the shipbuilders and said, "You are four times too high; we will not buy this; we will not pay you $145,008; go back and give us another estimate." You did not do that. You said, "It is an estimate," and we agreed to write the word "estimate" on the mirror and we took the picture.

You did have an opportunity, both of you, at that time to correct anything that was incorrect.

• 1055

Mr. Wallace: Mr. Chairman, if you consider the atmosphere that existed within that cabin at the time you revealed this $258.20 as one conducive to clear, proper thinking, conducive to going back some two years in memory to try to determine precisely the facts that we are giving you today, I cannot agree. I do remember your saying, "Look here, gentlemen, before I write this up I would like you gentlemen to comment." At that point, Mr. St-Laurent said, "It is ridiculous"; those are his words. I said at that time that this specification covered far more work, that there was something wrong with it. I also mentioned this to Mr. Cafik prior to his going to the

press. I said, "Above all, please give us the opportunity to indicate that there is something wrong with this specification, that there was far more work done in this total job than there is apparent in the specifications."

The Chairman: Mr. Cafik?

Mr. Cafik: Mr. Chairman...

The Chairman: On a question of privilege, Mr. Winch?

Mr. Winch: It is a question of privilege, sir, because I think that actually my own honour is concerned as a member of that subcommittee. I want to deny the statement that has just been made by Mr. Wallace on what took place before that subcommittee.

I never missed one meeting of that subcommittee. We were down there day after day and on this furniture business we were not dealing with the over-all totals. We spent the majority of our time, sir, on the information that was supplied to us on a detailed breakdown on various aspects, whether it was the moving of chairs or anything else. So you were not before our subcommittee speaking wholly and solely, as you just said, on a total over-all picture. Almost every day was spent on breakdowns of individual items. I want that clear, in view of what you said, because I never missed one meeting of that subcommittee.

The Chairman: Mr. Wallace and gentlemen, we will have to adjourn now.

Mr. Wallace: Mr. Chairman, Mr. Winch is not incorrect. When I said we were talking over-all estimates we were referring to X782 and X784. I think I am correct, Mr. Cafik, in saying that we did not examine item by item in detail, for example, this $258.20 for a medicine chest cabinet in subcommittee in National Defence; we were talking over-all totals on this.

Mr. Cafik: I think I can clarify this point and I want to make one other point. First of all, we did talk about some details, but we certainly did not have at that time the DDP breakdown we are looking at today.

Second, I think, dealing with the mirror cabinet problem down in Halifax, if you, Mr. St-Laurent, knew that these were inflated figures, as you say now and you were the one who prepared them, it is incredible to me that you did not bring the matter up at that time, but you did not know what the reason was at that time. How do you know it now? I think one would suspect that this is sort of a story.

The Chairman: Gentlemen, we will have to adjourn at this point. We will meet on Thursday and continue the discussion on this particular contract. This meeting is adjourned.

The Queen's Printer, Ottawa, 1969

HOUSE OF COMMONS

First Session—Twenty-eighth Parliament

1968-69

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: Mr. A. D. HALES

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 33

THURSDAY, MAY 1, 1969

Public Accounts, Volumes I, II and III (1966 and 1967)
Reports of the Auditor General to the House of Commons (1966 and 1967)

WITNESSES:

(*See Minutes of Proceedings*)

20181—1

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. A. D. Hales

Vice-Chairman: Mr. T. Lefebvre

and Messrs.

Cafik,	Leblanc (*Laurier*),	Tétrault,
[1] Crouse,	Mazankowski,	Thomas (*Maisonneuve*),
Cullen,	McCutcheon,	Trudel,
Guilbault,	Noble,	Winch,
Harding,	Noël,	Yanakis—(20).
[2] Knowles (*Norfolk-Haldimand*),	Rodrigue,	
	Roy (*Timmins*),	

(Quorum 11)

Edouard Thomas,
Clerk of the Committee.

Pursuant to Standing Order 65(4)(b),

[1] Mr. Crouse replaced Mr. Bigg on May 1, 1969.
[2] Mr. Knowles (*Norfolk-Haldimand*) replaced Mr. Flemming on May 1, 1969.

MINUTES OF PROCEEDINGS

THURSDAY, May 1, 1969.
(35)

The Standing Committee on Public Accounts met this day at 9.42 a.m., the Chairman, Mr. A. D. Hales, presiding.

Members present: Messrs. Cafik, Cullen, Hales, Knowles (*Norfolk-Haldimand*), Lefebvre, Mazankowski, Noble, Noël, Rodrigue, Thomas (*Maisonneuve*), Winch—(11).

Also present: Messrs. Duquet, McQuaid.

Witnesses: Mr. E. B. Armstrong, Deputy Minister, Department of National Defence; Mr. G. W. Hunter, Deputy Minister, Department of Supply and Services; Messrs. J. G. Glassford, R. D. Wallace and L. E. St. Laurent from the Department of Supply and Services; Capt. J. A. Lynch, Department of National Defence; Mr. A. G. Cross, Auditor General's staff.

The Committee agreed to accept a letter from the Department of Supply and Services dated April 21, 1969, concerning the sale of the Val Rose plant of Canadian Arsenals Limited as *Exhibit IV*.

The Committee questioned the witnesses concerning the refit of *HMCS Bonaventure*, in particular contract X-782 concerning furniture.

A motion by Mr. Cafik tabled at the meeting held April 29, 1969, which reads:

> The Committee of Public Accounts conclude that the briefing room seating arrangements and writing trays referred to in the job description attached to X81 on D.D.P. Form 779 dated June 20, 1966 are in fact the same items as referred to in X427 on D.D.P. Form 779 dated October 6, 1966.
>
> This Committee therefore resolves that X427 is a duplication of work performed under X81 and therefore recommends that the sum of $4,173.00 be returned to the Receiver General of Canada by Davie Shipbuilding Limited,

was allowed to stand.

At 11.02 a.m., the Committee adjourned to the call of the Chair.

Edouard Thomas,
Clerk of the Committee.

20181—1½

EVIDENCE

(Recorded by Electronic Apparatus)

Thursday, May 1, 1969

• 0943

The Chairman: Gentlemen, may we come to order? First, I would like to welcome back our regular Clerk, Mr. Thomas. We excused him while he attended the Fisheries Committee trip out west. I have not yet received the B.C. salmon but we are looking for one, one of these days, Mr. Clerk. Mr. Noble was also on that trip, so maybe we will hear from both of them.

First, I would ask your permission to table as an exhibit a letter from Mr. Hunter concerning the particulars of the sale of the Val Rose Plant of the Canadian Arsenals Limited. It is 28 pages in length and so is rather too large to circulate to all Committee members. If anybody wishes to see it the Clerk has it and it will be filed. Mr. Cafik, I think you asked to see it.

Mr. Cafik: Is that the information that I requested at the meeting, Mr. Hunter?

The Chairman: That is right.

Mr. Cafik: I would like, if the Clerk would arrange, to have photostatic copies taken. I would like a set of those documents to study them.

The Chairman: The steering committee will meet today at 1:30 p.m. I hope all members can attend, Mr. Winch, Mr. Lefebvre, Mr. Rodrigue, Mr. Cafik, and myself. Our Clerk will inform you of where we will meet at 1:30 p.m. today.

At our last meeting we were dealing with the contract X-782 regarding the repairs to the furniture. The amount of that contract was $145,008. We will start with questions related to this contract in particular. Mr. Cafik, would you like to start where you left off?

Mr. Cafik: Yes. I wonder if Mr. Wallace would care to come before us for a moment?

• 0945

The Chairman: Mr. Wallace and maybe Mr. St. Laurent as well.

Mr. Cafik: As a matter of fact, I think it would be useful for Mr. Glassford also to take the stand and then I can just pop questions to the whole field.

The Chairman: Mr. Glassford. I am going to ask other members for questions later on so please make note of any questions you wish to ask.

Mr. Cafik: I might indicate, Mr. Chairman, the manner in which I propose to proceed with my questioning here so that others present would be aware. I feel that I can run through the balance of these contracts with some very specific questions in a fairly short order, possibly in one-half hour if the answers are not much longer than the questions. Then I think we should open the whole field to general questions from the rest of the Committee, if that would be satisfactory.

The Chairman: Agreed.

Mr. Cafik: Mr. Wallace, on this DDP document, X-782, you indicated to the Committee at the last meeting that the $145,008 price bid by Davie Shipbuilding Limited was a reasonable price for the work that in fact was actually done. You have indicated that the job description which is attached to this document is, in fact, not a description of the work that was done. Is that a fair statement of your position?

Mr. R. D. Wallace (Associate Director, Shipbuilding and Heavy Equipment Branch, Department of Supply and Services): Mr. Chairman, Mr. Cafik. I did say that in our opinion the price was fair and reasonable. In so far as the specification was concerned, I stated that the specification in itself required additional work over and above the detailed items that you have on the specification. The intent of the specification, as agreed to by the three parties concerned, was the work proceeded with under the B section which required medium repairs to surfaces and the finishing of the furniture. In that sense the specification does, I believe, reflect the

understanding of the work to be done by the contractor.

Mr. Cafik: In other words, you feel Mr. Wallace that these specifications then are of themselves a reasonable description of the work that is to be performed?

Mr. Wallace: No. I think we admitted the other day that this specification in itself could have been written in a better way. I think we said that time did not permit us or the Navy to do this. As you know, our Department does not write the specifications. This is a function of the Department of National Defence.

Mr. Cafik: That poses an interesting question. Who wrote the specification that is attached to X-782?

Mr. Wallace: I believe that the Navy did.

Mr. Cafik: The Navy wrote it.

Mr. Wallace: I think the Committee should understand that the RCN writes all the specifications that are attached to these additional work orders that you have been given. This Department, my Department, the Department of Supply and Services, has no responsibility in the writing or drafting of specifications.

Mr. Cafik: When you have verbal instructions then, these verbal instructions...

The Chairman: Mr. Cafik, may I interrupt here? I think we must clear a point here. There is some misunderstanding as to these specifications. Let us get the words "estimates" and "specifications" sorted out. These estimates were prepared by DDP, the specifications by the Department of National Defence.

Mr. Cafik: That appears to be correct.

The Chairman: Are we dealing with estimates at the moment?

Mr. Cafik: No, we are dealing with specifications.

The Chairman: All right.

Mr. Cafik: I will get to the root of the problem as to who originated the work requirements.

The Chairman: Then we must have someone from the Department of National Defence to answer questions on the specifications. Captain Lynch.

Mr. Cafik: Captain Lynch, on these specifications, who in fact prepared them?

• 0950

Captain J. A. Lynch (Acting Director General, Programmes, Department of National Defence): Mr. Chairman, the additional work orders bear my signature or someones' signature for me. They are my responsibility.

Mr. Cafik: You would say then to this Committee that you, as the Captain, signed the job descriptions that went to DDP instructing them as to what to do in terms of furniture repairs, as outlined in this X-782?

Captain Lynch: Very specifically, myself as principal naval overseer.

Mr. Cafik: All right. Would you sign a document authorizing a certain amount of work to be done if you believed that that document did not describe the work to be done?

Captain Lynch: I did, indeed, do so, sir, many times when it was necessary at the time.

Mr. Cafik: In other words, is it fair for this Committee to conclude that the attached written instructions to work orders and so on need not necessarily describe the work to be done, and that indeed there might be more or even less work to be done than described therein?

Captain Lynch: Yes, in both cases.

Mr. Cafik: You think it is reasonable for we as a Committee to come to that conclusion?

Captain Lynch: Yes, it is.

Mr. Cafik: Is that a standard practice?

Captain Lynch: It is not a desirable practice. It is a practice that must be adopted if time and numbers of personnel dictate it.

Mr. Cafik: Let me follow that for a moment, Captain. A lot has been said about the shortage of time, the need to get the ship out of the yard, and all the rest of it. It is put forward as a very worthwhile argument, but it seems to me that there is something else that is equally important, and that is the protection of the public's interest.

If what you say is true, that time was such a pressure point, I think that surely one would have a moment to write on there and

say that these are the instructions, plus accompanying verbal instructions. There appears to be nothing on this document, and perhaps not on others, to indicate that it does not stand or fall on its own description.

Captain Lynch: Mr. Chairman, throughout this refit my principal guidelines were the public's interest. If I had spent time trying to perfect these specifications, the cost to the Canadian public would have been greatly in excess to what it was, and I suggest to no effect. We had an agreement of three parties on the spot. There is a time when red tape must be cut to get the job done as economically as then possible to save the Canadian taxpayer money.

The Chairman: Mr. Cafik, I would like to follow this then. Captain Lynch said there were always three people on the job to verify these expenditures. Would you take one specific item—take the medicine chest if you wish—and follow through and see if three people were there to assert that these costs were within reason?

Mr. Cafik: All right. I will certainly pursue that in a moment. I think the first thing I really want to get established is the basic principle about whether or not you agree that this is a proper form or a proper way in which to do business. You feel that under the circumstances it was. I have no argument there but I would like to get to the bottom of the thing. Do you not feel that it would have been extremely important for you to have indicated on those forms that other work was required other than that which was described? Perhaps in a short notation, a typed note?

Captain Lynch: If I had 20-20 hindsight at the time, sir, I would love to have done that and to have perhaps obviated many of the proceedings that are going on today. You must realize that it is almost impossible to understand the pressures that were going on on this $10 million job in 16 months, with as many as 600 or 800 workmen in the ship and 100 sailors in the ship.

I think, indeed, that we did a good job. I have been proud of it. I think that DDP should be proud of their part, and I think that the firm should be proud of their part. In fact, I think that somebody should have got a medal instead of the type of headlines that have been going about.

Mr. Cafik: Captain, do you not feel that at the time—and I do not think we need hind-

• 0955

sight for this, I think we just have to look at it honestly—there could come a time when you would have to answer for and to justify the action that you have taken like anyone else who is an employee in a company, as you would be of the Government of Canada and of the people of Canada?

Captain Lynch: Yes, sir. My first avenue of justification was to the Commander, Materiel Command. My superiors there were at the acceptance conference and they sent a message about how well the work was done. As to the present investigations, I must admit that I was not preparing for these when I was on the job. I was interested in the *Bonaventure* and I wanted her out on the specified date because she cost thousands of dollars a day to keep there.

Mr. Winch: Could I ask an important supplementary here? Captain Lynch, in view of what you said at our last meeting and are saying now, could I ask, with your responsibility on the *Bonaventure*, did you receive in writing authority for you to make verbal agreements, without any written or signed contract? If not, how will you exercise that if you did not have the written authority on verbal agreements on extra work?

Captain Lynch: Mr. Chairman, there are generic terms of reference for a principal naval overseer, and by and large these constitute the written authority that I had. I had, of course, many conferences with my superiors in Ottawa before I went to the job.

During the time that the job was under way, the naval structure of technical supervision disappeared and the integrated Materiel Command was set up. This threw more responsibility on people in the field than happens now or when we had a navy.

I gladly assumed this responsibility and it was never questioned by my superiors. I was verbally told that I would have to sort lots of things out on the spot. This work order is one of the things that had to be sorted out on the spot in collaboration with, first, the Department of Defence Production Resident Production Officer, and second, with the firm.

Mr. Cafik: I would like to discuss this a little further. According to these specifications and my calculations there are 84 cabins

involved in the specification as laid down here. I understand from evidence given by yourselves that this job description is totally inadequate. I wonder if it is accurate in terms of, at least, numbers of cabins involved.

I would like the Captain who was on the job to answer that, if you do not mind.

Captain Lynch: In view of the fact that I am testifying under oath I cannot swear to that. I would estimate, sir, that there might be a few more cabins worked on than appear in the specification. However, this would have been agreed to at the time by the three parties.

The Chairman: I might say, Captain Lynch, you are not under oath but we still expect the same answers as if you were.

Captain Lynch: Yes, sir.

Mr. Cafik: Captain, in other words, you are saying to this Committee that you signed this job description, or you signed this order as it were, to go to the Department of Defence Production in order to get a price knowing that it in itself was perhaps inaccurate in terms of even numbers of cabins involved, and that the details outlined therein were not all of the details. As a matter of fact, they represented, I would presume, a very small portion of the work that actually was to be done. You signed that document without any notation to that effect. You feel that that was justified?

Captain Lynch: My estimate of the relative weight of the amount of work specified and the amount of done comes to a higher proportion than you indicate, Mr. Cafik.

Mr. Cafik: All right. This is what I would really like to hear. What proportion of the work that was done do you feel was actually described in this document in a manner that a person would understand when they read it?

• 1000

Captain Lynch: I do not think I can answer that specifically. I would like to return to your question about whether I would sign it. Yes, sir, I would. I would do it for reasons of economics and progress.

Mr. Cafik: In other words you would say the end justifies the means in this particular case; that you signed the document knowing it was not the thing it was put forward to be, and you signed it because you felt that the pressure of time was such that that is exactly what you should have done.

Captain Lynch: Yes, sir. I had the responsibility. I had certain personnel resources, certain time resources and certain money resources. The money resources were one thing but the personnel and time were limiting factors and in order to discharge my responsibility I was forced to take individual decisions like this.

Mr. Cafik: Does this lead you to conclude then because of all this pressure of time and so on that the method the Department of Defence Production employs of getting firm, fixed-price contracts—I do not want to get into that argument again, or call it what you like—is perhaps an unwise approach because actually you do not have time to prepare the work; you would be better to do it in some other manner?

Captain Lynch: At no time do I care to make allegations against the Department of Defence Production. They looked after their end of the refit and I looked after mine. They did not bother me and I did not bother them.

Mr. Cafik: How is it possible for them to go out and get a fixed-price bid on a particular job when you give them a job description which does not reflect the work to be done?

Captain Lynch: It is possible by collaboration on the spot, sir.

Mr. Cafik: Verbally.

Captain Lynch: Yes, sir, if necessary. It seemed to be necessary in this case.

Mr. Cafik: Would you in your own business enter into a contract to pay a certain amount of money for work to be done when the work to be done was described and it only represented a portion of the work that actually had to be done?

Captain Lynch: Yes, sir. I suggest you ask the same question of the general manager of the firm when he appears in front of this Committee because that is exactly how he handles business with his commercial customers.

The Chairman: Might say commercial customers, but when you are doing government business you do not do it on a verbal basis, I think, Captain Lynch.

Captain Lynch: I realize that, sir, but there are times when time runs out.

The Chairman: The Committee would not be in a position to accept that. When you are dealing with government money and taxpayers money, you must have everything according to proper procedure, and no verbal arrangements, because you just do not operate that way in government business.

Mr. Cafik: Mr. Chairman, the argument being put forward is of time. When was this document prepared? Could you tell us, Captain?

Captain Lynch: No, sir. The dates on the actual form itself are indicative, but there was work prior to that through several cycles of activity. The work on preparation of the specification was not continuous because of the circumstances at the time.

Mr. Cafik: When was the ship taken out of the yard?

Captain Lynch: The actual formal refit was finished on September 1, 1967. The ship left the yard having...

Mr. Cafik: Good enough. The quotation from Davie Shipbuilding Limited came back on February 8, 1967. Now that is quite a few months before this ship was to have completed its refit.

Captain Lynch: Yes, sir. By looking at the price and the man hours involved, you can see that it was an extensive job. It needed to be checked out at about that date.

Mr. Cafik: Certainly one would conclude that it was an extensive job by the amount of dollars involved, but by the work description you would conclude that it was a very small job indeed.

Captain Lynch: I have already negated those work descriptions, Mr. Cafik.

Mr. Cafik: Yes. You are saying that the work description was inaccurate, and you were satisfied that that is the way it should have been. Thank you very much. Now I would like to ask some questions, if I may, of Mr. Wallace in connection with this. Mr. Wallace, when you received this thing, you had previously, I gather, discussed this verbally with the Captain. Is that correct?

Mr. Wallace: Mr. Chairman, I would like to make a correction here. At no time was I personally involved in negotiations of any of these additional work orders you are referring to, including the furniture one. These discussions and negotiations took place between a representative of my branch, Mr. Palmer, Captain Lynch, and the contractor.

• 1005

Mr. Cafik: Is Mr. Palmer present?

Mr. Wallace: Yes, sir.

Mr. Cafik: Mr. Palmer perhaps should take the stand.

Mr. Wallace: Before he moves up, Mr. Cafik, you mentioned that this particular document came back on February 8. I believe if you look down below you will find that it was raised on February 8, but actually it came back from the contractor on February 28. The work was authorized to proceed at the beginning of March.

Mr. Cafik: Yes, but that at least would indicate that there were many months from the time of preparing this description until the refit was completed. Perhaps I am suggesting that the pressure of time was not quite as great as one might be led to believe.

Captain Lynch: Sir, this question is directed at my field. The number of jobs that had to be dealt with that after that were considerable. My overseers were not only specification writers, they were inspectors who were required to accept the work. You will notice if you segregate the hull items, that the hull number on this one is succeeded by numbers of other hull items. This will give you an idea of what that component of my staff had to do in the intervening period. Also, when the ship left, they took half my staff away, and two weeks later, half of the rest of the staff left, including myself. Therefore, we could not deal with every compensation of detail after the departure of the ship.

Mr. Cafik: You talked about inspectors, Captain. You raised a very interesting point. How would the inspector ever inspect this job as being complete without getting the three parties together, as well as this document which is relatively meaningless?

Captain Lynch: The inspectors consisted of a constructor officer and several naval men.

Mr. Cafik: But how did they inspect the work? Against what specifications?

Captain Lynch: They inspected it, I would reconstruct, by reference to work sheets which they had in their pockets.

Mr. Cafik: What would these work sheets tell them?

Captain Lynch: I reconstruct that they might have had work sheets with them, Mr. Cafik. It would be the same petty officer who was in on specifying and accepting.

Mr. Cafik: Excuse me again. This petty officer who specified, how did he specify? I understood these specifications resulted from verbal commitments made between three particular people.

Captain Lynch: Yes, sir. Observing that there were 1700 additional work orders plus the original standing specification, we had something like 3000 jobs in that ship, and these jobs had to be broken down. I had a hull overseer...

Mr. Cafik: Yes, but I must bring you back to this particular contract. This is the only thing we are concerned with right now, Captain.

Captain Lynch: Yes, sir.

Mr. Cafik: Then let us confine ourselves to that.

Captain Lynch: Yes, sir. In this particular contract, I would get reports from my hull overseer, at which point I would take the responsibility of instructing that work go ahead, or stop it.

Mr. Cafik: But who inspected the job to say that it was complete, and against what standards did they make that inspection?

The Chairman: Who did the final inspection was the question.

Mr. Cafik: That is right. What instructions did he have to tell them what should have been done?

Captain Lynch: The navy has very detailed standards on such things as furniture finishing.

Mr. Cafik: Yes, but excuse me, Captain, I would presume an inspector of any kind of an operation would need to have before him some kind of documentation indicating the job that was to be done, and then look at the job to find out if indeed that work was actually done, and done satisfactorily. Now, against what standard did this inspector make that judgment?

Captain Lynch: From a technical point of view, sir, navy standards, which are printed.

The Chairman: Just a minute here. DDP should be answering these questions. They are the people who should inspect the work because they okayed the bill to be paid.

• 1010

Mr. Cafik: No, I gather that it is the navy that, in fact, decided the job was either satisfactory or not satisfactory. Is that correct, Captain?

Captain Lynch: That is correct, Mr. Cafik.

Mr. Cafik: I want to know how this man performed his duties.

The Chairman: Mr. Winch, a supplementary.

Mr. Winch: I want to clarify this, but I think it is exactly the same, perhaps in different words.

Captain Lynch, can you tell us, and I am certain this is what Mr. Cafik is driving at, how the inspector could inspect work done if it was on a verbal agreement?

Mr. Cafik: As to whether it had been done. It was on a verbal agreement.

Captain Lynch: Because we broke the job down into components of a pyramid, Sir. The Petty Officer involved with this would be involved in the construction of the job and the subsequent inspection. I dealt with the resident DDP Production Officer and the general manager of the firm. My officers communicated with the superintendents of the firm. My Chiefs of Petty Officers communicated with the formen. People knew what was agreed.

Mr. Cafik: What people knew?

Captain Lynch: In varying levels of detail, Mr. Cafik, all people. There would have been a Petty Officer on my staff who would know all about this. The hull overseer would know quite a bit about it. I would know quite a little about it. It is a matter of organization.

Mr. Cafik: I do not think we have a very satisfactory answer. Certainly, not one that I can accept at the moment.

The Chairman: I do not think we can get a satisfactory answer until we get down to a

specific case and follow it through step by step.

Mr. Cafik: I have not got this out of you yet, Captain. This cabin 4S-9 is the first one on the list. What, in fact, was done in that cabin?

Captain Lynch: I cannot answer from memory in that degree of detail, Mr. Cafik.

Mr. Cafik: Who are the people who involve themselves in this verbal commitment involving the country for $145,000.

Captain Lynch: I have the responsibility, Mr. Cafik. It was a matter of organization. You cannot take one $145,000 contract, let alone one $10 million contract, and know all the details. You have to have some trust in your staff, or to know people that you are dealing with.

Mr. Cafik: I cannot understand. You are saying that in cabin 4S-9 you in fact do not know what was agreed to be done. We have in front of us a job description which indicates that this, in fact, was done. We conclude from the job description that we have been way overcharged for the work. I think everybody would agree that that is a reasonable position to take. No one can tell us what, in fact, was done, except a vague concept that it must have been more because of the amount of money involved.

Captain Lynch: I think that you might pursue these questions with the firm, which has been invited to appear before the committee. They will shed quite a bit of light on what would have been done. I trust them.

The Chairman: Captain Lynch, the government spent the money and they asked for work to be done. We expect the government or their officials to tell this committee what they wanted done and what they agreed to pay for it. We are not going to depend on a shipbuilder. He did what you told him to do or what you agreed for him to do. We will have him before this Committee and will ask him those questions. We want to know first, before we call him, what you expected him to do and what you agreed to pay him.

Captain Lynch: There is no point...

The Chairman: We do not want anything other than that. If the government officials cannot give us that information then they are admitting that we have to depend on the shipbuilder to give us information that you should give us.

Captain Lynch: It is my recollection, Mr. Chairman, that a statement was made at the meeting last week, or Tuesday, on the numbers of cabins and the general area of work that was done there.

Mr. Cafik: But you were on the job, Captain.

Captain Lynch: I was on that job but I have been on another job for the last two years, Mr. Cafik.

Mr. Cafik: That is fine. If you want to say that you cannot recall, that you cannot give any evidence, your mind has slipped in this particular area, that is fine. I am not saying that you have to give it. All we want to do is find out what you know about it.

Captain Lynch: In my opening statement last week I explained that I could shed light on the general conditions that went on at the time, but that in matters of detail my memory may well be faulty.

• 1015

The Chairman: Mr. Cafik, will you take cabin 4S-9? Captain Lynch cannot tell us what other work was done and what was supplied to the Committee. We will ask the Department of Defence Production—whoever wishes to answer, Mr. Palmer or Mr. Wallace—and we will just stay with one cabin until we get some answers here. Mr. Palmer or Mr. Wallace.

Mr. Wallace: That depends on the type of question you want to put forward.

Mr. Cafik: May I put the question? I think I will direct it first to Mr. St. Laurent, who prepared the Department's estimate of what a reasonable price would be for this job.

The Chairman: Mr. Cafik, so that all the members of the committee will know what is in this cabin 4S-9, would you read them out?

Mr. Cafik: The items involved in the job description presented by the Navy to DDP are: a wooden secretary, a medicine cabinet, a wardrobe, and berth drawers. There are small items, sub-items, under each one little knobs and handles and things like that that we have heard a great deal of lately. In cabin 4S-9, Mr. St. Laurent, how would you arrive at an estimate of what that should have cost?

What instructions did you receive from the Navy about what was supposed to be done in that cabin? I think that is the first question.

Mr. L. E. St. Laurent (Project Officer, Shipbuilding & Heavy Equipment Branch, Department of Supply and Services): My interpretation is, and indeed the agreement of which we have been speaking, circled around item B at the top of the specification, reads:

> medium repairs to surfaces, frameset locking arrangements etc; thoroughly clean and refinish.

The Chairman: Yes, excuse me.

Mr. St. Laurent: May I continue? In my interpretation and in the agreement that was reached—and in fact I have been lead to believe that the work that was carried out—all furniture in that cabin was carried out under Item B including the specific defects that are listed under item 1 of the specification. By that...

The Chairman: I am sorry to interrupt. Is this the list of all the furniture in that cabin, or is there other?

Mr. St. Laurent: I cannot speak from first hand knowledge. However, I have looked at the general arrangement drawings and I have a list of the equipment or the furniture that is actually fitted in cabin 4S-9.

Mr. Cafik: Excuse me, I would like to ask a question on that. How do you know where cabin 4S-9 was? The last time, or the only time, I was aboard that ship there was a cabin marked 4S-9. After we had gotten into it and had seen the specifications and the money involved, people began to say that they had changed the numbers on these rooms. How did you arrive at this?

Mr. St. Laurent: At the time of this specification that cabin was physically numbered 4S-9. Since that time it has been renumbered 4S-26.

Mr. Cafik: Right.

Mr. St. Laurent: As I was saying, the furniture that is actually in that cabin is: a berth settee, including the berth drawers, a wardrobe, a secretary, a medicine cabinet, a set of metal lockers that run the complete length of the cabin, a chair which is not significant, and a book rack. Also with that are items that I have not listed which I consider to be not really significant. In that particular cabin, the one then numbered 4S-9, there is also a safe, towel racks, and small fittings of this sort. The interpretation B was meant to apply to all of those items.

Mr. Cafik: Could I now ask a question directly about that? You are building your case now, Mr. St. Laurent, on the written job description presented by the Department of Defence Production. You are not appealing in any way to any verbal instructions you received in this regard.

Mr. St. Laurent: No, Sir. I am appealing to my interpretation of the specification under the letter B.

Mr. Cafik: Yes. How do you find this consistent with what I think you said last week about preparing detailed DDP estimates of the cost, or the proposed cost, of the work? These were prepared in very finite details completely paralelling the specific equipment outlined in the job description and the specific details, such as knobs, handles, mirrors, and so on.

• 1020

I believe last week you indicated that this had been prepared at one stage when you felt it was a detailed list of all the specifics to be done. Later you discovered that, in fact, there was all of the work to be done. What caused you to change your view on this or did you not change your view? You started off with the right approach.

Mr. St. Laurent: No, my view initially was that the specific defects listed in this specification were those, and only those, that were to be carried out under X-782.

Mr. Cafik: How did you arrive at a different conclusion?

Mr. St. Laurent: After inspecting the furniture, I discovered that there were a great number of defects that were not listed in the specification. I then spoke to members of the Principal Naval Overseers staff, and with Mr. Palmer, and decided that perhaps we had better have another look at what my interpretation of the requirement actually was.

All specifications are literal transcriptions of interpretations of what is to be done. They themselves are open to interpretation. At the time I completed this, my interpretation had to be corrected. It was corrected by agreement between the Principal Naval Overseer

and the contractor, who agreed with the interpretation of the item B to apply to all furniture in all cabins.

Mr. Cafik: So what you are saying then is different from what you started by saying here today. You are saying that your interpretation of this is, in fact, not based upon item B written in the job description, but based upon your inspection of the work that should have been done?

Mr. St. Laurent: Absolutely not. I said that I changed my interpretation of the specification after I had viewed the actual physical circumstances.

Mr. Cafik: In the beginning it was implied, or I thought that you meant, that this job description itself gave the interpretation, or gave you the impression, that B meant all the furniture in the cabins and so on. But the fact is that you yourself interpreted this work description in the same way that we, as a Committee, have interpreted that work description, up until such time as you went to the cabin and had a look to find out what should have been done in 4S-9.

Mr. St. Laurent: That is an acceptable statement, Mr. Cafik.

Mr. Cafik: Is that correct?

Mr. St. Laurent: That is correct.

Mr. Cafik: Did you then visit each one of these cabins to find out what should be done?

Mr. St. Laurent: No, and I cannot tell you how many I did visit, but enough that I thought that I had a statistical appreciation of the average work that was to be carried out in each cabin. This I referred to on Tuesday as the systems level estimate of what each cabin was going to cost to do.

Mr. Cafik: Yes. You arrived there, in fact, at a price of roughly $143,000 as a reasonable estimate by taking a certain number of cabins and multiplying it out by a certain number of dollars?

Mr. St. Laurent: That is correct.

Mr. Cafik: That is the way you arrived at the estimate?

Mr. St. Laurent: That is the way I arrived at the augmentation to my original "bottom up" estimate to which I referred on Tuesday.

Mr. Cafik: I do not quite understand the "bottom up" estimate and so on. I know what you are talking about. I just do not know what it means or how significant it is. But I am asking you, how did you arrive at $142,000, if that is the correct figure? You have indicated that you have taken the number of cabins, decided what should be the average cost of a cabin, multiplied it out, and arrived at whatever thousand dollars it was. Is that correct?

Mr. St. Laurent: Essentially.

Mr. Cafik: What is wrong with it? What did you do that was different from that?

Mr. St. Laurent: It was a total appreciation of the work.

Mr. Cafik: But Mr. St. Laurent, you have indicated that the only appreciation you have of the work are two things. Correct me if I am wrong. One is a job description—which I call meaningless—and two is a visit to a few cabins in order to find out what happened, or what should be done. Now, what other basis do you have to arrive at any kind of reasonable estimate?

• 1025

Mr. St. Laurent: I would correct your words "few cabins", Mr. Cafik. There were a great number of cabins.

Mr. Cafik: All right, a great number of cabins. In any event, they seem to be the two premises from which you have built an estimate by DDP that it should have cost approximately $143,000, is that correct?

Mr. St. Laurent: I cannot get the significance of your question.

Mr. Cafik: Leave the significance to me. I think it is the facts that we want. I will work out what it means.

Mr. St. Laurent: I have described how I went about getting the estimates. I do not know what else I can say.

Mr. Cafik: I am asking you whether you based your estimates on those two factors only, or whether there were other conditions?

Mr. St. Laurent: Were there other conditions...

Mr. Cafik: Were there other factors involved in arriving at what that estimate should have been?

Mr. St. Laurent: I think I have your point. My assessment of the cost to do an average cabin, if you will accept that...

Mr. Cafik: Yes.

Mr. St. Laurent: My assessment was based on a number of factors.

Mr. Cafik: I am not asking that. I will ask that in a moment.

Mr. St. Laurent: I think you are. That was an assessment of the actual costs, or my estimate of the cost, to carry out the work in that cabin under the environmental conditions that existed at that time.

Mr. Cafik: Yes. Fair enough. Do you have any working papers that you used in order to arrive at that figure?

Mr. St. Laurent: No, I do not.

Mr. Cafik: Now I see that you looked over the ship, saw many of the cabins that were involved, sat down and then determined what should be a reasonable cost per cabin to do all of the work that you felt needed to be done. Then you took that and multiplied it by the number of cabins to arrive at a figure that was in the $143,000 category. Is that correct?

Mr. St. Laurent: Essentially, yes.

Mr. Cafik: All right. After you had arrived at that figure, I presume you then took it and went through a very elaborate—you must have gone through an enormous amount of work—procedure to come up with things like prices for knobs and other infinitesimal details.

Mr. St. Laurent: Actually, the "bottom up" estimate which was attached to the back of those working sheets was augmented that way. That is correct. However, each individual item on the recapitulation was not treated that way.

Mr. Cafik: I find it almost inconceivable how, without a phenomenal amount of real close calculating, you could ever take this multiplicity of items and backtrack it to where you got $143,000 and have the thing make as much sense as it does.

Mr. St. Laurent: I just explained that the multiplicity of items was not treated in that way. It was the back-up "bottom-up" estimate that was treated in that way. Therefore, there are only about 12 or 14 items that were in fact treated in that way.

Mr. Cafik: When you had worked out the "bottom-up" estimates on the individual details, you had no idea when you took that premise and applied it to all the work described in the job description what the total figure was going to be?

Mr. St. Laurent: Not until I had transcribed those figures back on to the lists on the specifications.

Mr. Cafik: Had you come up with a figure of $.25 million you would have gone back and juggled the figures again, would you not?

Mr. St. Laurent: Most assuredly not.

Mr. Cafik: You would not have?

Mr. St. Laurent: No sir. Pardon me. Had I come up which a figure? Yes, I would have.

Mr. Cafik: Yes. In other words your job as an estimator in this respect was to juggle the figures in these details in such a manner as to come up with a price of $143,000?

Mr. St. Laurent: No sir.

Mr. Cafik: What did you then? Tell us again.

Mr. St. Laurent: My position as an estimator was to assess the estimated cost of carrying out the work in that specification as interpreted by myself and agreed to.

Mr. Cafik: Yes. You have given us a pretty reasonable approach for arriving at that. You would look at the cabin, determine what you think it should be, and multiply it by the number of cabins. Nobody can argue about that if all the premise and the figures are correct.

However, now you are left in a terribly bad spot. You have got a work description here that bears no resemblance, or very little resemblance, to the work to be done, and you have arrived at a total figure of $143,000. Now you have got to fit this $143,000 into all these work descriptions and make it look like it means something. So you had to juggle the detailed estimates to where they worked out to your over-all figure.

Mr. St. Laurent: I think I described that error in procedure on my part on Tuesday when I said that I had augmented the "bottom-up" estimate with the systems level esti-

mate, when, in fact, I should have done the reverse.

Mr. Cafik: I am putting it in the layman's terms. The fellow out on the street wants to know, I think, whether or not the estimates that you came up with on your DDP estimates are, in fact, reflections of work to be

• 1030

done as described. You have already agreed that they are not.

Mr. St. Laurent: On the individual item basis they are.

Mr. Cafik: That is right. You are saying that the individual items and the dollar and hour figure attached have no relationship at all. You say that it is ridiculous. However, you are the man who came up with that ridiculous figure and what we have got to find out is how you got there, and why.

The Chairman: Mr. Cafik, at this point I would like to ask a very pertinent question and I hope Mr. St. Laurent will treat it as such. I am sure the Committee is wondering about this: Did your Department say to the shipbuilding company: "We want all of this furniture fixed. Give us a price"? They submitted a price of $145,008. Then, did you and your Department sit down, juggle, and work around with some estimates to come as close to that figure as you could to make it look as though, well, you had better accept that price?

Mr. St. Laurent: No, sir.

The Chairman: Well we want that understood, and I am glad you said that.

Mr. Winch: Did the company know what your estimate was?

Mr. St. Laurent: No, sir, at no time. They still do not know what my estimate is. They do now if it is in the press.

Mr. Cafik: I would think that they certainly would. If they did not, it is one of those very miraculous things that happen from time to time, in a natural way, ever to come that close on an estimate of that size involving such numerous details.

M. J. S. Glassford (Assistant Deputy Minister, Purchasing, Department of Supply and Services): I would like to make a comment on this point, Mr. Cafik. I think it is very usual that we come very close on estimating. This has been a subject we have worked on for some years to improve our estimating techniques. It is not at all unusual that we come this close to the manufacturer's or the company's estimate. Second, if we do not come close to it, it is the process of negotiation that occurs to bring the two estimates together. Therefore the end result, when we contract, should be two estimates that are close together. Otherwise we cannot have an agreement on a price.

Mr. Cafik: You raise a very interesting point that I had not really thought of. Are you suggesting that the figure of $145,008, perhaps was not the original bid by Davie Shipbuilding Limited? That it is perhaps the result of negotiations to get it to that point?

Mr. Glassford: My understanding, and I was not directly involved in this, is that this in fact was the original...

Mr. Cafik: It was the orginal in this particular case.

Mr. Glassford: Yes.

The Chairman: At this point the Committee should give consideration to the use of a consultant who will go over the repair of all this furniture and supply the Committee with a price that he feels is fair, just, and honest, to do the same work. Then the Committee would have something to compare with this amount of money.

Mr. Cafik: Mr. Chairman. The first thing that has to be done, and I certainly do not want to be nasty about this—I do not think any one of us do—but I think that the onus of proof rests on the two Departments involved to prove to this Committee that work was actually done which was not in the job descriptions. I am not saying that work was not done that is not in the job description, I rather suspect that it was, but I think that for the good of both Departments, this Committee, and the public as a whole, must have some kind of outside evidence, if we can have it, to prove to us that, in fact, these cabins were repaired in a way other than that which was described in the worksheets or described in the description. Do you not agree with that, Mr. Chairman?

The Chairman: Yes, I do. Mr. Winch?

Mr. Winch: Mr. Chairman, just one more question for clarification. Could I ask how a company estimated on repairs of all furniture in a cabin when you only gave them a

detailed breakdown—knobs and hinges, on part. I cannot quite understand why you give details like knobs and hinges on a certain amount, and no details on anything else. So there are basically, Mr. Chairman, two questions. Why do you give details right down to a knob or hinge on some furniture and no mention whatsoever on the other details? That is the first part. The second part is, how do you get an estimate from a company when you only give them details on part of the job in a cabin? I just cannot get that through my head at the moment.

Mr. Cafik: Mr. Winch, we have asked this and there is no satisfactory answer.

The Chairman: At this point, just while we decide the next question, I would like to say to the Committee that we are honoured to have a group with us this morning. We have with us Dr. Allen Barrow and a group of approximately 32 senior government students from Annandale, Virginia, U.S.A. High School, who are in Ottawa on a five-day exchange visit with Lisgar Collegiate. We welcome them to our Public Accounts Committee this morning.

• 1035

Mr. Winch: I hope they do not go away confused, sir.

Mr. Cafik: Well, if they do not, they are better than we are. That is all I can say.

The Chairman: Mr. Lefebvre. I had hoped to put an amendment here in a minute.

Mr. Lefebvre: This is directed to Mr. St. Laurent probably. I have been trying to follow this testimony and I am a little confused. However, in estimating this job, Mr. St. Laurent, did you say you went into quite a number of the cabins, made up a list of what you thought should be done, and multiplied this by the number of cabins on the ship to come to a figure of $142,000 or $143,000? Is this the way you arrived at your total?

Mr. St. Laurent: Yes, essentially that is correct.

Mr. Lefebvre: How many cabins were involved in this particular job? Did we get that figure?

An hon. Member: There were 84.

Mr. Lefebvre: Out of these 84 cabins, how many did you actually go into and make a detailed estimate of what would go on in each particular cabin that you visited?

Mr. St. Laurent: I cannot recall the specific number, sir. I am not sure that the member of the principal naval overseer's staff that I was with could either. But if I say significant, I mean perhaps 25, off the top of my head.

Mr. Lefebvre: You went into 25 out of the 84 at least?

Mr. St. Laurent: I did not say "at least" I said, "perhaps."

Mr. Lefebvre: Would all these cabins be about the same size? Is this why you only went into 25 out of the 84? Would they be approximately the same size and all have about the same amount of furniture, and so on?

Mr. St. Laurent: There are generic types of cabins: a single junior officer's cabin, a double junior officer's cabin, and a single department head's type of cabin. The actual numbers of each of those breeds I cannot recall, but it would be a representative number of those.

Mr. Winch: Do they all have safes and a complete wall line-up of lockers which is the one that you told us you...

Mr. St. Laurent: I was directed to cabin 4S-9. That was not my direction, Mr. Winch.

Mr. Lefebvre: Just one more question. If this is the way it was done—and this is what threw us off I believe—why were we given these estimates, by Mr. Wallace I think it was, detailing the work to be done in each cabin in full detail. If this is not the way they were arrived at, why was this Committee given these figures to work on for about six weeks when they did not mean a damn thing?

The Chairman: Mr. Lefebvre, may I add to your question, because I happen to have the figures in front of me, the summary of the estimates that Mr. St. Laurent prepared which are in detail and tabulated for the 84 cabins as follows:

Labour, 25,478 man hours at 5.10 hr.	$129,938
Material	$ 11,672
Profit of 7½% on the material	$ 875
Total	$142,485

This is what you gave the Committee substantiated by hours, the material, and so on,

and now the other answer you gave the Committee is that you went into "X" number of cabins, took an average, multiplied it by so much per cabin, and came up with the same figure.

Mr. Lefebvre: That is the basis of my question. Why were we not just given this figure right at the beginning?

The Chairman: The Committee has been given the two ways the estimating was done. One, in "black and white", the other one by verbal or estimate. Mr. St. Laurent, I think you should clear the Committee on this. We are asking Mr. St. Laurent. He is the man that did the estimating, and I think the Committee should be told which one of these ways or types of estimates we should accept.

• 1040

Mr. St. Laurent: Mr. Chairman, I think I started on Tuesday morning by saying that my role in the *Bonaventure* project was supportive. I had not been the project officer on this particular contract and these working papers were my own property. There was a copy of them on the file, of course. When they were given to the Public Accounts Committee's steering committee, they were given in good faith and they were acted upon by that committee without my interpretation as to what they meant. Had this interpretation been given, then this explanation would have been evident at that time.

Mr. Cafik: Excuse me, as a point of order. I do not think that is a proper statement, Mr. St. Laurent. You had ample opportunity to present to us your views of how this estimate took place, or to what its meaning was. You were present at our meeting in Halifax. You were present on our tour of the ship, of which I was the Chairman of the subcommittee involved. You were asked many questions about it, and you came forward with not the slightest shred of information indicating what you are now presenting to this Committee.

Second, and this was brought up after the last subcommittee meeting and I think it is important for everyone to be aware of this, in the many original subcommittee meetings that we held in the Department of Defence Production—if that was the right department—details as to the approximate average costs for furniture items were brought forward at that time to everyone present. This is, in fact, how we got into this greater in-depth discussion.

I took home some original figures and contracts which I had before, put them through an adding machine, and found out that when you averaged it out you come up with totally absurd figures for infinitesimal little jobs like knobs and so on.

Everyone was aware of that approach and of that detailed look at things before we even got near Halifax and before you were brought into the picture. I think it is incorrect and misleading to present to this Committee, at this stage of the game, that no one had given you an opportunity to present this kind of information you are bringing forward to us at the present time.

Mr. St. Laurent: When I made my last statement, Mr. Chairman, I did not use the pronoun "we", referring to the department, I used the pronoun "I". My statement is still correct.

Mr. Cafik: You had plenty of opportunity when we were in Halifax, Mr. St. Laurent. Is that true?

Mr. St. Laurent: Mr. Wallace has stated, and I think quite correctly, that those circumstances were not such that I could give any kind of an explanation that would be acceptable.

Mr. Cafik: Because you were upset.

Mr. St. Laurent: Because I was upset.

Mr. Cafik: All right. Now, were you upset the following day when we flew back from Halifax? Or was it that evening? It was the same day I think, yes.

Mr. St. Laurent: I did not feel that we were in meeting when we flew back from Halifax.

Mr. Cafik: No, but I would certainly think if I were in your position and you had thought that a whole committee was under a misapprehension, whether we were in a meeting or not, I would certainly have taken some steps to inform them. Do you not think that you should have done the same thing, if you felt that way?

Mr. St. Laurent: In retrospect, yes, but at that particular time, no.

Mr. Cafik: Did you ever write or communicate with anyone in this Committee between that time and now about any misapprehensions in this regard?

Mr. St. Laurent: No sir, I did not.

Mr. Cafik: Did anybody else in the Department of Defence Production?

Mr. Wallace: Mr. Chairman, I think that question should be directed to my Deputy Minister.

The Chairman: The normal chain of events, I suppose, would be for Mr. St. Laurent to write a letter to his superior, which would be you Mr. Wallace, and you in turn would send it on to the Deputy Minister. Now the question was, was any letter written immediately after our return from Halifax when you felt you had mislead the Committee, or had given misinformation, or that we had misunderstood? Did this chain of letters take place?

Mr. Hunter, did you receive a letter from any of these people?

Mr. G. W. Hunter (Deputy Minister, Department of Supply and Services): I received a call on the night that Mr. St. Laurent arrived home. I received a call from Mr. Wallace. We met over that weekend to review the files and to see what had happened. Mr. Wallace and Mr. St. Laurent both recalled this story, that much more work was done, but they said, looking back three years at the time, it was very difficult to think of all the circumstances and what you might say in front of 10 or 12 news people.

• 1045

They worked over that weekend and Mr. Wallace went back personally to confirm that all of this additional work was done. I asked him to do this before we made any statement. We did not feel, as I said the other day, that we should make it to the press, but that we would make it at the first opportunity we had before this Committee.

Most of the time, Mr. Cafik, has been spent in checking out what Mr. St. Laurent and Mr. Wallace have told you this morning. I feel that we should not have made this statement, and I asked them to check it out so that before I, or they, made any statement, it would be, in fact, true. I believe what they have said and I have confidence in them.

Mr. Cafik: I would like to ask a question of Mr. Cross, if I may, or of the Auditor General's department. How do you go about performing your function in auditing books of this nature if, in fact, the written details involved supporting evidence from three years back are kept in somebody's head? How do you perform your auditing function? Do you feel that this is a satisfactory way of operating? Or, to put it more accurately, do you expect when you look at a job description related to the amount paid that one in fact is a description of what is to be done?

Mr. A. G. Cross, (Auditor, Auditor General's Office): We have the same problem you have. We rely to a great extent on what is written, what we find in the files. If we were to strike this problem we would have to go through the same sort of exercise you are going through yourself—going back to the people in the department and asking for explanations and trying to get one that sounds reasonable.

Mr. Cafik: Mr. Chairman, at this stage we are coming to, I want...

Mr. Winch: May I ask a question of Mr. Cross? In view of what you have just said, I presume—that you discovered the same problem that is now bothering the Committee. Did you go back and ask about whether or not there was anything of a verbal nature which was not included in any written document? If so, what explanation did you get? Were you satisfied with verbal explanations and verbal contracts?

Mr. Cross: We did not get into the *Bonaventure* contract in this depth, so we did not come across this furniture section of the work.

The Chairman: Mr. Mazankowski, you have a question. When you are finished I would like to present to the Committee for its passing the resolution. Mr. Mazankowski?

Mr. Mazankowski: Thank you Mr. Chairman. I would like to direct a question to Captain Lynch. He has used the word "red tape" in his submissions on a number of occasions, and has stated that many of the verbal agreements came about as a result of getting around "red tape" to expedite the flow of work. I wonder if he could elaborate on just what he means by "red tape", his interpretation of it, and just what, in fact, did he eliminate by going through the verbal agreements which he had pointed out earlier.

Captain Lynch: The use of the term "red tape" might be unfortunate, Mr. Chairman.

The Chairman: It is used every day, Mr. Lynch. We do not mind it.

Captain Lynch: In the application that I intended, it meant getting the paperwork perfect before getting the job perfect. I gave priority to the job. Concerning how this paper should have been changed, for example, there is a "B" against each of those items. There should only be one "B" against the cabin. I let this slip by me.

Another thing is that if you visualize something in your own home, a chest of drawers where the varnish is scratched, you decide to touch it up. You end up saying you may as well finish that whole chest of drawers. By the time you have done that, it does not look the same as the old varnish on the next chest of drawers. It is a bit touched up too, so you touch up that.

At my first testimony I stated that I wished this specification had either been more detailed or less detailed. It is an unfortunate degree of detail in a specification. We worked

• 1050

it up to this amount of detail and then decided we might as well finish all the furniture to levels A, B and C, as specified at the top of the page. At this point we carried on with the job and, unfortunately, I did nothing to correct the specification.

As I say, my staff was heavily engaged, and the baby disappeared with the bath water.

Mr. Mazankowski: How large a staff did you have as principal naval overseer?

Captain Lynch: As I recall I had approximately 15 under my direct control. I will not swear to this number or the next number. I had approximately 20 people on loan to me from the ship's company and these people had ship's duties in addition. They had two bosses and sometimes they ebbed and sometimes they flowed back. The staff was about 35. This includes all the trades that you will note. For example, H stands for Haul. This is a Haul item. I used Haul technicians and a constructor officer on this type of job.

Mr. Mazankowski: I have one further question. I do not know who might answer this question. Is the elimination of the so-called red tape quite a common occurrence in the handling of contracts of this nature?

Captain Lynch: I should like to volunteer. This was a crash job, as the job multiplied in front of us.

The Chairman: We can underline that word "crash".

Captain Lynch: It is the biggest industrial job of this type that has ever been done in Canada in such a time. There was more red tape cutting, if I may use the expression, in this job. If I was sent to do the job again, I would not do much different except little specifications like this.

Mr. Cafik: I think that is a pretty frightening thing if you would proceed the same way.

The Chairman: I do not think we would like to accept that.

Mr. Cafik: Mr. Chairman, before you go through with the actual motion that I have before the Committee, I would like to make a couple of comments before we conclude. I have made one of them before. I believe that both departments have an obligation to present to us some kind of proof that this extra work, which they maintain was contracted in a verbal way, was in fact done. If you cannot conceive of some way in which to do that, then I believe it is our obligation as a committee to find out some way in which we can prove it one way or another.

Second, I think that when we bring our legal adviser in, Mr. Chairman, we ought to give some consideration as to whether Davie Shipbuilding Limited was, in fact, legally obligated to do any work other than that which was described in the job description. If they were not legally obligated, then these verbal arrangements that were apparently entered into by the Department are indeed very dangerous.

Third, and these next are tentative conclusions, I believe the Committee has to be extremely critical of the Department of National Defence for the job descriptions that were prepared. I do not think that we can conclude anything else.

Fourth, the estimating technique is absolutely disgusting as far as I am concerned. I think we certainly have to make a recommendation whereby that can never happen again, as far as we are concerned.

Fifth, there was no adequate base for the inspection of the work to be done or the work after it was done. I can see no satisfactory way that we can be assured the job was actually done the way it was supposed to be done, so we could question whether we got the right job for our money.

Sixth, I think we must recommend that the way of entering into this kind of verbal agreement will not happen in the future.

Mr. E. B. Armstrong (Deputy Minister, Department of National Defence): Mr. Chairman, may I just say a word? I do not know whether the subcommittee examined it or not, but you are aware, Mr. Cafik, that there is a complete listing. It is called a Defect List. It is a composite of the naval overseer's staff, the ship's staff, and so on.

• 1055

They go through each of these jobs and certify that the work has been done or has not been done. It is available in the Department. If you have not seen it we are quite prepared to produce it.

Mr. Cafik: The point that we brought out here today, Mr. Armstrong, is a very important point. It is that there does not appear to be any rational way in which anyone can judge whether this job was in fact done or not done.

Mr. Armstrong: I think, Mr. Cafik, if I might say so, I agree with you to a degree, and I think Captain Lynch does. This specification tended to be rather badly written but, in fact, the specification did call in terms of the A, B and C listings, which were shown against the cabins, what was required under B.

The problem arose in relation to the detailed listings of the specification, a question of interpretation, of whether or not B applied to the full cabin. It has been explained here that the understanding between all the parties concerned, the Navy, the Department of National Defence, the Department of Defence Production, and the shipbuilders was that the whole cabin was to be refinished. You have asked us to prove whether it was or not. We have inspected it. We have our Defect List. I think if you want to see it, even now two years later, you can take a look.

In fact, you were in the cabin. I think you probably recognized that all the furniture had been refinished. You know the furniture had not been touched for 10 years. The ship is 10 years old. Did it look as though it had been worn for 10 years?

Mr. Cafik: Yes, it certainly did.

Mr. Armstong: Did it really?

Mr. Cafik: I would say that it looked like it had been badly worn for 10 years. I saw very little evidence...

Mr. Armstrong: This has been used for 20 months. From the pictures I have recently seen—I unfortunately did not go on the trip with you—it seemed to me the furniture had been all refinished.

Mr. Cafik: I have seen the pictures but I have never seen a cabin that looked like any those pictures.

Mr. Armstrong: I do not know how to prove this now. Perhaps I can find somebody who had served on the ship before and then went back on it afterwards. He might say he could certify it was all refinished. I could do that for you.

Mr. Lefebvre: This is a good point.

Mr. Cafik: I think it should be done.

Mr. Lefebvre: I think it is a very good point to have an officer that was in a particular cabin—maybe this 4S-9 that has been changed to 4S-26, or one of these cabins—come here and say just what you have been saying.

Mr. Armstrong: If I can find him I would be happy to bring him.

The Chairman: Mr. Wallace, we will take a word from you and then Mr. Cafik put your motion.

Mr. Winch: I have just one question first which I think is rather important.

The Chairman: All right, Mr. Winch.

Mr. Winch: It deals with the motion. I know that all members want to be exceedingly fair. In principle, from all that we have heard, I certainly agree with the resolution of Mr. Cafik's. However, Mr. Chairman, I think we have to be absolutely fair and lean over.

I believe that although we have strong feelings on this now we should wait until we have the Davie shipyards before us and question them on this specific item of the resolution. Having gotten what they will have to say about this specific matter, if we are not satisfied, then we should pass the motion. Mr. Chairman, and Mr. Cafik, do you see my point?

Mr. Lefebvre: I agree.

Mr. Winch: I believe that we should not put this at the moment. It should be one of our specific inquiries of Davie and then, if we are not satisfied, that is the time to move the motion.

The Chairman: What is the wish of the Committee? Do you wish to postpone the motion until we hear from Davie Shipbuilding Limited?

Mr. Cafik: I do not think that it is a matter of any particular importance as to whether we pass this motion today, tomorrow, or any other day. I do not mind one way or the other. I would hasten to point out, however, that I cannot see what effect whatever Davie Shipbuilding Limited has to say about this could have on what we have to say.

We are basing our judgments on the basis of those job descriptions. The two items, according to the descriptions involved in both, are, in fact, the same items. This Committee has already concluded that they are the same items.

I am quite willing. I do not mind if we pass this at the end of the whole hearing. It does not matter. It is only a small amount of money and perhaps we might get the interest in the interim. I do not know.

Mr. Winch: I just wanted to ensure that there cannot be any question of this Committee making a decision which might be considered unfair without hearing the other witnesses. That is the only reason I raised this.

Mr. Cafik: I do not want you, Mr. Winch, to indicate—and I know you do not believe this—that we have only given a half-hearted

• 1100

look at this particular problem. We have had a couple of meetings on it. All sides that were involved in the drawing of those specifications have had an opportunity to present their views without any hesitation.

Mr. Winch: I am in favour of the motion. It is just that I want to make that we are not subject to criticism.

Mr. Cafik: As a matter of fact, some have indicated that they suspect...

The Chairman: Gentlemen we have to make a decision here. Mr. Cafik has stated that we have heard all the evidence regarding the moving of these chairs and the sum of money charged for doing it. The evidence has been that the chairs were moved only once, but charged for twice, and the motion is drafted along that line. If the motion is passed now, there is no reason why it could not be rescinded later on if the Davie people could convince the Committee otherwise. Therefore, I would ask the Committee: Do you care to move the motion now, or do you want to wait until we hear from the Davie people?

Mr. Cafik: I am willing, Mr. Chairman. I certainly want to give every opportunity to every person. If Davie shipyards feel that it would be in deference to them that they have an opportunity to speak, by all means. I am quite willing to give them such an opportunity.

The Chairman: Those in favour of calling the motion now?

Mr. Cafik: No, I withdraw the motion and I will wait until Davie has had an opportunity. I do not see anything wrong with that at all.

The Chairman: All right. The consensus of the Committee is that...

Mr. Cafik: If it makes you feel better.

The Chairman: We will hold the motion until we have heard from the Davie Shipbuilding people.

Mr. Wallace, you wanted to say something and then we will adjourn.

Mr. Wallace: I just wanted one word, Mr. Chairman. Mr. Cafik has said that he felt it was the responsibility of the Department of National Defence and my Department to prove one way or another that the furniture in the various cabins was, in fact, refinished.

I would like to say that I was aboard the vessel for three or four days while it was coming up to Quebec City. I certainly was not aboard specifically for that purpose, but I was aware of the condition of the equipment. As Mr. Hunter said, before we made a statement to this Committee in terms of what was actually done, I went to Halifax a few weeks ago and personally went through over 50 or 60 per cent of every one of the cabins.

I do not know whether you are prepared to accept the photographic evidence I have, or my own personal word about it, but there was every evidence to me that the significant pieces of furniture—when I say significant, I mean major pieces of furniture—in all of

these cabins had been, in fact, professionally finished inside and out. When I say "inside" I mean that I went to the trouble of pulling out drawers and opening cabinets and wardrobes to ensure that, if we were to provide the Committee with this information we would not, perhaps, again mislead you.

The Chairman: We accept that, Mr. Wallace. We are more concerned about the price you paid for fixing it. We want to know, first, if it was fixed. Our main concern is this professional price you paid for having it fixed. This is our exercise, really. We shall continue at this point next Tuesday morning.

The Queen's Printer, Ottawa, 1969

HOUSE OF COMMONS

First Session—Twenty-eighth Parliament

1968-69

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: Mr. A. D. HALES

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 34

TUESDAY, MAY 6, 1969

Public Accounts, Volumes I, II and III (1966 and 1967)
Reports of the Auditor General to the House of Commons (1966 and 1967)

WITNESSES:

(*See Minutes of Proceedings*)

20287—1

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. A. D. Hales

Vice-Chairman: Mr. T. Lefebvre

and Messrs.

[1] Boulanger,	Guilbault,	Noble,
Cafik,	Harding,	Noël,
Crouse,	Leblanc (*Laurier*),	Rodrigue,
Cullen,	[4] Major,	Tétrault,
[2] Flemming,	Mazankowski,	Thomas (*Maisonneuve*),
[3] Guay (*Lévis*),	McCutcheon,	Winch—(20).

(Quorum 11)

Edouard Thomas,
Clerk of the Committee.

Pursuant to Standing Order 65(4)(b),

[1] Mr. Boulanger replaced Mr. Yanakis on May 5, 1969.

[2] Mr. Flemming replaced Mr. Knowles (*Norfolk-Haldimand*) on May 1, 1969.

[3] Mr. Guay (*Lévis*) replaced Mr. Trudel on May 1, 1969.

[4] Mr. Major replaced Mr. Roy (*Timmins*) on May 1, 1969.

MINUTES OF PROCEEDINGS

TUESDAY, May 6, 1969
(36)

The Standing Committee on Public Accounts met this day at 9.37 a.m., the Chairman, Mr. A. D. Hales, presiding.

Members present: Messrs. Cafik, Crouse, Cullen, Hales, Harding, Lefebvre, Major, Noble, Noël, Rodrigue, Thomas (*Maisonneuve*), Winch—(12).

Witnesses: Mr. E. B. Armstrong, Deputy Minister, Department of National Defence; Mr. G. W. Hunter, Deputy Minister, Department of Supply and Services; Mr. G. R. Long, Assistant Auditor General; Capt. J. A. M. Lynch, Capt. J. W. Maxwell, Cdr. A. E. Fox and Lt.-Cdr. R. B. Dunlop, from the Department of National Defence; Messrs. R. D. Wallace, L. E. St. Laurent and I. J. L. Palmer, from the Department of Supply and Services.

The Committee questioned the witnesses concerning contract X782 which covered furniture repairs.

The Committee agreed to accept a summary of Department of Defence Production estimate of cost of additional-work-arising X782, by cabin, as an appendix to this day's proceedings. (*See Appendix H*)

At 11.00 a.m., the Committee adjourned to 8.00 p.m. this day.

EVENING SITTING
(37)

The Standing Committee on Public Accounts met again this day at 8.08 p.m., the Chairman, Mr. A. D. Hales, presiding.

Members present: Messrs. Boulanger, Cafik, Crouse, Cullen, Flemming, Hales, Lefebvre, Major, Noble, Noël, Winch—(11).

Also present: Mr. Bigg.

Witnesses: As for the morning sitting.

The Committee questioned the witnesses concerning contracts X-784 and X-1237.

The Committee agreed to accept the following as appendices to this day's proceedings:

a) Department of Supply and Services letter to Davie Shipbuilding Ltd., dated April 3, 1969; (*See Appendix I*)

b) Davie Shipbuilding Ltd. reply, dated April 16, 1969. (*See Appendix J*)

Moved by Mr. Cafik, and

Agreed,—That representatives of the de Havilland Aircraft of Canada Ltd. be called to appear before the Committee and that they, as well as representa-

20287—1½

tives of the Davie Shipbuilding Ltd., be paid reasonable living and travelling expenses.

At 10.26 p.m., the Committee adjourned to the call of the Chair.

Edouard Thomas,
Clerk of the Committee.

EVIDENCE

(Recorded by Electronic Apparatus)

Tuesday, May 6, 1969

• 0938

The Chairman: Gentlemen, if you will come to order we shall proceed. First of all, I would like to welcome back to our Committee this morning our Auditor General, Mr. Henderson who, as you know, is a member of the Board of Auditors of the United Nations. He has just returned from Europe where they have been doing an audit. We welcome you back this morning, Mr. Henderson.

I would also like to report to the Committee what our steering committee decided at our last meeting, and it was this: We would like to complete today, even if we have to meet tonight at 8 o'clock, the hearings and the evidence from the Department of Defence Production and the Department of National Defence on the contracts relating to the repairs of the furniture.

On Thursday, May 8, we were to have had the officials of Davie Shipbuilding Limited with us. That was your request. However, I took it upon myself to allow them to postpone that appearance until the following Tuesday. They had made commitments that they could not break and asked if they could come the following week. I agreed.

That will leave Thursday's meeting of this week open, if we finish the furniture business, and I thought we would go on to the hydrofoil. Mr. Winch has a number of questions he wants to ask concerning that, chiefly with respect to the fire. If we proceed along these lines perhaps we should have an official

• 0940

from de Havilland here for that meeting. This we will decide when we have seen how we progress with the culmination of the furniture study.

Therefore, the following week, May 13 and May 15, we will have Mr. Lowery, president of Davie Shipbuilding Limited, and Mr. Veliotis, vice-president and general manager, before the Committee.

It was also decided that we would wait until we have heard from the witnesses of the shipbuilding company before hiring the consultant engineer that the Committee has been given authority to hire.

I think that is all, Mr. Clerk, about our steering committee. Mr. Winch.

Mr. Winch: Have we received any information yet whether or not the special report of the seven auditors, which was to be filed with the Department on May 5, has been received and if so, what arrangements are being made to have that available for this Committee?

The Chairman: Mr. Hunter, could you enlighten the Committee in this regard? Yesterday was May 5.

Mr. G. W. Hunter (Deputy Minister of Supply, Department of Supply and Services): Yes, Mr. Chairman. We received a preliminary report yesterday. We are checking with the Department of Justice the section in our act which requires that no information be made public without the permission of the contractor—which he has not given, as a matter of fact. We are checking out several other additional comments by the cost auditors regarding supplementary information which we had asked for. We are in the course of checking that this morning. We are getting a legal opinion today and I would hope I could report later at the next meeting.

Mr. Winch: May I ask a supplementary? Did I understand that the contractors have refused permission for this to be made public, the report of the seven auditors?

Mr. Hunter: No, sir. It is the detailed information regarding the cost, the various breakdowns of costs. We will be able to give you the certification of the total cost of the audit and the profit made without any difficulty. It is a case of how much information can be made public concerning the details, which are considered to be confidential to any shipbuilder and which he would not want other shipbuilders to have.

The Chairman: Mr. Hunter, when you are drawing these conclusions about the confidentiality of it, I would ask you to keep in mind that the Committee would be glad to hold a meeting in camera if this would assist.

Mr. Hunter: Yes, sir.

The Chairman: Mr. Cafik.

Mr. Cafik: In that audit was any consideration given to the problem raised by this Committee of the duplication, or apparent duplication, of contracts X-81 and X-427?

Mr. Hunter: There was no comment on it, sir.

Mr. Cafik: No comment?

Mr. Hunter: No.

The Chairman: Gentlemen, we will proceed with what is known as contract X-782 in the amount of $145,008. We were just concluding this at the last meeting.

During the comments that were made, Mr. St. Laurent, the estimator of the costs of repairing the furniture, intimated that some of the estimating had been done on a basis of looking at so many cabins and sort of striking an average for the cost of each cabin. I have before me a summary of the Department of Defence Production estimate of cost of additional work arising by cabin, and I would like to table it as an appendix of our proceedings.

It shows that the average cost per cabin was $1,697. That was the estimate cost. The average cost per cabin was $1,726, which was actually paid to the Davey Shipbuilding people. I think the Committee should have that in their minutes and we will table it.

Yes, Mr. Cullen.

Mr. Cullen: Excuse me, Mr. Chairman.

• 0945

Does that give what was done in each individual cabin?

The Chairman: It gives an average. For instance, Mr. Cullen, it says that cost of repairing furniture in individual cabins was in a price range of $2,000 to $2,500. There were 17 cabins at a total cost of $38,633.

Mr. Lefebvre: Mr. Chairman, that price of $1,726 per cabin. Does that include finishing the walls or ceilings or floors or just the contents?

The Chairman: This is just repairs to the furniture.

Mr. Lefebvre: It has nothing to do with the actual cabin itself?

The Chairman: I will say that this was prepared for the Committee by the Auditor General's staff. Mr. Cross gave this in answer to a question that was asked of him.

Mr. Hunter: Mr. Chairman, those were prepared from the original detailed estimates. We had rechecked and found that there were a number of additional cabins which were also done, and it brings the cost per cabin down, not substantially, from $1,700.

The Chairman: This deals with 84 cabins.

Mr. Hunter: Ours deal with 92 cabins.

Mr. R. D. Wallace (Associate Director, Shipbuilding & Heavy Equipment Branch, Department of Supply and Services): There are exactly 92 cabins on that list, Mr. Chairman.

The Chairman: The Committee was supplied with material and evidence to start with indicating there were 84 cabins. We had nothing else to work with than those figures and that is what was arrived at. Now you say there are 92.

Mr. Hunter: Ninety-two cabins, sir.

The Chairman: This brings up the fact again that we did not get the right figures to start with.

Mr. Lefebvre: It was Mr. St. Laurent who was in charge of this whole thing. He stated last meeting in reply to one of my questions that there were 84 cabins and he had visited approximately 25 of them. Was he in charge of the extra eight cabins that you found since that time?

Mr. Wallace: Mr. Chairman. I believe Mr. St. Laurent mentioned that there were 83 or 84 cabins actually listed on X-782 where there were individual repairs to be done. I do believe that he stated earlier that this particular specification called for the repairs and refinishing to furniture in cabins, period. There were nine cabins not on the list.

In other words, there were nine cabins that did not require any specific repairs to the furniture, but were required to be refinished in accordance with the interpretation that we had with the company and the navy. There were, in fact, 92 cabins under this particular order and our estimate calls for the work per cabin to be $1,576.

The Chairman: Mr. Wallace, all I can say is that the documents supplied to the Committee by Mr. St. Laurent and yourself, as outlined here, state that there are 84 cabins. The estimate was figured on the basis of 84 cabins.

Mr. Winch: Maybe it was part of his verbal agreement that we heard about last week.

The Chairman: Mr. Cafik, could we finish up this contract X-782? Do you have some questions?

Mr. Cafik: At the last meeting, Mr. Chairman, I had suggested that it was up to the Department of Defence Production and the Department of National Defence to prove—I thought the onus of proof was on the two departments—that, in fact, work was done in these cabins that was not described in the work orders or on the job description sheets. In talking to Mr. Armstrong prior to this meeting, I understand that you have some kind of evidence along this line. Is this correct?

Mr. E. B. Armstrong (Deputy Minister, Department of National Defence): As I think I said at the last meeting, in the defect list, which is a list that is finally worked out by all those concerned in the refit, there is no evidence that this work was not done. Therefore, I think we would assume from the documentation that the work had been done. Now admittedly, there is the interpretation of what the specification is. In addition to that you have, I think, indicated at the last meeting it might be helpful if we could bring some independent evidence here as to the work having been done. I have asked, as a consequence, to have a couple of officers from the

• 0950

Bonaventure. One is an officer who served on the *Bonaventure* before it went into refit, and afterwards, and in fact occupied the same cabin. He is Lt. Cdr. Dunlop. The other officer did not serve on the *Bonaventure* before it went into refit, but became the Executive Officer after the refit was completed. He is responsible, among other things, for the living conditions on the ship. He is Commander Fox. They are both here this morning if you would like to ask some questions.

Mr. Cafik: Yes, I think I would, but prior to doing that I would like to pick up one point that you made.

You mention that the defect list did not indicate that this job was not done, and therefore there ws no reason to expect that it was not. I would like to ask you this question, and I think the answer is quite obvious. Do you consider that everything which is not listed on the defect list in regard to that ship was actually repaired?

Mr. Armstrong: This is obviously a problem, Mr. Cafik, but I have been led to understand by the evidence and by the men who were involved that the interpretation of the specifications—admittedly it is open to different interpretations and reading—was that the furniture in the officers' cabins was in fact, to be refinished. It was not limited to the special items that were listed. This, in fact, was the kind of work that was done. There was inspection on that basis.

Obviously, this is an interpretation that depends to a degree on the verbal agreement among the parties concerned; the Naval Overseer's group, the shipbuilder, and DDP who made the contract. I think that was all discussed last week.

Mr. Cafik: I think you are bringing up one other point to which I would like a very specific answer, if I may possibly have it.

You are now familiar with these estimates, "bottom up" "sideways", and any kind of description you would like to give for these obviously meaningless descriptions and apparently meaningful estimates. I do not know how you would relate those two without being too sarcastic. Will you inform this Committee about whether or not you yourself, as the one primarily responsible for the Department that drew up this estimate and job description and so on, are satisfied that they did the right thing?

Mr. Armstrong: When you ask, am I satisfied they did the right thing...

The Chairman: Mr. Armstrong, I would like you to keep it as short as you can.

Mr. Armstrong: I think the answer is that, obviously, the paper work could have been substantially improved. I do not think there is any doubt about this. In saying that, I recognize at the same time that the Naval Overseer's staff in this particular circumstance was very heavily overworked. They had to get the job done in a hurry because it cost money to delay it. I think under the circumstances it is perfectly clear that the work did suffer. I do not think there is any question about that.

The correction to this might lie in several areas. I think it probably lies in the fact that

the Naval Overseer's staff was inadequate, and in a job of this kind in the future, I believe we would have to have a more adequate staff if it were to be done in this way and we were to avoid having these kinds of deficiencies, in terms of proceeding with the job. I am saying the Naval Overseer's staff was responsible in this area, not the ship's staff, which is another question that we discussed earlier.

Mr. Cafik: I wonder if we could call Lieutenant-Commander Dunlop and Commander Fox.

The Chairman: Yes. Lieutenant-Commander Dunlop and Commander Fox, will you please take the stand. Have you specific questions to ask, Mr. Cafik?

Mr. Cafik: Yes, sir, I have.

Lieutenant Commander Dunlop, you are the officer who was aboard the ship occupying a particular cabin prior to the refit, and the same cabin after the refit; is that correct?

Lieutenant Commander R. B. Dunlop: Yes, sir.

Mr. Cafik: All right; would you care to give us the number of that cabin?

Lt. Cdr. Dunlop: After the refit it was 4 sierra 14.

• 0955

Mr. Cafik: 4 sierra 14. We do not have any job descriptions here for a cabin, 4 sierra 14, I do not think.

Lt. Cdr. Dunlop: 4S-14.

Mr. Cafik: I do not see it listed in the Department's estimates. What was the number before?

Lt. Cdr. Dunlop: Unfortunately, sir, I cannot remember what the number was prior to the refit.

Mr. Cafik: I thought you just gave it two different numbers?

Lt. Cdr. Dunlop: No, S and sierra are the same thing.

The Chairman: Mr. Cafik, let us ask Mr. St. Laurent to come forward and to talk with Mr. Dunlop so that they may establish the cabin, what its number was before the refit—which should appear on our sheet—and whatever its number was afterwards.

Lt. Cdr. Dunlop: I have it here now, sir.

Mr. Cafik: All right; what was the number prior to the refit?

Lt. Cdr. Dunlop: 4 sierra 2, or 4S-2.

Mr. Cafik: 4S-2?

The Chairman: What page is that on?

Mr. Cafik: That is on page 3 of the DDP estimates.

You were in 4S-2 prior to the refit, Lieutenant Commander Dunlop. Would you describe that cabin for us? What kind of furnishings were in it.

Lt. Cdr. Dunlop: Yes, sir. It was a double bunk cabin with one set of drawers and a desk.

Mr. Cafik: You say a desk. Is that what we call a "secretary"?

Lt. Cdr. Dunlop: Yes, sir, but it was split into two sections in this particular case.

Mr. Cafik: It was a double secretary?

Lt. Cdr. Dunlop: It was a single secretary but it was split in two pieces.

Mr. Cafik: I do not know what that means. Was it a metal one?

Lt. Cdr. Dunlop: Yes.

Mr. Cafik: Were there any other secretaries in that cabin?

Lt. Cdr. Dunlop: No, sir.

Mr. Cafik: We have concluded that you were in fact, in cabin 4S-2. On page 3 of the DDP estimates this secretary is described as a wooden secretary. You tell us it was a metal secretary. How do we marry these two ideas together?

Lt. Cdr. Dunlop: I am sorry sir, if I have a drawing I can show you the number. I have been off the ship for a year now, and...

Mr. Cafik: Just a minute Lieutenant; I think it is quite important that we have some ideas of whether or not you know what you are talking about. You are telling us that it was 4S-2. Now we find that you tell us something and the facts do not tie in with what you say. You were wrong. This is the second time in as many minutes that we have got ourselves into this kind of box.

Lt. Cdr. Dunlop: The cabin number after the refit, sir, was 4 sierra 14.

Mr. Cafik: Yes. What was it prior to that?

The Chairman: He said that it was 4S-2. Mr. St-Laurent, will you show Lieutenant Commander Dunlop 4S-2 and a list of furniture that was to be repaired, as given to the shipbuilders.

Mr. Cafik: Yes, let us start from the beginning again.

Mr. L. E. St-Laurent (Project Officer, Shipbuilding & Heavy Equipment Branch, Department of Supply and Services): If I may, Mr. Chairman, I have a correlation between the old and the new numbers. The present 4S-14 was 4S-3, not 4S-2.

Mr. Cafik: It was 4S-3. Where did you get this correlation?

Mr. St-Laurent: It was obtained by comparing the old and the new general arrangement drawings.

The Chairman: May I just wait until we get the page where 4S-3 is described? Have we found that in the estimates? Mr. St. Laurent, can you give us the page number?

Lt. Cdr. Dunlop: Page 5, sir.

Mr. Cafik: 4S-3 is item 23, or the 23rd cabin and is described on page 6.

• 1000

We have found another inconsistency, they have numbered the pages differently for each of us I guess.

The Chairman: Let us get it correct now. 4S-3 is the number that appears on the requisition sheet. If we went to the ship today, we would find above the door what number?

Lt. Cdr. Dunlop: 4S-14.

The Chairman: Mr. Lefebvre?

Mr. Lefebvre: May I just ask a supplementary question? What would the reason be for changing the numbers of the cabins? Would that not confuse a hell of a lot of people, including us?

The Chairman: The question is: why were these cabin numbers changed? Who can answer?

Commander A. E. Fox (Executive Officer, HMCS Bonaventure): The cabin structure was modified in that some new cabins were added and some other spaces were taken away. This possibly could have caused a re-arrangement of numbers.

Mr. Crouse: Mr. Chairman, do you have a spare copy of this maintenance report?

The Chairman: I am sorry, Mr. Crouse, we do not. There was such a large number of sheets we did not have it run off. If we had known we were going to get into such detail I can assure you we would have had it done. Will you bear with us this morning? If we are going to continue, we will have these run off.

Mr. Noble: Mr. Chairman. I think it should be made known that only the people on the steering committee have these copies. We are sitting here in the dark. We do not have any of this information.

The Chairman: Yes, that is quite true.

Mr. Cafik: We have found a cabin that does, in fact, have a metal secretary, so it sounds a little better in any event. What was wrong with the furniture? You were in that cabin prior to the refit. What specific things were wrong with the furniture?

Lt. Cdr. Dunlop: The only specific thing which I can remember, sir, was that the dropleaf on the desk would drop below the horizontal. I had to stick a ruler underneath it to hold it up.

Mr. Cafik: What allowed it to drop past its proper position?

Lt. Cdr. Dunlop: I really do not know, sir.

Mr. Cafik: Are there chains on the sides of the metal secretary?

Lt. Cdr. Dunlop: There were none prior to refit.

Mr. Cafik: There were none prior to the refit. This is something that was added during the refit?

Lt. Cdr. Dunlop: I cannot answer that question, sir. There were no chains on my particular desk.

Mr. Cafik: Had you been in other cabins while you were aboard.

Lt. Cdr. Dunlop: No, sir. However, I did visit in other cabins.

Mr. Cafik: I would presume you are normally observant. Do you know whether there were chains on other dropleaf desks?

Lt. Cdr. Dunlop: Possibly, sir.

Mr. Cafik: You never noticed any?

Lt. Cdr. Dunlop: No.

Mr. Cafik: I wonder, Mr. St. Laurent, would you tell me whether or not those metal secretaries have dropleaf chains to stop them from going past their normal position?

Mr. L. E. St. Laurent (Project Officer, Shipbuilding & Heavy Equipment Branch, Department of Supply and Services): I cannot speak with assurance, Mr. Chairman, but I believe they do.

Mr. Cafik: Would you pass this photograph to Mr. St. Laurent and ask him if it is of a metal secretary?

Mr. St. Laurent: Yes. That is a metal secretary.

Mr. Cafik: Would you pass it on to Lieutenant Commander Dunlop, please? Is that the metal secretary that was in your cabin?

Lt. Cdr. Dunlop: It was that type of secretary: yes, sir.

Mr. Cafik: I see. The chain that is shown in the photograph was not on your particular secretary?

Lt. Cdr. Dunlop: Not when I first moved into the cabin, no, sir.

Mr. Cafik: Was it on prior to refit?

Lt. Cdr. Dunlop: No, sir.

Mr. Cafik: Did you ever complain to the repair depot on the ship concerning this particular item?

Lt. Cdr. Dunlop: No, sir.

Mr. Cafik: You did not. Other than that there was nothing seriously wrong with that cabin or its furnishings?

Lt. Cdr. Dunlop: Not that I can specifically remember, sir.

Mr. Cafik: I see. Did you submit a list of what was wrong with that cabin prior to its refit so that they would have some basis of knowing what was wrong with the ship?

Lt. Cdr. Dunlop: No, sir.

Mr. Cafik: You did not. You were not asked to make any comments in respect to this?

Lt. Cdr. Dunlop: No, sir.

Mr. Cafik: Were you aware of anyone coming in to check these cabins to find out what was wrong with them so that they could prepare a list?

Lt. Cdr. Dunlop: I was aware of a survey team which came on board on one of our trips. Whether or not they inspected my particular cabin, I cannot say, sir.

Mr. Cafik: Did they interview people to find out what their views were concerning what needed to be repaired.

Lt. Cdr. Dunlop: They did not interview me, sir.

Mr. Cafik: What about the condition of the finishes and surfaces on the furniture?

• 1005

Lt. Cdr. Dunlop: They were chipped, dulled, and yellowed with age. In a good number of instances they were chipped—paint chips.

Mr. Cafik: I see. Everything was operating properly with the exception of that secretary?

Lt. Cdr. Dunlop: That is the only item I can remember, at this time, sir, that was not operating corectly.

Mr. Cafik: Were you assigned to the ship during refit?

Lt. Cdr. Dunlop: Yes, I was, sir.

Mr. Cafik: Did you use that cabin at any time during the refit?

Lt. Cdr. Dunlop: No, not until just before we moved on board again to prepare to go back to Halifax.

Mr. Cafik: You were put back in the same cabin?

Lt. Cdr. Dunlop: Yes, sir.

Mr. Cafik: What difference was there in the furnishings when you came back?

Lt. Cdr. Dunlop: The secretary had chains on it.

Mr. Cafik: It had chains, or one chain?

Lt. Cdr. Dunlop: One chain, sir. The furniture had been refinished and painted.

Mr. Cafik: I see. Had all the furnishings in the entire cabin been refinished? I think this is very important, because the...

Lt. Cdr. Dunlop: The chairs, for instance, are portable, and the legs of the chairs had not been painted.

Mr. Cafik: They had been?

Lt. Cdr.: They had not been. They probably were moved out of the cabin during the refit. However, the secretary, the medicine cabinet, and so on had been painted.

Mr. Cafik: Had been painted?

Lt. Cdr. Dunlop: Yes, as well as the bunk.

Mr. Cafik: I see. Was it a good paint job? Was it sprayed on, or would you know?

Lt. Cdr. Dunlop: I did not note particularly how it had been applied, sir, but it was a good, professional job.

Mr. Cafik: All right. As far as I am concerned, I think I have enough...

The Chairman: Mr. Cafik, I would like to ask Mr. St. Laurent a question at this point.

Mr. St. Laurent, in arriving at the estimates, so that you might compare them with Davie Shipbuilding's price, you developed a set of guidelines for each particular job. One set which I have here concerns the repair of the chains on this secretary that we have just been talking about. It says:

Remove old chain hasps and fill holes	4
Drill to suit new chain hasps	2
Fit new hasps and chain	2
Clean and paint	8
	mhrs. 16

At $5.10 an hour, the cost comes to $81.60. The material is $12.00. This makes for a total of $93.60 to fix the chain on that secretary. I think the Committee would like you to explain why, in your estimates, it would cost $93.60 to replace that chain?

Mr. St. Laurent: I think on Tuesday and Thursday of last week, Mr. Chairman, I went over this in some detail. I gave a short discussion on theoretical concepts of estimating and, at that time, I described the procedure that I had followed in arriving at this total estimate. I am sure the Committee will recall that I stated that I initially started to do what I call a "bottom-up" estimate. That is an estimate of replacing such things as chains and door knobs.

The Chairman: What I have just read out, then, what you call a "bottom-up" estimate?

Mr. St. Laurent: The tasks that you are speaking about, the descriptive tasks, all in fact a work breakdown structure leading to a "bottom-up estimate." The figures on the right hand side, however, do not relate to those descriptions. As I went on to describe later, an assessment of the interpretation of the specification made it necessary to add to those figures the cost of refinishing all the furniture. The figures opposite each one of the work breakdown structure line items is not compatible with the description of that item.

The Chairman: Mr. St. Laurent, as we go through the work sheet you will find opposite that particular cabin, in exact terminology, the number of manhours and material and it still comes to that much money. Your over-all total estimate comes within $2,500 of the ship-

• 1010

builder's price. Why did you set this out in the first place? Why was it necessary to make such a ridiculous estimate as $93.60?

Mr. St. Laurent: I have proceeded to say again and again that this estimate does not relate to this stop chain.

The Chairman: Why did you do it in the first place? Why waste all the time to come up with this sort of thing?

Mr. St. Laurent: Precisely because of the discussion that has been going on at the Public Accounts Committee meetings. The time . . .

The Chairman: No. This was prepared before the Committee ever met.

Mr. St. Laurent: I quite agree. The time was of an essence at that time. When I realized that our specification was in error, I added the additional work to the "bottom-up" estimate which I had prepared for the detailed defects. As I explained, I think it was Tuesday morning, that procedure is definitely in error. What should have taken place was that the furniture refinishing should have been described, and then the detailed estimates for the defects added to that. In that case if that procedure had been followed, these figures would not appear to be so ridiculous.

The Chairman: Did anybody in your Department see these figures before they were sent to the Committee?

Mr. St. Laurent: Yes, I believe, Mr. Wallace saw them.

The Chairman: Mr. Wallace saw them. Mr. Wallace, maybe you should come forward for just a minute. Mr. Wallace, as head of that department, why would you allow such ridiculous figures and estimates to be presented to this Committee?

Mr. Wallace: I would say, Mr. Chairman, that I did so simply because you had asked for the working papers associated with the furniture, and in all honesty I provided you with the only piece of paper that we had.

The Chairman: Knowing that it was not correct?

Mr. Wallace: I did not know at the time that it was not correct, sir. This is why I said earlier that at no time did I intentionally mislead the Committee. Certainly, if I had been aware of the...

The Chairman: The fact remains that Mr. St. Laurent prepared these figures. They then went before your eyes, which missed them, and they were then presented to the Committee. We have no other solution or answer to use other than what I have just stated. Mr. Lefebvre.

Mr. Lefebvre: Mr. Chairman, I just wanted to ask a question of Lieutenant Commander Dunlop. In this particular cabin, sir, you have two bunks, a secretary, and a medicine chest. Is this all that was repaired or refinished?

Lt. Cdr. Dunlop: Yes sir, the wardrobe was not metal.

Mr. Lefebvre: The wardrobe was not touched?

Lt. Cdr. Dunlop: No.

Mr. Lefebvre: There are four items here, Mr. Chairman, that cost, I believe, approximately $1,500. This figure is based on the average per cabin. You have the surface cleaned or scraped and repainted, a chain put on the dropleaf, and a couple of other small items. What I would like to know is, what are the approximate costs new for each one of these items on board?

The Chairman: I think we would have to obtain that information for you, unless anyone would like to volunteer?

Mr. Cafik: Mr. Chairman, I think that is a very good question. I think we should get an answer to it.

The Chairman: Mr. Hunter, if you could give the approximate cost new of the identical pieces of furniture that we are talking about.

Mr. Hunter: Mr. Chairman, I have a list of all of the furniture new in a single or a double cabin. Would it do if I just read it?

The Chairman: I think so.

Mr. Lefebvre: If you could give us, Mr. Hunter, what it costs for the furniture in cabin 4S-3; specifically, a double bunk, a secretary and a medicine chest. These are the four items—or the three items if you call a double bunk one item—that were repaired or refinished.

The Chairman: A double bunk, a secretary . . .

Mr. Lefebvre: And a medicine chest.

The Chairman: A medicine cabinet.

Mr. Hunter: I think Mr. Wallace can give you this information.

Mr. Wallace: May I have that question again, Mr. Chairman.

The Chairman: Yes, the question was: What would be the cost for these three items if they had been bought new; a double bunk, a secretary—that was a metal secretary—and a medicine cabinet?

Mr. Wallace: The double berth is $1,090, a metal secretary $330, and a medicine cabinet $82.

• 1015

The Chairman: That is the three pieces that were in this particular cabin.

Mr. Wallace: There was a wardrobe as well.

The Chairman: Was that in . . .

Mr. Lefebvre: The wardrobe was not touched? The Lieutenant Commander said it was not touched. Nothing was done.

The Chairman: That is $1,502.

Mr. Lefebvre: How much would it cost to bring it on board and put in the cabin?

Mr. Wallace: First of all, you would have to estimate the removal of the old furniture. Our estimations are based on actual costs recorded. They are based on the costs of putting in new furniture in a destroyer escort. They

were cost-reimbursable type contracts, so the costs were recorded. Our estimate, then, is that would take about 268 hours or would cost $1,366.80 to remove and instal the new furniture. That is, take out the old and put in the new.

Mr. Lefebvre: A thousand hours?

Mr. Wallace: No, I said $1,366.80.

Mr. Lefebvre: One thousand, three hundred and sixty six dollars...

Mr. Wallace: And eighty cents.

Mr. Lefebvre: This is to remove one bunk, a secretary, and a medicine chest.

Mr. Wallace: And to put in the new ones. You recognize that this is built-in furniture, particularly the berths.

Mr. Lefebvre: Perhaps the berths, but how built-in would the secretary be? Would it be bolted to the wall by two or three bolts?

Mr. Wallace: I would rather not answer that until I could go and inspect and see if they are, in fact.

Mr. Lefebvre: How built-in could the medicine chest be?

Mr. Wallace: The medicine chest I think, Mr. Chairman, is bolted to the wall. I do not think it is suspended by chains. I would say, generally speaking, furniture on board a ship is bolted to the deck. There are chains keeping it in place so that it does not fly all over the place.

Mr. Lefebvre: I find this very exorbitant, Mr. Chairman. Until we get this consultant to give us a better idea, I do not think the Committee could accept these prices.

Mr. Wallace: Mr. Chairman, if I may say, these are not estimates, Mr. Lefebvre. These are not estimates. These are actual recorded costs to do the work. They refer not to the *Bonaventure* but to a destroyer.

The Chairman: Mr. Cafik.

Mr. Cafik: The real operative question, and this is the reason that I dropped the questioning on this in connection with individual cabins, is our establishment of whether or not work was done in excess of that which was described on the work sheets. Having concluded that in this particular case, I think the next step is for us to go with a consultant to Halifax and to have a look at that ship to arrive at what we consider to be reasonable costs to do that job, which, in fact, they say has been done. Once we arrive at that, we wish to find out whether it is a reasonable price or not. I think we go from there.

I do not think there is much to be gained from further questioning, and we have come to that conclusion. That is the reason we have the consultant for this Committee.

The Chairman: I am going to call Mr. Crouse for a question. Before Lt. Cdr. Dunlop or Cdr. Fox leave the witness stand you could recommend questions. Mr. Crouse.

Mr. Crouse: Thank you, Mr. Chairman. To Lt. Cdr. Dunlop, were you on board the ship, sir, prior to the refitting being called? Is this correct.

Lt. Cdr. Dunlop: That is correct, sir.

Mr. Crouse: Where did you stay during the refit?

Lt. Cdr. Dunlop: For a short time I stayed in the motel and then I moved into an apartment.

Mr. Crouse: Were your total expenses at the motel and the apartment during the refit?

Lt. Cdr. Dunlop: I was paid a certain amount a day, yes sir.

Mr. Crouse: Did this cover your entire expense at the motel and apartment?

Lt. Cdr. Dunlop: Not while I was in the motel, no sir.

The Chairman: Mr. Crouse, could I ask how much per day were you paid while the refit was on?

Lt. Cdr. Dunlop: I was paid $7.40 for the first year, and then $7.

The Chairman: Thank you.

Mr. Crouse: Were any of your expenses paid by the refitting yard in return for any supervisory services which you may have provided?

Lt. Cdr. Dunlop: No, sir.

Mr. Crouse: Mr. Armstrong stated that the job had to be done in a hurry. When were you advised to seek accommodation in Quebec?

Lt. Cdr. Dunlop: I believe we lived in the ship for about two weeks before we actually went ashore.

Mr. Crouse: Were you advised to seek accommodation in Quebec before or after tenders were called?

Lt. Cdr. Dunlop: After, sir, because we did not even know who was going to Quebec until just shortly before the ship left Halifax.

Mr. Crouse: Thank you, Mr. Chairman, that is all for now.

The Chairman: Mr. Harding and then Mr. Cafik.

Mr. Harding: Mr. Chairman, what figures

• 1020

do you have on the medicine cabinet in this particular cabin?

The Chairman: In this particular cabin, 4S-3, there is no medicine cabinet listed as having to be repaired, but we have them in other cabins.

Mr. Harding: But not in this particular one?

The Chairman: Not in this particular one. Mr. Cafik.

Mr. Cafik: Before we consider contract X-784, I want to ask one further question of Mr. St. Laurent. I hope it is not a direct repetition of previous ones. The thing that still interests me very much is the similarity in price between the Davie Shipbuilding Ltd. quotation to do this job and your "bottoms up", or upside down, estimate. I wonder if you would answer this question. Is it possible that Davie Shipbuilding, in fact, had knowledge of what your estimate was prior to making their bid?

Mr. St. Laurent: No, sir.

Mr. Cafik: You prepared the estimate of $142,485. How many other people were aware of that estimated value?

Mr. St. Laurent: Prior to approval, there was the project officer, Mr. Palmer. I understand that he discussed this with the principal naval overseer before the work was approved for implementation.

Mr. Cafik: Would any secretaries in the organization know? Would this have been filed in a very classified area or was it left on a desk? How do you treat this kind of an estimate? How confidentially, and with what degree of security?

Mr. St. Laurent: The material itself was not locked in a locked filing cabinet but the offices in which it was contained were locked when we were not in attendance.

Mr. Cafik: I see. Would there be a considerable number of staff in or near that office?

Mr. St. Laurent: As I recall, there was an assistant to the project officer in the office, and a secretary.

Mr. Cafik: Yes. In direct answer to the question I raise, all you can say is that, as far as you know, no one had given that information to Davie Shipbuilding. Is that correct?

Mr. St. Laurent: That is correct.

Mr. Cafik: It is quite conceivable, however, that someone else could have given such information to Davie Shipbuilding?

Mr. St. Laurent: No, I would not suggest knowing...

Mr. Cafik: I am not saying they did. I said it is possible that they could have.

Mr. St. Laurent: I cannot agree with your statement, Mr. Cafik. You may make it if you wish. I would not allude to a possibility that information had been given to the company.

Mr. Cafik: No, but it is possible that it could have gotten out. What I am trying to establish at this point is the principle of how carefully you guard this kind of information. Having arrived at an estimate of $142,485, that is a very serious thing, and it is extremely important that this information does not reach those who are going to bid. Would you not agree?

Mr. St. Laurent: I would agree with that last statement.

Mr. Cafik: What I am interested in now is the procedures followed by yourself to ensure that that information was absolutely confidential and kept that way.

Mr. St. Laurent: I think I have described that the information was not locked up in a locked filing cabinet but was contained in a locked office when there was no one in attendance in that office.

Mr. Cafik: All right. Do you lock the office every time the people go out of it, or would it be left open during the day? Was the Secretary there, perhaps?

Mr. St. Laurent: Yes.

Mr. Cafik: So it is quite possible that someone could walk in and pick up this kind of information during that period of time?

Mr. St. Laurent: There is always that possibility, assuming that anything is possible, but the probability is remote.

Mr. Cafik: It would be a very serious thing, would it not, if someone did happen to get that information?

Mr. St. Laurent: Most assuredly.

Mr. Cafik: You were conscious of that?

Mr. St. Laurent: Indeed, I am always conscious of that, sir. Yes.

Mr. Cafik: Frankly, at the present moment, I am not too satisfied that adequate procedures were followed, judging by the way in this information could not be passed on to someone else. I just make that as an observation. I am not satisfied that adequate procedures were followed, judging by the way in which you describe them.

The Chairman: Have you finished?

Mr. Cafik: One would be even more inclined to come to this conclusion when you realize that one estimate on such a large job shows only a couple of thousand dollars difference.

Mr. St-Laurent: Purely coincidence, Mr. Chairman.

Mr. Cafik: Yes, it is the same kind of coincidence we will see in the following contracts which I will bring out a little later.

The Chairman: All right, Mr. Cafik. Who was head of the department of shipbuilding and heavy equipment at the time the *Bonaventure* was refitted, Mr. Hunter?

Mr. Hunter: There were three changes during the course of the contract, sir. Mr. Jack

• 1025

Rutledge was the director of shipbuilding when the contract was commenced, the late Mr. Frank Corrigan was the director for a while, and Mr. A. W. Allen was the director at the end of the contract.

The Chairman: Is Mr. Allen still in the department?

Mr. Hunter: Yes, he is our Director of Project Management.

The Chairman: If the Committee wished to have him come before us as the director who was responsible for one stage of this refit, it could be arranged?

Mr. Hunter: Yes.

The Chairman: And Mr. Rutledge is available too?

Mr. Hunter: He is available. He is with the Department of Industry now.

The Chairman: Would any...

An hon. Member: Who is the principal naval overseer, Mr. Chairman?

The Chairman: Captain Lynch. He is here.

Mr. Hunter: He is here, yes.

The Chairman: May I pursue this? Would this estimate of $142,485, as prepared by Mr. St-Laurent, have come to the attention of the Director of the Department, Mr. Rutledge or Mr. Allen?

Mr. Hunter: It would have come to their attention along with others, I would assume, sir. There would be a project manager in our office and I think Mr. Wallace was directly concerned with refits at the point.

The Chairman: And they would approve this estimate, no doubt?

Mr. Hunter: They would review it, not for direct approval, but just for a general scrutiny.

Mr. Cafik: Mr. Chairman, may I ask a question on that? Mr. St-Laurent, are you the person, in fact, that approved the estimate of Davie Shipbuilding, or the fixed price, that they quoted?

Mr. St-Laurent: No, sir, that would be the resident project officer who had authority under the terms of his employment in that specific contract.

Mr. Cafik: In fact, all the work that you put in to preparing these "bottoms-up" estimates, or systems estimates, was, in fact, leading to the position whereby someone could accurately judge the relative value that we were getting from the bids submitted by Davie Shipbuilders Ltd., is that correct?

Mr. St-Laurent: No, that is not correct. I would make that assessment and report to the project officer with a recommendation.

Mr. Cafik: So you in fact...

The Chairman: Mr. Cafik, in order for you to follow this, we had better have the project officer, Mr. Palmer, come forward as a witness. As I understand it, Mr. St-Laurent would pass his estimates recommended to Mr. Palmer, the project officer who signed the contract. Perhaps there will be some questions in this area.

Mr. Crouse: May we also have the naval overseer for one or two questions.

The Chairman: Yes, Captain Lynch, if you do not mind?

Mr. Cafik: I will proceed on this point. Mr. St-Laurent, you prepared this estimate of $142,485 which you considered to be a reasonable price to pay for the work that was verbally discussed. Now, we receive an estimate from Davie Shipbuilders Ltd. of $145,008. Does that come to you directly?

Mr. St-Laurent: No, sir.

Mr. Cafik: Who does it go to?

Mr. St-Laurent: It goes to the resident project officer.

Mr. Cafik: All right. He is Mr. Palmer, is that correct?

The Chairman: That is right.

Mr. I. J. L. Palmer (Project Officer, Shipbuilding and Heavy Equipment Branch, Department of Supply and Services): It goes to the principal overseer first of all.

Mr. Cafik: All right. It goes to Captain Lynch, in other words.

Mr. Palmer: That is correct.

Mr. Cafik: Captain Lynch, you then received this fixed price bid from Davie Shipbuilding for $145,008 for this particular job? Is that correct?

Captain J. A. Lynch (Acting Director General, Programmes, Department of National Defence): Yes, sir.

Mr. Cafik: All right. Did you just accept it, or did you then call in Mr. Palmer or Mr. St-Laurent to find out whether or not it was a reasonable bid? What did you do?

Capt. Lynch: I think it is on record Mr. Cafik, that I described the procedure. However, I will repeat it if you wish. I received the estimate, compared it with the amount of money that was available to me, and decided whether or not the job was important enough, in relation to the cost, to be proceeded with. If I so decided—and I did in the case of this item under question—I signed it, and passed it to Mr. Palmer.

Mr. Cafik: In other words, in signing it you authorized the performance of this work for $145,008?

• 1030

Capt. Lynch: Specifically, I signed it without relation to the money. In signing it, I authorized the work to go ahead.

Mr. Cafik: All right. You did so without any knowledge as to whether the bid was reasonable or unreasonable?

Capt. Lynch: Mr. Cafik, there were approximately 1,700 dealings like this.

The Chairman: Answer the question, Captain Lynch.

Mr. Cafik: No, I am not concerned with the complexity of the problem. Did you have any idea at the time of signing that contract whether that was a reasonable price to pay for that work or not? Or were you not concerned with that? Did you leave it for someone else to concern himself with?

Capt. Lynch: We have a situation here. It was not within my terms of reference, but I had to provide the money, so I was concerned, and I was not responsible.

Mr. Cafik: In other words, you are saying to me that when you signed that contract, in fact, you paid no attention to whether the price was reasonable or not. In other words, all you were concerned with was whether the job was important enough and whether or not you had enough money to pay for it. That is the impression I am getting here at the moment, Captain Lynch.

Capt. Lynch: One cannot give an unqualified answer to that question. If I am forced to, I must say, yes, because of my terms of reference. However, I was concerned about the money.

Mr. Cafik: You had no basis from which to judge the reasonableness of that quotation?

Capt. Lynch: The basis I had was the professional competence of the DDP resident production officer.

Mr. Cafik: Who is that?

Capt. Lynch: Mr. Palmer.

Mr. Cafik: You informed me that you really did not discuss this with Mr. Palmer.

Capt. Lynch: Did I say that?

Mr. Cafik: At least, that is the impression I have. You, on your own, received this bid from Davie Shipbuilders Limited, you looked at how much money had been allocated to you, you weighed this amount of work in relation to other work which was yet to be done, and you decided whether or not it was important enough to proceed with. You decided it was, you signed the contract, and then, I gather from what you said, you passed it down the line to someone else. I presume he was Mr. Palmer. Is that correct?

The Chairman: Captain Lynch, did you see the estimates prepared by Mr. St-Laurent before you verified the payment of this?

Capt. Lynch: Probably not; no.

Mr. Cafik: No. That is right.

The Chairman: The question is, why did you bother to prepare estimates?

Mr. Cafik: I think we can go further than that in a moment.

Mr. Armstrong: I wonder if we could just be fair, Mr. Cafik?

Mr. Cafik: Yes, of course.

Mr. Armstrong: What Captain Lynch signed is not a contract. You are referring to it as a contract; this is not so. What he signed is a—I am not sure what the formal title is—

Mr. Cafik: All right. I think that is a good point.

Mr. Armstong: It is really a requisition for work and it then goes to Mr. Palmer who is the project officer and who is going to make the estimates and eventually it is provided in an amendment to the contract. But what Captain Lynch is doing is not signing a contract, and it does not become a contract until it goes through to the Department of Defence Production who have done the estimating and who will, presumably, be responsible for a valid contract.

Mr. Cafik: All right. I want to pursue this because we do not want to be unfair. What piece of paper did he sign? Did he sign this thing, this form 779? Is DDP Form 779 what you signed, which we commonly refer to as a contract or serial number, anyway, X784? Is that the piece of paper he signed?

Cap. Lynch: Yes, sir.

Mr. Cafik: It is. Okay, we are right back to the same problem we had in the very beginning; whether this thing is a legal document or not.

The Chairman: That document had on it the figure of $145,008, so you knew you were signing a contract or that amount of money was going to be paid. Right?

Cap. Lynch: That is correct.

Mr. Cafik: Let me pursue this. If this piece of paper, which is DDP Form 779 for $145,008 in its signed form was presented to whomever prepared the amendments to the contract, would it not constitute sufficient authorization to amend the basic contact for this amount?

Mr. Armstrong: After it is signed by the Department of Defence Production officer, which is Mr. Palmer. It was not that when Captain Lynch signed it.

Mr. Cafik: Now, have you a copy of this, Captain Lynch, this X782?

Capt. Lynch: No, sir.

Mr. Cafik: Mr. Wallace, would you give him a copy so that we might get right down to business.

Mr. Wallace: I do not have one, but I will get one.

Mr. Cafik: This is X782, which of those signatures is yours?

• 1035

The Chairman: On the bottom line.

Mr. Cafik: Is your signature under "request for estimates," or under "authority to take work in hand" or under "for DDP and DND Head Office use only", which one?

Capt. Lynch: Mr. Cafik, under "request for estimate" it is signed for me by another officer.

Mr. Cafik: Yes, so that is your proxy signature?

Captain Lynch: That is correct.

Mr. Cafik: Right. Now, who signed where it say "authority to take work in hand"?

The Chairman: Mr. Cafik, I want you to follow that, signatures are very important. If

this is a proxy signature, it should be initialled by somebody else, is it a rubber stamp or what is it?

Capt. Lynch: There is nothing involved in a request for estimate.

The Chairman: No, we are asking you about this signature of yours. That is not your own handwriting.

Capt. Lynch: That is a signature by Lieutenant Commander Roberts, my deputy.

The Chairman: Then it is not a rubber stamp?

Capt. Lynch: No, sir.

Mr. Cafik: Did you sign it personally in any place?

Capt. Lynch: Yes, sir.

Mr. Cafik: Where did you sign it?

Capt. Lynch: Where it says James A. M. Lynch.

Mr. Cafik: All right, but it is hard for me to read it. I am not quite as stupid as all that, I just cannot read this photostat. So under what heading did you sign?

Capt. Lynch: Mr. Cafik, before we get into trouble here, these forms—

Mr. Cafik: Are you speaking about myself or you?

Capt. Lynch: Before the Committee gets into trouble here, these forms have several variants.

Mr. Cafik: I beg your pardon?

Capt. Lynch: These 779 forms have at least two variants.

Mr. Cafik: Two which?

Capt. Lynch: Variants.

Mr. Cafik: Yes.

Capt. Lynch: In this case it says "for DDP and DND Head Office use only"; that is where I signed.

Mr. Cafik: Right.

Capt. Lynch: It was just a place to sign. What was necessary was my signature on the paper and Mr. Palmer's signature for the work to proceed. It so happens that the space on this particular sheet bearing my signature is a place where it says "For DDP" It does not mean a thing.

Mr. Cafik: But normally you would not sign it in that place, is that correct?

Capt. Lynch: I would sign it where there was room to sign it.

Mr. Cafik: I see, but there is no specific place where you are supposed to sign?

Capt. Lynch: There was a procedure in some different era. Up here it says, "Authority to take work in hand. You are hereby authorized to undertake the work as specified for the sum of $ ", so much.

Mr. Cafik: Right.

Capt. Lynch: It then says "date, position and signature".

Mr. Cafik: Yes.

Capt. Lynch: It was conventional for the principal naval overseer to sign there.

Mr. Cafik: Yes.

Capt. Lynch: Then for DDP to sign under. Now in the early days I did sign there, but I was not responsible for the dollars; that was not part of my responsibility. Therefore, we had a local agreement that I would sign below that space and Mr. Palmer would fill in the dollars...

Mr. Cafik: Let me ask you this now.

Capt. Lynch: ...and sign the authorization.

Mr. Cafik: I think the sequence of signing is very important. I gather from what has come before our committee that you, in fact, were the first one who received this and you, in fact, signed it prior to anyone else signing it. Is that correct?

Capt. Lynch: That is correct in every case.

Mr. Cafik: That is correct in every case. You, in fact, then signed one of these things. I presume you would be the superior officer, in other words, your signature would be more meaningful than anyone else's. Is that correct, as the final word?

Capt. Lynch: I agree, sir, and that is why you almost invariably find my signature. I insisted on taking this responsibility.

Mr. Cafik: All right, but you signed these things. Then getting back to the real point, you got this thing that came with a job des-

cription of some type and an amount of money. It was a bid by Davie Shipbuilders Limited to the Department of Defence Production to do a certain amount of work; it came to you and you authorized or signed this document saying, that as far as you were concerned it was okay to proceed with it.

Capt. Lynch: That is correct.

Mr. Cafik: Is that correct? You, in fact, signed the document without having any knowledge as to whether the bid was reasonable or not?

Capt. Lynch: I cannot agree to that, sir. You will find some missing numbers in the serial X this and that. These sometimes represent occasions when I got a bid back

• 1040

that I felt we could not afford. In this case, I decided that the importance of the job and the amount of money remaining justified proceeding with it.

Mr. Cafik: That is not the question. I am not the least bit concerned with how much money you had in the kitty and the relative importance of these different contracts. What I am concerned about is whether you signed this document having any knowledge whatsoever as to the reasonable charge that was going to be made by Davie Shipbuilders for the job that was described therein. Now you have not directly answered that question.

Capt. Lynch: What do you want me to say?

Mr. Cafik: I want you to say the truth?

Capt. Lynch: I have been saying the truth.

Mr. Cafik: What is the answer then?

Capt. Lynch: I was concerned about the money, but it was not within my terms of reference to dabble with the money.

Mr. Cafik: All right, then you are telling me that you signed it without taking into consideration whether we got value for money received or money paid because it was not within your terms of reference to be concerned in that area.

Capt. Lynch: What I am trying to indicate was that the decisions taken were a matter of teamwork.

Mr. Cafik: All right. I think we have enough at that one point, that you signed this without any knowledge as to whether it was a reasonable price or not; that is sufficient for that.

The second point that we have to find out now is that it went from you to Mr. Palmer, I presume?

Capt. Lynch: That is correct.

Mr. Cafik: Mr. Palmer, you received this document and it was signed by Captain Lynch. What did you do with it?

Mr. Palmer: Going back one stage, when this estimate was raised, when the request for an estimate on furniture was raised, it was utterly impossible for me to cope with this. I requested my headquarters in Ottawa for assistance in two areas, one of which was furniture. In that regard, Mr. St-Laurent came down and he had a deadline to meet because he had to be back in Ottawa by a certain time. When Mr. St-Laurent came down to Quebec I did the best I could in order to let him know what local conditions existed in the yard: labour reaction, company reaction, power reaction and the reactions of the PNO staff. This is the background.

I also had an estimate that was made 12 months previous to the value of over $600,000, made by another authority that was on loan to me. So when Mr. St-Laurent came down, I gave him this background and Mr. St-Laurent proceeded, in order to compile this estimate...

Mr. Cafik: All right now, could I interject? I do not want to interrupt your train of thought, Mr. Palmer, but you said that you had a previous estimate of $600,000.

Mr. Palmer: That is right.

Mr. Cafik: Is that $600,000 for the work that you envisaged under 782.

Mr. Palmer: The work which was in 782 may have been in this previous specification. It was a most voluminous specification. I did not know what the details were.

Mr. Cafik: I want to get that straightened out now. There was another contract which was cancelled and it was for $500,000...

The Chairman: It was $550,000.

Mr. Cafik: It was $549,000 or something.

The Chairman: By Davie Shipbuilders.

Mr. Cafik: Right. Is that the contract you are talking about?

Mr. Palmer: Exactly.

Mr. Cafik: Then it is not a $600,000 one. We are talking about the same thing, are we?

Mr. Palmer: Excuse me, excuse me. The DDP estimate was in excess, at that time, from what I can recall, at $600,000. It was our estimate, the DDP estimate.

Mr. Cafik: I want to pursue this for a moment; just a minute. There was an X337 and this was not a DDP estimate, this was a bid by Davie Shipbuilding to the Department of Defence Production for the sum of $550,499. Is that the figure you are talking about?

Mr. Palmer: That is the work I am talking about.

Mr. Cafik: I see, but where is this $600,000 estimate. I have not seen it.

Mr. Palmer: No, you have not seen it, because this was compiled by one of my compatriots who came from Ottawa to help me in the same sphere, furniture, 12 months previously.

Mr. Cafik: Right.

Mr. Palmer: I have the summary of his working detail. I have a summary of that, and his forecast at that particular time, including the lower rate, was somewhere in excess of $600,000. Now I let Mr. St-Laurent see this, not in regard to the dollar value but I let him see the magnitude of the task which he had before him down there in Davie Shipbuilding.

Mr. Cafik: It contained job descriptions, and so on, of the individual details; is that correct, Mr. Palmer?

Mr. Palmer: I do not think they were any better than these because, if I recall correct-

• 1045

ly, in order to reduce the reproduction work all the specifications were recalled by the principal naval overseer in order to eliminate the necessity of reproducing them later.

Mr. Cafik: Do those documents still exist, those originals?

Mr. Palmer: Well, I do not know where they are, Mr. Cafik.

Mr. Cafik: I think it is very important for us to establish what was in that original estimate because it would shed some real light on the conditions under which Mr. St-Laurent had to work. If those job descriptions were more accurate than the subsequent ones, it would certainly compound the confusion around here.

Mr. Palmer: Well, Mr. Cafik, if I may say so I do not think that they were more definitive.

Mr. Cafik: I would like to have a look at them if they are available and I would like to request them.

The Chairman: Mr. Palmer, you say, "another authority", was this from DDP or an outside person?

Mr. Palmer: No, 12 months previously, when this large furniture estimate came up I requested my headquarters in Ottawa to send someone down that was cognizant with a naval ship and furniture in order to do this work for me. I could not cope with it.

The Chairman: Mr. Crouse wanted to ask a question in this area and then we...

Mr. Cafik: I am still directly following that line here, if it is all right. I have not got the sequence entirely straight because I interrupted Mr. Palmer on another point.

Mr. Palmer, you have this document in front of you; you are about to sign it, or you have to do something prior to signing. Just what did you do? What are the conditions under which you would sign it and what are the conditions under which you would not sign it?

Mr. Palmer: I sat down and discussed this with Mr. St-Laurent. I knew the intensity that he had applied himself with. I knew how he had gone around the ship et cetera. I did not cope with it at all. We sat down for a short period of time. There was some hesitation on both of our parts in this regard. He told me about the complexity of this and having discussed it with him, I must say in my recollection it was only a brief period of time, I was fully convinced that what he had compiled was realistic and true at that stage in history.

Mr. Cafik: All right. I am sure that you saw the job descriptions that were attached to this document telling Davie Shipbuilding what they were to do. Were you aware at the time you signed this document that, in fact, the job description bore very little resemblance to the work that you actually wanted done?

Mr. Palmer: To the best of my recollection, Mr. Cafik, I heard the expression used on more than one occasion, that this meant all the furniture was going to be refinished in all the cabins indicated, which was in excess of what was on the work description sheet.

Mr. Cafik: Did you realize that this document did not in any way say that?

Mr. Palmer: Yes.

Mr. Cafik: In other words, you knowingly signed this document realizing that they were going to do all the cabins, but there was nothing in here instructing them to do that?

Mr. Palmer: Mr. Cafik, since the job started I do not think there was any item with any complexity where the definition that was on the paper was not supplemented either by oral information or visual inspection.

Mr. Cafik: Visual inspection poses a real problem which we explored at the last meeting, because it is pretty hard to inspect whether a job was done if you do not know what was supposed to have been done, which we pointed out at the last meeting.

Mr. Palmer: Mr. Cafik, I would like to make mention, if I may, that it was not the work that was done, it was the work that had to be done. I mean visual inspection on my part, on DDP estimates, on the part of DDP. In other words, you would go down there and you would realize that what they had said was true, but the number of pieces of piping or such things that had to be removed was not described on there. This had to be done before they could get...

Mr. Cafik: Mr. Palmer, surely anyone would understand if one drew up a job description and then found it was so complex that some of the minor items could not be mentioned on it. That would be a very reasonable approach. It seems very odd to sign a document where the minor items are mentioned but the major ones are not.

Mr. Palmer: Mr. Cafik, I had every faith in Mr. St-Laurent.

Mr. Cafik: Okay, do not get annoyed. We are just trying to get the facts here.

Mr. Palmer: No, I am only emphasizing this. My faith was in him. I knew the way he had applied himself on the job. I knew who the people were he had gone to see. He had visited the PNO staff; he had discussed this with them. He had gone to the foremen that were on the ship and the superintendent who was on the ship. He had gone around and he really applied himself, therefore, I had every faith in him.

Mr. Cafik: All right. So what you are, in effect, saying is that you signed this document on the basis of the faith that you had in the study Mr. St-Laurent put on the job. You had no direct first-hand knowledge of the thing.

• 1050

Mr. Palmer: No, that is why I asked for him to come down in the first instance.

Mr. Cafik: Did you read these work descriptions?

Mr. Palmer: No. I did not have time.

Mr. Cafik: Did not even look at them?

Mr. Palmer: Did not even have time.

Mr. Cafik: Right. So you just asked him, in other words, "Do you think I should sign this?"

Mr. Palmer: No. We sat down and discussed it. I could not tell you for what period of time, perhaps a half an hour, it may have been longer or it may have been less.

Mr. Cafik: All right. What does your signature constitute on this thing? Does it constitute an order to go ahead?

Mr. Palmer: An order to go ahead to the yard.

Mr. Cafik: Prior to your signing it that authority was not on paper, is that correct?

Mr. Palmer: And the workmen were standing around waiting to go.

Mr. Cafik: They were standing around waiting to go. If you refused to sign it this job would not proceed.

Mr. Palmer: That is true.

Mr. Cafik: Is that correct?

Mr. Palmer: That is right.

The Chairman: Mr. Cafik, your copy might not be too clear but where Mr. Palmer signed it says:

AUTHORITY TO TAKE WORK IN HAND

> You are hereby authorized to undertake the work as specified for the sum of $145,008

That is what Mr. Palmer signed.

Mr. Cafik: Perhaps it is not a fair question, but I think one of the central problems in this whole thing is this document which does not describe in a written fashion particularly the major aspects of the work that was to be done because this was the part left out. We are asking them to do something and they have no legal obligation to do it as far as I can see. If they performed precisely what it said in here I think that you would have no choice but to pay them and that is the kind of dilemma we are faced with.

Mr. Palmer: There is one further thing, Mr. Cafik. On that document as well, agreement had to be given by a certain date or the contractor would not have taken it in hand.

Mr. Cafik: Oh, surely that is not a sensible argument.

Mr. Palmer: I am not arguing.

Mr. Cafik: Surely, when you give roughly $12 or $13 million to a contractor he is not going to come around and say, "This bid for $145,000 is two days late and we are not going to accept it." That is not an argument at all surely. I do not consider it any kind of an argument, reasonable or even unreasonable.

Mr. Palmer: I am not arguing, I am making a statement about this document, Mr. Cafik. I am only drawing your attention to something, that is all. I am not arguing the pros and the cons or the rights and the wrongs or the morals or the ethics of it. I am only making a point of the fact that in other areas it would be extremely embarrassing to the contractor if he did not get a signature by a certain date.

The Chairman: Mr. Cafik, there are just two questioners on my list here, so if you have one other question then we will proceed.

Mr. Cafik: Yes, I would like to go on then to the next contract.

The Chairman: We will hear from Mr. Crouse and Mr. Noble. If I may just summarize, first of all, Mr. Palmer has just accentuated once again the fact that a large percentage of this refit was done by oral arrangement and not by written arrangement.

Mr. Crouse: Thank you, Mr. Chairman. My questions are to Captain Lynch and some of them may have been asked before during my absence; if so, not having a transcript of the record I may be repetitious.

The Chairman: If they have, Mr. Crouse, I will advise you.

Mr. Crouse: Thank you. On Wednesday, March 5, according to the Ottawa *Journal* Captain Lynch blasted Canadian newspapers

• 1055

for unfair coverage of the investigations about the refit bill. He called them "political, parochial and sensational." Do you still feel this way about the Committee's work, Captain Lynch?

The Chairman: Take the mike over, if you will.

Capt. Lynch: You will notice from that well-reported quote in the Ottawa *Journal* that I was very careful not to attack the Committee. I attacked the newspapers. I will not answer your question.

Mr. Crouse: Thank you, Captain Lynch. You went on to state:

> "We're not a bunch of crooks...we're professionals and as honest as the next Canadians."

I think this Committee has established that you are incompetent, but I do not recall ever having heard you being called a bunch of crooks. You went on to state:

> The number of man hours quoted in the specifications was admittedly low,...

Why? Why were these man hours quoted intentionally low?

Capt. Lynch: The original contract, Mr. Crouse, called for a certain specified amount of work and an allowance of 200,000 man-hours to make good work arising from the inspections carried out.

Mr. Crouse: Who is correct, Captain Lynch, the Auditor General or you, concerning the additional $1.15 per hour? You went on to state that:

> Shipyard workers were not paid an additional $1.15 an hour for the extra four months as reported in the press,...

You realize, of course, that this cost the Canadian taxpayers an additional $500,000. Who is correct, you or the Auditor General in this regard?

Capt. Lynch: I will repeat that the shipyard workers were not paid an additional $1.15 an hour.

Mr. Crouse: Well, this Committee then...

The Chairman: We will save that question for the shipbuilders when they come.

Mr. Cafik: Well, Mr. Chairman, could I just point out...

Mr. Crouse: Just a moment, Mr. Cafik, I am on a line of questioning.

Mr. Cafik: No, we are zeroing in at the present moment, by agreement in this Committee, on the furniture side and I think we should confine our questioning to that. There is ample time for other areas at a later date.

The Chairman: Well, you are quite right but—$1.15 an hour was paid for fixing furniture so it is relevant. However, I think we will check this out with the shipbuilders, Mr. Crouse.

Mr. Crouse: I have one final question to Captain Lynch while he is still before the Committee. He stated that:

> He had participated in refitting projects al over the world and had spent 30 years training for the *Bonaventure* work.

If this is a correct statement, Captain Lynch, why did you leave the ship under commission?

Capt. Lynch: I beg your pardon, sir, I did not belong to the ship.

The Chairman: Mr. Crouse, I think it was explained by Mr. Armstrong why they left the ship in commission while it was being refitted. He said that they would not do that again, they had found this was not a wise procedure.

Mr. Crouse: Are we to understand that this prerogative did not come under the principal naval overseer's responsibility?

Capt. Lynch: What prerogative?

The Chairman: You mean commission?

Capt. Lynch: No, sir, this decision was taken by naval headquarters.

Mr. Crouse: Thank you, Mr. Chairman.

Mr. Noble: Mr. Chairman, I have just one question. Urgency has been expressed during all the questioning since I have been listening in this Committee. We have been told that some of the estimates had to be made hurriedly, such as, examining only a few of the cabins to check the necessity of work required. Requisitions were signed before estimates were received and so on. What was the urgency for the lack of consideration given to spending such large amounts of money? I cannot understand this.

Mr. Chairman: You are addressing your question to whom?

Mr. Noble: Whoever wants to answer it.

The Chairman: Captain Lynch.

Capt. Lynch: I would like to say that the urgency was on account of expense because it costs money to keep a ship in a contractor's yard whether any work is done or not. There are second and third orders of cost. For example, at some point if the ship was delayed beyond a certain date, there would be a quantum jump in international embarrassment due to nonavailability of Canadian ships for commitments. The priorities I gave in making my decisions were based on overall good. Some of my decisions do not look so good when they are taken in isolation, but I do not agree with Mr. Crouse that I was incompetent.

Mr. Crouse: I think, Mr. Chairman, we established that fact when the witness stated in his much-quoted newspaper account that it

• 1100

was not possible to determine how much work needed to be done until the ship was actually opened up. You, sir, were responsible for assessing whether the bottom of the ship needed scraping and painting. You did not make an allowance for that amount even though the refit had not been done for the previous eight years, so you were incompetent.

Capt. Lynch: I was not responsible and I was not incompetent.

Mr. Crouse: You were the naval overseer.

The Chairman: Mr. Crouse, I think the Committee will have to make that assumption. You will have your chance to say this when a report is drafted.

Just before we proceed, I would like to make sure of the next two contracts that we

are going to discuss. Incidentally, there will be copies for all members of the Committee for tonight of these next two contracts. I want to ask Mr. Long from the Auditor General's Department if contract X784 and contracts X1237 appear in the amendments to contracts and were, thereby, paid by the Crown. The amount of X784 was $61,853 and X1237 was $19,728.

Mr. Long: Mr. Chairman, X784 appears in contract amendment No. 16 not in the amount you give but the man-hours and the dollars for material are the same as appearing on X784: 10,408 man-hours and $8,160 for material. Next, X1237 appears in contract amendment No. 22 showing 3,668 man-hours and $950 for material.

The Chairman: If these hours are multiplied by the rate per hour, the total is the same in either case?

Mr. Long: Yes.

The Chairman: So the Committee assumes that these were contracts accepted and paid for by the Crown. Before we proceed with those we know that.

Gentlemen, we will meet at 8 o'clock tonight and I hope to finish these two contracts. If we finish tonight, then we will go on with hydrofoil on Thursday.

An hon. Member: What room?

The Chairman: The same room 112N, tonight at 8 o'clock.

EVENING SITTING

Tuesday May 6, 1969

• 2008

The Chairman: Gentlemen. Our rules provide that we can take evidence with five or more Committee members present. We will proceed and we will start with the contract No. X784 which is for the repair of office furniture to the amount of $61,853. Mr. Cafik?

Mr. Cafik: I think this would take about two seconds, Mr. Chairman but there is one other question I want to ask in respect of 782. It has just occurred to me, and I would like to put the question to Lieut. Commander Dunlop if he is here.

Mr. Armstrong: He is not here; he is gone back to Halifax. We assumed that you had finished. We still have Commander Fox who you did not question this morning. These fellows have a job to do and I assumed that you had finished questioning him. I am very sorry.

Mr. Cafik: As a matter of fact, I was asked just at the end of the meeting if there would be any further questions to either of these gentlemen and I indicated that I thought there would be.

Mr. Armstrong: I am sorry, I did not hear that. I regret it very much, but I assumed that you had finished questioning him.

Mr. Cafik: I will pass on that, Mr. Chairman, and then you can go on to 784.

• 2010

Is Mr. St-Laurent here?

Mr. Armstrong: Yes, Mr. St-Laurent is here.

Mr. Cafik: Would you care to come forward. I have some questions for Captain Lynch and I think there will be some for Mr. Wallace as well directly on this.

First of all, I would like ot direct my questions, if I may, to Captain Lynch. Are you familiar with this document that we refer to as X784?

Capt. Lynch: I was quite familiar with it at the time that I signed it. I have not studied it recently.

Mr. Cafik: All right. In respect of X784 does the same situation exist as in 782, that you signed this document prior to knowing whether the estimates for the work to be done were, in fact, realistic or proper?

Capt. Lynch: Numerically there are two places where the form is signed by or for me. One is under Request for Estimate and the other is after the estimate has been received.

Mr. Cafik: Pardon me, Captain, did you say prior to your signing it? I am sorry I did not catch what you said.

Capt. Lynch: There are two places on the document where my signature or a signature for myself appears. One is on the left-hand side near the bottom where it says "Request for Estimate".

Mr. Cafik: Yes.

Capt. Lynch: That is invariably signed by or for me when the form is passed to the

yard for an estimate. The other place where I sign is at the bottom of the page to the right, after receipt of the estimate.

Mr. Cafik: In the preparation of this document, form 779, No. X-784, who did the typing on this? Was this done by DDP or was it done by Davie Shipbuilding? Was this sent as a blank document to Davie Shipbuilding?

Capt. Lynch: No, sir. This document served a multitude of purposes. It served in the first case as a request for estimates and at this time certain parts of the document were filled in—in fact, the bulk of the document.

Mr. Cafik: For instance under Request for Estimate and Summary of Cost, would those figures have been filled in when you sent it to Davie Shipbuilding?

Capt. Lynch: No, sir.

Mr. Cafik: They would not. And Manhours and Labour and Materials under Direct Cost?

Capt. Lynch: Those items would be filled in by Davie Shipbuilding and they constituted the estimate that was requested.

Mr. Cafik: In the remainder of the information, for instance, on the left-hand side toward the top where it says "Office Furniture", under 1, 2, 3 and 4 I note that there are certain things typed therein. Was that typed in there prior to its being sent to Davie Shipbuilding?

Capt. Lynch: For estimate, yes.

Mr. Cafik: It was. And along with the top columns. Is that correct?

Capt. Lynch: For example H-188...

Mr. Cafik: Yes, for example H-188, OST SUPP. and so on.

Capt. Lynch: That was meant to be "first supplementary". That was typed by my office on the form the first time through the typewriter.

Mr. Cafik: In the two boxes below—which lie immediately below item 8 or column 8, was the typing therein done by yourselves or by people in Davie Shipbuilding?

Capt. Lynch: This constitutes a portion of the conditions of estimate.

Mr. Cafik: Who typed it, Captain Lynch?

Capt. Lynch: Davie Shipbuilding typed it.

Mr. Cafik: They typed that portion.

Capt. Lynch: There is an "X" which states that this work could be carried out during the scheduled period of refit, as opposed to filling in "X" in the other square, which says that this work would delay completion of the refit by blank days.

Mr. Cafik: Did they type in the words "Providing authority received by 9/3/67"?

Capt. Lynch: Yes, indeed.

Mr. Cafik: "Vice-President and General Manager"?

Capt. Lynch: Davie Shipbuilding typed that. This was their invariable practice.

• 2015

Mr. Cafiik: I see. So they typed that and they typed the column under Manhours, Direct Cost, Labour, Materials. They typed those figures in there. Is that correct?

Mr. Cafik: And they typed in the figures under Summary of Cost. Is that correct?

Capt. Lynch: That is correct.

Mr. Cafik: There is no doubt in your mind that what you say here is true.

Capt. Lynch: No doubt in my mind whatsoever.

Mr. Cafik: That this document was in fact typed by two different groups of people: Davie shipyard, who put in the figures; and the other, the description which we have already discussed, was typed by your own Department. Is that correct?

Capt. Lynch: That is correct.

Mr. Cafik: You are absolutely certain, you are not guessing, you know this for a fact?

Capt. Lynch: I did this seventeen hundred times.

Mr. Cafik: So there is no question in your mind as to the validity of what you say?

Capt. Lynch: No.

Mr. Cafik: The reason I ask this question is that it certainly looks, anyway on the surface, as though it had been done on one typewriter. The typing is surprisingly similar.

Capt. Lynch: Have you actual testimony to that effect?

Mr. Cafik: No, I have not. I said that it appears to be such.

Capt. Lynch: You can save your time because they were typed on two different typewriters.

Mr. Cafik: Well, all right. I think that is something worth pursuing, which I certainly do. Now the second thing is, getting down to this contract again, did you indicate earlier, Captain Lynch, that the Request for Estimate signature in that box and the signature for the Authority to Take Work in Hand that is there were signed prior to your signing this contract? Am I reading you correctly, Captain Lynch?

Capt. Lynch: Just a minute, please. Request for Estimate was signed on the day that the paper was issued as a request for estimate. It is self-explanatory. It so happens that here this is not my signature but it is my deputy's signature.

Mr. Cafik: And it was done, then, at the time the portion of typing that you yourselves in your Department did was prepared. It was signed at that time and sent to Davie Shipbuilding.

Capt. Lynch: Yes, sir. You might have noticed that this is one of a number of copies with carbon in between. We would keep a copy which would look like the original Request for Estimate and it escapes my mind whether or not it was ever filled in as to the numbers that came back on the estimate.

Mr. Cafik: Do you have a copy of such a document there—I am sure the documentation would be available—where you, in fact, made the request which would be the same as this but excluding those figures and details that we have discussed in this enquiry?

Capt. Lynch: I am working on a different job now, Mr. Cafik, and I do not have these papers. I do not know whether this type of document still exists but it did exist. For example, the instant that I got this back from the Davie Shipbuilding, the contractor, the copy that we had held would still look like it had when the others were sent down and before Manhours and Cost were filled in. Now perhaps we completed that because we needed a copy with full information. I do not know.

Mr. Cafik: Captain Lynch, in your view, would this original request not have been kept on file? It would seem a very important document because it would be important to know whether in fact the estimate that came back covered the job description that you had sent to them originally.

In other words, I am trying to find out whether there is a record at the present moment in the Department of this preliminary statement or X784 which was sent to DSL. Maybe Mr. Wallace could answer that.

Capt. Lynch: No, he cannot answer that. This was in naval gear. It had nothing to do with him.

Mr. Wallace: I would not know because when these are prepared they are prepared by the Navy initially. There is no doubt in my mind that I could substantiate and verify what Captain Lynch has said, Mr. Chairman. To my knowledge I do not know whether copies exist which do not have this financial information.

Mr. Cafik: Is there a procedure set up by DDP as to how to go about these estimates and the use of these forms? In other words, would it be laid down by your Department that when you are seeking a price for a certain job you present it on a certain form and you prepare it in a certain manner and you file it in a certain way? Is there any kind of routine procedures that are set up for this kind of thing, Mr. Wallace?

Mr. Wallace: There is. I am not too sure at the moment. I cannot recall what the precise procedure was at that time. There is usually

• 2020

what they call an additional work request form prepared by the Navy at the same time. In most cases, Mr. Chairman, I understand that our project officer receives a copy of this form before it goes to the contractor, before this whole form goes to the contractor.

Mr. Cafik: Are those forms available?

Mr. Wallace: I would have to ask Mr. Palmer if they are. I do not believe they are.

The Chairman: Mr. Palmer.

Mr. Palmer: Mr. Cafik, I have been divorced from the *Bonaventure* project since October 1967 at the completion of the work but if I may, I would like to explain the procedure. The form DDP 779 which is this reproduced item here, is prepared by the naval overseers and it is passed to the company.

Mr. Cafik: May I question you on this, Mr. Palmer: I presume that it is prepared on the basis of some preceding document?

Mr. Palmer: No.

Mr. Cafik: No? There seems to be conflict here. Mr. Wallace says there is a document preceding this. Who is right?

Mr. Palmer: May I carry on?

Mr. Cafik: Yes.

Mr. Palmer: Over the years we discovered that in the transmission the production of this by the naval overseers to any contractor, the DDP representative did not have a copy of this and was not always aware of any request which was being transmitted to the contractor. An unofficial document had been developed in the Lauzon area on a previous contract by the naval overseer. This had no official status at all, but it was a substitute for a memo and they just ran off X number of these things and they used to transmit X numbers to the contractor and the DDP representative also got a copy. The reason for that was that the 779 could be preserved in its virgin, clean state in the main office of the contractor and the AWR's, which were on flimsy paper, could be used as a guideline for the staff in the shipyard. Also we in DDP were aware that a request for an estimate had been raised. The information which was on this AWR, as we'll call it for brevity, in essence was exactly the same on the 779. That was the guideline—similar guidelines on both documents.

Mr. Cafik: I am trying to find out if it is possible for DDP to produce one of these forms 779 which was submitted to Davie Shipbuilding Limited for X784.

Mr. Palmer: Only the completed document.

Mr. Cafik: What would you have done with the other copies? Captain Lynch has indicated that there were many parts to this document: what happened to the remaining copies?

Mr. Palmer: I am not sure what the distribution is. There is one for the company; I think the original was for the company. There is one for the principal naval overseer; there is one for naval service headquarters; there is one for DDP Headquarters in Ottawa.

Mr. Cafik: What do these groups that get copies of this document do with them? We are talking about systems now, the method of doing this job. I think, Mr. Palmer, I have got enough from you at the present moment. You say that there were copies sent to the Headquarters. Perhaps we can get some information from Mr. Wallace in this regard. Would we have these things on file?

Mr. Wallace: Mr. Chairman, I do not know whether they are on file at the moment. I do not believe they are. If they are, we would be very glad to table them before the Committee.

Mr. Cafik: Is there not a system set up whereby you can check—and at the present moment I see no rational way in which you

• 2025

can do it—to find out that this document X-784 in fact came back describing the work that was described on it when it went there in the first place? Is there no way of substantiating that?

Mr. Wallace: Mr. Chairman, the control over the numbers of forms raised was maintained within the shipyard and, to the best of my knowledge, we did not receive a form without the information provided by the contractor. When they came to Ottawa for processing and for contractual amendments, we had a completed form.

Mr. Cafik: With the prices on it?

Mr. Wallace: With the prices on it. I am quite honest when I say I do not believe copies exist in Headquarters that do not have this information. I will be very glad to check and verify my own memory on this point.

Mr. Cafik: Captain Lynch seems to want to contribute something.

Capt. Lynch: I believe that the DDP practices were comparable to the naval practices. I can speak for the naval practices. At no time did we send a "Request for Estimate" portion of this form to forces headquarters or materiel command. We raised some of these things and cancelled them before the estimate, we raised some and cancelled them after the estimate in which case they would not be forwarded to my superiors. When they were thus cancelled there was an X number that did not appear and we would merely mark it cancelled just to show that we...

Mr. Cafik: Does that ring true with what you keep saying, Mr. Palmer? I understand that there are a number of copies of this incompleted form prepared and sent to vari-

ous departments including Defence Headquarters. Explain to me where I am wrong, Mr. Palmer. I think I understand your position, Captain Lynch.

Mr. Palmer: When the completed document either approved for action or cancelled...

Mr. Cafik: You are talking now about completed by Davie Shipbuilding?

Mr. Palmer: No, excuse me. When I say "completed" I mean the work has been technically approved, and it has been approved to be taken in hand: in that instance.

Mr. Cafik: You are talking about the document, then, after it came back from Davie Shipbuilding; is that correct?

Mr. Palmer: That is correct, yes.

Mr. Cafik: We were talking earlier about what happened to this contract or this piece of paper before it went to Davie Shipbuilding. What kind of records did you have of what you had sent to them?

Mr. Palmer: I had no record. I transmitted nil to Davie Shipbuilding. This document, the request for all work, was raised by naval overseers and it was transmitted. I did not have a copy of the 779 but this flimsy document which I refer to ...

Mr. Cafik: The preliminary sheet?

Mr. Palmer: No, it was in parallel with this. I got a copy of that, but it bore no official status. It was a memo to me and a memo to all parties concerned who did not have the official document that an official request was going forward for an estimate.

When I talk about it being completed, Mr. Cafik, if it had been approved by all authorities concerned, it was a tear-off document and we then distributed the tear-off document, bearing the signatures thereon, for filing: National Defence Headquarters, DDP Headquarters ...

Mr. Cafik: All right. I think, Mr. Palmer, you have gone past the point that I am really concerned with at the present moment. I will go back to Captain Lynch.

Captain Lynch, we now have a document that was prepared without any prices on it, which were subsequently done by Davie Shipbuilding Limited, and it was signed by proxy for yourself, I presume, under the column marked "Request for Estimate." Is that correct?

Capt. Lynch: It was signed "Request for Estimate" before it went to Davie Shipbuilding.

Mr. Cafik: That is what I said; before, and when it was ready to go to Davie Shipbuilding. It was sent to Davie Shipbuilding and it was returned. Is that correct?

Capt. Lynch: Yes Sir.

Mr. Cafik: With a price. Did they sign this document any place?

Capt. Lynch: Yes, sir, invariably the Vice-President and General Manager signed.

Mr. Cafik: I see, and he signed in that box above that?

Capt. Lynch: "We undertake to execute the work specified above within the time and cost indicated."

Mr. Cafik: He signed it at that point. Then it came back and it went directly to yourself; is that correct, Captain?

Capt. Lynch: Yes, sir.

Mr. Cafik: And you signed the document at that stage?

Capt. Lynch: After due consideration.

Mr. Cafik: All right. What factors did you take into consideration again in this particular document?

Capt. Lynch: I must plead that I cannot—I can give you my practice—but I cannot ...

• 2030

Mr. Cafik: All right, give us your practice.

Capt. Lynch: My practice was that this document would arrive in the office and go to the overseer responsible. In this case it is an H item, and it would go to Lieutenant Commander Hanlon.

Mr. Cafik: I see. Carry on.

Capt. Lynch: He would check it out. For example, I think you have been leading up to a question about whether Davie's might have made any other alterations to the document.

Mr. Cafik: No, I am not leading up to that. If you answer the questions you will get to where I am going in due course.

Capt. Lynch: He would check the document for completeness and he might step outside our normal terms of reference.

Mr. Cafik: It is the "normal" now that you are beginning to tell me?

Capt. Lynch: Right.

Mr. Cafik: He checks this and I gather from what you say that he is going to check to find out whether in fact it is the same description as that originally sent to Davie Shipbuilding Limited?

Capt. Lynch: Yes, he would check the document and then recommend it for my signature, or recommend that I did not sign it.

Mr. Cafik: And what basis of judgment would he use for you either to sign it or not to sign it?

Capt. Lynch: He might have an opinion that the cost was too high.

Mr. Cafik: How would he form such a view as that? I understood it previously, Captain Lynch, that was not within your area of jurisdiction.

Capt. Lynch: That is correct; but it was Navy money that was being spent.

Mr. Cafik: It was the people's money. That is the point I am ultimately going to make.

Capt. Lynch: Very well.

Mr. Cafik: But you have told me today that it was not within your area of jurisdiction to determine whether or not this was a legitimate price.

Capt. Lynch: That is right. If I felt after consultation with the appropriate overseer, that the price was high I would discuss it with Mr. Palmer and defer to his judgment.

Mr. Cafik: I see; but generally, in a routine manner, you would not take this factor into consideration, would you?

Capt. Lynch: This is what you were pursuing me on this morning, Mr. Cafik.

Mr. Cafik: Yes, that is quite correct.

Capt. Lynch: Yes; I would consult orally on this subject with Mr. Palmer if I thought the price was high. I did not send him a letter on the matter. I did not particularly wish to convey that I had such discussions on the subject of X784 as we are having now.

Mr. Cafik: Are you changing your story today and informing this Committee that in fact you felt responsible for the price that was involved on this contract?

Capt. Lynch: I am not aware that I am changing any statement. I have been asked to answer certain questions.

Mr. Cafik: All right; are you saying, Captain Lynch, that in fact you considered it to be within your area of jurisdiction to determine whether or not this was a legitimate price for the work described?

Capt. Lynch: No, it was not within my area of jurisdiction; but I am a Canadian taxpayer, too.

Mr. Cafik: And you did it just as a matter of interest; not as a matter of responsibility?

Capt. Lynch: Closer to interest than to responsibility. Nonetheless, I think it is my responsibility to look after the public's money, if you like.

Mr. Cafik: But this morning, when we spoke about Contract X-782, you indicated that it was not within your jurisdiction and that you had taken no action whatsoever to determine whether or not that was a legitimate price. Is there a difference in the case of this particular contract?

Capt. Lynch: No, I do not mean to convey any difference. It is just that your questions are applicable to a slightly different sector.

Mr. Cafik: The impression I got from your testimony on Contract X-782 was that you did in fact look at the validity of the price.

Capt. Lynch: I was trying to convey something like that this morning, Mr. Cafik.

Mr. Cafik: Did you have any discussions with Mr. St-Laurent relative to the price involved?

Capt. Lynch: I had fewer discussions, overall, with Mr. St-Laurent than I had with Mr. Palmer. I cannot recall discussing this, or any particular estimate, with Mr. St. Laurent. As a matter of fact, I think this estimate probably went through on a more standard procedure. I would think that Lieutenant Commander Hanlon and I probably agreed that this was something that we could forward to Mr. Palmer without comment.

• 2035

Mr. Cafik: I am still in the dark about whether you really made any assessment.

Was the job description that is attached to this document 779, entitled X-784, attached to it when you sent it to Davie Shipbuilding Limited for the quotation?

Capt. Lynch: Yes, sir, I am sure it was.

Mr. Cafik: At the time that the document was forwarded to them did you realize that it did not represent the work to be done?

Capt. Lynch: My previous testimony on X-782, I believe it was, would apply to this one, too.

Mr. Cafik: So that you were...

Capt. Lynch: I do not in any way claim extreme accuracy for this attachment.

Mr. Cafik: You did not really look at it and determine whether or not it was accurate?

Capt. Lynch: That is not quite correct.

Mr. Cafik: Then tell us what is, Captain.

Capt. Lynch: I was aware that it was inadequate.

Mr. Cafik: You were aware that it was inadequate?

Capt. Lynch: Yes.

Mr. Cafik: Why was it forwarded to them if it was inadequate?

Capt. Lynch: Because time was running out, and money disappears with time.

Mr. Cafik: Would you have considered it a big job to have typed on this X-784 something to the effect that the attached work sheet did not mean very much and that in fact you meant that they were to repair all the cabins outlined therein, or whatever it might be? That would not have taken very long. You could have done it in a paragraph, or in a sentence.

Capt. Lynch: This represents office furniture. I forget exactly how I replied to a similar question when you asked about the cabin furniture.

Yes, it would have been simple to do, with 20-20 hindsight. I have twenty-twenty hindsight. I did not have 20-20 foresight.

I wish to repeat that what was important to me was getting the ship out on time with as much work done as possible and as economically as possible.

Mr. Cafik: Mr. St. Laurent, does the job description for X784 fall into the same category as the job description for X-782 in the sense that it does not in fact describe all the work to be done?

Mr. St-Laurent: Yes.

Mr. Cafik: It does fall into that same category?

Mr. St-Laurent: Yes.

Mr. Cafik: How did you go about preparing this particular estimate?

Mr. St-Laurent: Do you wish me to go through the...?

Mr. Cafik: I do not think we need the bottoms up and the upside downs and that sort of thing, but I think it would be interesting to hear just what you did. You arrived at a fixed figure of $66,089. How did you arrive at that as a reasonable price to pay for the work that you had in mind?

Mr. St-Laurent: As with X-782, I did a bottom-up estimate—and I insist on using those words, Mr. Cafik...

Mr. Cafik: A bottom-up estimate, I gather, is this document which is attached to X-784, and it is prepared by the Department of Defence Production. Is that the bottom-up estimate that you are talking about? It lists cash opposite SF164, and so on.

Mr. St-Laurent: You will note, attached to DDP X-782?

Mr. Cafik: Yes; but we are talking about X-784.

Mr. St-Laurent: I will continue with what I had started to say. You will note, attached to DDP X-782, the estimate, my working sheet, and the heading at the top of that page is DDP X-782 and 784.

I think you referred to these working sheets, previously, Mr. Cafik.

Mr. Cafik: I am sorry; I am not with you at the moment. I have some work sheets here on page 1 of which it says DDP X-782 Recapitulation, is that the same?

Mr. St-Laurent: On the back of that, on X-782, you will see my bottom-up estimate—on the back of that whole pad of paper you have in your hand.

Mr. Cafik: The last page?

Mr. St-Laurent: No.

Mr. Cafik: What page number is it?

Mr. St-Laurent: You referred to these breakdowns the other day.

Mr. Cafik: Yes, what page number is it, please?

Mr. St-Laurent: It is 16 at the top of mine.

Mr. Cafik: That is close enough. What are you looking at?

Mr. St-Laurent: I am looking at the heading at the top, DDP X-782 and 784.

Mr. Cafik: I see that. Carry on.

Mr. St-Laurent: As I began to say, I went through the same procedure with X-784, I did a bottom-up estimate on the work that I found was required, along with the cabin furniture.

Mr. Cafik: In this X-784 a number of offices and areas and so on are mentioned—47 areas, as a matter of fact, according to my information. You visited these particular areas, did you?

Mr. St. Laurent: That is correct.

Mr. Cafik: And what did you do? Did you arrive at an average cost per area and then multiply by the number of areas and arrive at the price? How did you arrive at it?

Mr. St. Laurent: Much as I did with the cabin furniture; not generically, by average cabin, but by an assessment of the work that was required in each space.

• 2040

Mr. Cafik: In this particular case, unlike the previous contract you talked about, did you look at each area concerned, or did you visit certain of them at random and make judgments that you applied to the areas that you did not visit?

Mr. St. Laurent: I made judgements in all cases, because the whole estimate is a judgment.

Mr. Cafik: Yes, but did you in fact visit each one of the 47 areas concerned?

Mr. St. Laurent: No, because there are a number of cabins included in 784 which were of the same generic type as those in 782. This included a number of sea cabins in the island —I think four in number—and a number of larger spaces, like the sick bay for example, with about 500 compartments. These were individually assessed.

Mr. Cafik: Looking at this job description, would you think that many of these offices are very similar? You talk about four cabins but that is a very small percentage of 47 areas.

Mr. St. Laurent: No, I was talking about four cabins in the island but I believe that there are 7 cabins—I have forgotten the figure. There are a number of cabins of the same generic type in 784.

Mr. Cafik: All right, let me ask you a specific question. What about the cash office, for instance?

Mr. St. Laurent: I visited it separately, as I did the provisions office.

Mr. Cafik: Now there are no other generic types like that, as you describe it?

Mr. St. Laurent: No. That was an individual case.

Mr. Cafik: Okay, the pay office?

Mr. St. Laurent: Same thing.

Mr. Cafik: The general stores office?

Mr. St. Laurent: Those are all in the same area.

Mr. Cafik: The provisions office?

Mr. St. Laurent: The same area.

Mr. Cafik: These are all different—each one of these is specific?

Mr. St. Laurent: They are all one area, one watertight subdivision on the ship in the same deck. They were all the same area.

Mr. Cafik: Are you trying to tell me that the work to be done in the cash office would cost the same as the work to be done in the pay office?

Mr. St. Laurent: No, I am not.

Mr. Cafik: What are you saying then?

Mr. St. Laurent: I am saying that that particular area between two water tight bulkheads and on the same deck was assessed as a group, as one item.

Mr. Cafik: But they are not described here as one item.

Mr. St. Laurent: What difference does it make how they are described? What I have just said is that it is a judgment-type estimate and whether I do it on a minute or on an over-all basis it is still a judgment. My judg-

ment was in respect of those entire spaces in that watertight subdivision.

Mr. Cafik: Did you prepare a job description or anything describing what should be done within that watertight area?

Mr. St. Laurent: No, I did not.

Mr. Cafik: Is there any documentation whatsoever to justify the estimate that you made on the cost for that particular area?

Mr. St. Laurent: None in addition to that for 782, no.

Mr. Cafik: So you have no way of showing this particular Committee, in a sense that you can prove it in terms of written documentation, that you ever made such an estimate. Is it not correct that there are no documents to indicate that?

Mr. St. Laurent: That is correct.

Mr. Cafik: All right. You have no idea then what price you figured that area should cost?

Mr. St. Laurent: Not at this time, no.

Mr. Cafik: Were such other areas as photographic office, naval stores, the air intelligence room and so on all looked at individually?

Mr. St. Laurent: Yes, they were.

Mr. Cafik: And the same is true there, you have nothing to back up your verbal statements—you sort of came to a price and you thought it was pretty good.

Mr. St. Laurent: That is correct.

Mr. Cafik: So you are asking this Committee then to conclude, because you went around and had a look at these rooms and came up with a figure for which you have no supporting evidence, that it should have cost $66,089, and you feel that this was a reasonable way to go about it?

Mr. St. Laurent: Yes.

Mr. Cafik: You do feel that it was a reasonable way?

Mr. St. Laurent: Yes, I do.

Mr. Cafik: Then I gather you would do it again, if you felt that it was reasonable?

Mr. St. Laurent: No, I would keep my working papers.

Mr. Cafik: You would keep your working papers?

Mr. St. Laurent: Right.

• 2045

Mr. Cafik: Is there no systems control in the department that would ask you to keep your working papers?

Mr. St. Laurent: I cannot speak for the department as a whole, I only know what I do with my own projects.

Mr. Cafik: But you have never had any instructions to keep those working papers?

Mr. St. Laurent: Yes, indeed I have, specifically for my project.

Mr. Cafik: But not for this particular one?

Mr. St. Laurent: No.

Mr. Cafik: And you do not feel that this particular project fell within the sort of previous instructions to keep the papers, you felt it was something unique?

Mr. St. Laurent: I had not had any previous instructions to keep my working papers.

Mr. Cafik: I see. I gathered that you did have instructions, from what you said earlier. But there were no instructions ever given to you to keep the working papers?

Mr. St. Laurent: On this specific estimate, no.

Mr. Cafik: All right.

The Chairman: I wonder if we might not ask Mr. St. Laurent at this point whether these were not working papers that were furnished to the Committee?

Mr. St. Laurent: These are summary sheets, Mr. Chairman—recapitulations in fact, not really estimates.

The Chairman: When you went around to these office cabins and so on did you go alone or did the Davie Shipbuilding Limited official go with you?

Mr. St. Laurent: I cannot recall specifically iny any one area but the person with whom I attended some of these areas was a representative of PNO staff, Lieut. Commander Halon.

The Chairman: All right.

Mr. Cafik: Now you have prepared these estimates with no backup documentation and

somebody somewhere along the line had to decide whether they were going to accept the estimates put forward by Davie Shipbuilding. I gather that you were involved in the making of that decision, or at least consulted on it, if this is consistent with previous contracts we have discussed. Is that correct?

Mr. St. Laurent: Yes, that is correct.

Mr. Cafik: Now when you were consulted what could you possibly have said that would shed any light on what was to be done or whether the price was reasonable or not if you had no documentation?

Mr. St. Laurent: I did have at that time, Mr. Cafik.

Mr. Cafik: I see, and you threw it out subsequently?

Mr. St. Laurent: Well, I did not throw it out but I do not know where it is. It was disposed of.

Mr. Cafik: I presume you would have discussed this matter with Mr. Palmer.

Mr. St. Laurent: That is correct.

Mr. Cafik: Mr. Palmer, would you care to step up again for a moment?

Mr. Palmer, did you ever see the working papers that were prepared for this particular job by Mr. St. Laurent?

Mr. Palmer: Mr. Cafik, I saw a big stack of foolscap that Mr. St. Laurent had been utilizing and he kept them altogether. I saw him working on these things. I did not look at them. I did not look at his working sheets but I knew he had his working sheets.

Mr. Cafik: How did you then, as the person responsible for making the ultimate decision whether the price was reasonable or not, come to that conclusion without having gone into some of the details, the job descriptions and the work to be done with Mr. St-Laurent?

Mr. Palmer: As I said this morning, I sat down with Mr. St. Laurent and we had a discussion before this was signed. I saw Mr. St. Laurent during the time that he was in Lauzon, I saw him going about his business even as I was going about mine and the consequence is that we sat down and discussed it and he summarized the situation.

Mr. Cafik: He summarized it to you verbally?

Mr. Palmer: That is right.

Mr. Cafik: With all due respect, Mr. Palmer, we have had a fair amount of testimony in this regard and I have found nothing that is being said to this Committee that would lead me to believe that that estimate was anything upon which to base a judgment. I do not know how you would have come to that conclusion—unless as a matter of straight ordinary everyday common trust you felt that his judgment was to be valued and if he had said twice the figure you would have accepted it.

Mr. Palmer: I requested my department to supply me with assistance by someone versed in this particular direction. I was not versed in it. The consequence was that the department deemed it advisable to send down Mr. St. Laurent to assist me. I had no reason to question his judgment or the judgment of the department in sending him down. Hence, when he summarized this I accepted it.

Mr. Cafik: Summarized it verbally?

Mr. Palmer: That is correct.

Mr. Cafik: Mr. Palmer, had you seen those work sheets that are prepared here for the bottom-up estimate?

Mr. Palmer: I never looked at them.

Mr. Cafik: You never looked at them?

Mr. Palmer: No.

Mr. Cafik: You did not feel that they were relevant?

Mr. Palmer: Oh no, it was not a case of relevance, but Mr. St. Laurent was giving me the summary of what he had already reached.

• 2050

Mr. Cafik: And at the time that he gave you the summary I presume you felt that these pieces of paper that were attached here in fact were a written description of that particular job and of the prices involved?

Mr. Palmer: No, I had never even read the specification. I did not have time to read the specification, as I stated this morning in connection with the other item of work. I left that to Mr. St. Laurent, but I accepted his word in this particular regard. I had every faith in him.

Mr. Cafik: Did you know that most of the work that was involved in this 784 was in fact verbal?

Mr. Palmer: I did, exactly the same as in relationship to the cabins.

Mr. Cafik: You knew that?

Mr. Palmer: I knew that.

Mr. Cafik: So then you did know that these documents in fact did not describe the work that needed to be done?

Mr. Palmer: Exactly, yes.

Mr. Cafik: Is that correct?

Mr. Palmer: I had known that for several months.

Mr. Cafik: You had known it for several months?

Mr. Palmer: Well, the specifications were in the process of production. Actually I think that this was almost a reproduction of the specification that I referred to this morning which had been prepared several months previously and then had been cancelled.

Mr. Cafik: Are there copies of that original specification?

Mr. Palmer: I do not have any copies. It was cancelled by the Naval Overseer.

Mr. Cafik: What is the procedure, Mr. Wallace, in the event of a cancellation—do you keep the documents describing the work that was cancelled?

Mr. Wallace: Mr. Chairman, if the Naval Overseer raises a specification and it is subsequently cancelled it goes back to the Naval Overseer and we have no copies of it in our office. It is a cancelled item and that is all as far as we are concerned?

Mr. Cafik: Captain Lynch, do you keep copies of cancelled items in the job description?

Capt. Lynch: I think we did for a while, I do not know if we did so permanently. I do not th'nk we forwarded them to my superiors at Materiel Command. I think we forwarded a report on the items showing, for example, that X-337 was cancelled, and my superiors did not concern themselves with missing numbers.

Mr. Cafik: All right. Mr. St-Laurent, you realize that the price submitted by Davie Shipbuilding Limited was $61,853 and your original bottom-up estimate was $66,089. Those figures are pretty close. They are like the previous contract. Were you surprised when they came in that close?

Mr. St-Laurent: No, I was not.

Mr. Cafik: You were not?

Mr. St-Laurent: No.

Mr. Cafik: The Chairman asked earlier if anyone went around with you when you were doing this inspection of the work that was to be done and you indicated there may have been somebody from the Navy or the Department of Defence, but there was no one from Davie Shipbuilding Limited. Is that correct?

Mr. St-Laurent: I said that to the best of my recollection the representative of the Naval Overseer did not attend at all of the spaces with me. However, there was a representative of Davie Shipbuilding Limited who did go around to a number of spaces.

Mr. Cafik: With you?

Mr. St-Laurent: With us, in fact.

Mr. Cafik: All right. Was it at the time that you were going around that you prepared the estimates of work to be done?

Mr. St-Laurent: No, it was not.

Mr. Cafik: It was not. How did you arrive at that? Did you go back to your office and sort of try to remember what was to be done?

Mr. St-Laurent: No, I went back to the ship. The Ship was in the yard and I went back to it every day, in fact.

Mr. Cafik: I see. In order to determine these prices?

Mr. St-Laurent: That is correct.

Mr. Cafik: I see.

The Chairman: Mr. Cafik, I wonder if at this point we could ask how Davie Shipbuilding Limited would know what to base their tender on? This was a verbal arrangement. How would the ship company know how to come up with an estimate for the job?

Mr. St-Laurent: By discussion with representatives of Davie Shipbuilding Limited on the ship.

The Chairman: All verbal, nothing written?

Mr. St-Laurent: That is correct.

The Chairman: So, your dealings with the ship company were all verbal?

Mr. St-Laurent: Yes.

The Chairman: And they estimated it on a verbal basis?

Mr. St-Laurent: They estimated on the same interpretation of the specification I did.

The Chairman: And your specification was nil, it was only verbal?

Mr. St-Laurent: The specification that I dealt with was these pages that you see here, with the interpretation that all the furniture was to be refinished.

The Chairman: But not listed?

Mr. St-Laurent: But not necessarily listed as specifically damaged.

Mr. Cafik: I want to pursue that particular point, if I may. On page 2 of your job description for X-784 and will see that item No. 1 is Cash Office, and then it shows as items (iii) under that heading, "Furniture to be refinished". Then there is written in, "4 desks—4

• 2055

chairs, 2 filing cabinets", and then a whole series of costs are listed. Is what is written there in fact a proper and accurate description of what was to be done in the Cash Office?

Mr. St-Laurent: That is correct.

Mr. Cafik: It was in this particular case?

Mr. St-Laurent: Except for my pencil notes which say, "4 desks—4 chairs, 2 filing cabinets".

Mr. Cafik: When were those pencilled notes put in there, Mr. St-Laurent?

Mr. St-Laurent: When I drew up these sheets while I was making the estimate.

Mr. Cafik: I see. Why did you note them in there?

Mr. St-Laurent: I cannot recall why I noted them in there.

Mr. Cafik: I presume that you started off with a certain pattern. You noted them in there and I presume you did the same thing elsewhere.

Mr. St-Laurent: I did on my working papers, yes. I do not know why these particular items were listed on this particular sheet.

Mr. Cafik: But you put them here and you did not carry through with that particular approach?

Mr. St-Laurent: Obviously that is correct.

Mr. Cafik: I do not want to say that it is obvious because the obvious thing is that in the rest of the cases such items were not involved. I will go a bit further. In item 2 under the category "Furniture to be refinished" it says "See above". What does "See above" refer to?

Mr. St-Laurent: The furniture is to be refinished was included with the estimates under the item for the Pay Office, as it was with the others.

Mr. Cafik: Would you say that again?

Mr. St-Laurent: The furniture to be refinished I did not estimate separately. As I said, I included it on the X-782, the systems level estimate that was added to these other figures.

Mr. Cafik: All right. What furniture was involved in the Pay Office? Could you tell us that, please?

Mr. St-Laurent: I cannot tell you from memory. I think I have some sheets on this.

Mr. Crouse: What page are you on?

Mr. Cafik: I am on page 2, Mr. Crouse. You are looking at a different document. What furniture was in the Pay Office?

An hon. Member: It is X-784.

Mr. St-Laurent: The list I am about to read to you is a list that was taken from the general arrangement drawings just recently, and it was confirmed by Mr. Wallace on a visit to the ship a few weeks ago. I will list them if you wish, Mr. Cafik.

Mr. Cafik: Yes. In the Pay Office?

Mr. St-Laurent: Seven desks, two filing cabinets, three book shelves, six paper racks and two stationery racks. May I repeat those for you?

Mr. Cafik: No, you do not need to. How many desks did you say there were?

Mr. St-Laurent: Seven desks.

Mr. Cafik: All right. Why does it say in this particular description that there are four desks?

Mr. St-Laurent: I cannot speak to my pencil comments on these sheets. I do not recall what I was doing when I put those marks there, Mr. Cafik.

Mr. Cafik: The figure 4 surely referred to the number of desks?

Mr. St-Laurent: I do not know.

Mr. Cafik: But would you not suspect that it did? It did previously.

Mr. St-Laurent: I do not know.

Mr. Cafik: Is there any chance that Pay Office now has more furniture in it than it had at the time of the refit?

Mr. St-Laurent: I cannot say. I rather doubt that.

Mr. Cafik: Sticking to the Pay Office, what you are really saying is that at the present moment there are seven desks. Is that accurate?

Mr. St-Laurent: That is what I specifically said, yes.

Mr. Cafik: Right. You do not know how many were in there at the time of the refit?

Mr. St. Laurent: I do not know at this time how many there were at the time of the refit.

Mr. Cafik: Right. Do you think there may have been seven? There may have been four.

Mr. St. Laurent: Yes.

Mr. Cafik: Or there may have been any other number.

Mr. St. Laurent: That is correct.

Mr. Cafik: It then mentions Book Shelf—it is in the singular—and you say there were three of them?

Mr. St. Laurent: No, I am saying there are three of them.

Mr. Cafik: That there are three of them at the present moment.

Mr. St. Laurent: That is correct.

Mr. Cafik: You do not know how many there were then?

Mr. St. Laurent: No, from recollection, no.

Mr. Cafik: From reading this document would you be inclined to think that Book Shelf meant one?

Mr. St. Laurent: No, I would not.

Mr. Cafik: You would not?

Mr. St-Laurent: No.

Mr. Cafik: I gather that the singular and plural do not mean much to you. Very well. The same argument, of course, would apply to the paper shelves and the filing cabinets. The figures you are presently giving us are the quantities that are there at the moment and not necessarily the quantities that were there before. Is that correct?

Mr. St-Laurent: That is correct.

• 2100

Mr. Cafik: If the Pay Office now contains the same materials that were there originally, it was a pretty expensive operation. According to these figures it cost $8,697 to do that Pay Office.

Mr. St-Laurent: Is that a question, Mr. Cafik?

Mr. Cafik: Yes. To put the question properly, when you did your bottom-up estimate it, as we know, did not necessarily, describe all of the work. However, I would suggest that the groupings are perhaps accurate. In other words, if you added up the total cost for the Pay Office in terms of numbers of hours and material you would in fact arrive at the figure that you estimated it would cost to do that particular Pay Office, even though the details outlined in this particular job description are in fact not accurate.

Mr. St-Laurent: I would draw your attention, Mr. Cafik, to page 5 of the same specification, items 28, 29, 30, 31, 32, 33 and 34.

Mr. Cafik: Page 5? You must have a different page. It is page 6 on my copy.

Mr. St-Laurent: Items 28, 29, 30, 31, 32, 33 and 34.

Mr. Cafik: Yes.

Mr. St-Laurent: That is the complete sick bay spaces on the ship.

Mr. Cafik: Just a moment, I want to get back to the pay office.

Mr. St-Laurent: I am telling you about the pay office, Mr. Cafik.

Mr. Cafik: Are all these sick bays, in the pay office?

Mr. St-Laurent: Do you wish to listen to me or...

Mr. Cafik: No, I wish you to answer the question.

Mr. St-Laurent: I am answering the question, Mr. Cafik.

Mr. Cafik: All right, I will carry on. I fail to understand how, but ...

Mr. St-Laurent: Perhaps I can help you.

Mr. Cafik: Yes, go ahead. I would be glad if you would.

Mr. St-Laurent: On 782 I said that I had started a bottom-up estimate on the work that was literally described in the specifications. I then did an assessment of the work that, according to my interpretation, was required to refinish all the furniture. I added the systems level estimate of the refinishing cost to the bottom-up estimate. The same thing happened in these areas. I drew your attention to the sick bay ...

Mr. Cafik: All right. May I now ask you a specific question. Was 784 prepared as a specific item or was it prepared as part of 782?

Mr. St-Laurent: It was prepared as a specific item because that is the way it was given to the shipbuilder, but it was prepared in the same manner and at the same time as 782.

Mr. Cafik: Yes. I understand that and I do not want to say anything that is incorrect, Mr. St-Laurent, but I am asking you, and I know how you went about it, if you went about your systems estimate—call it what you like—in such a manner that you dealt with specific areas as categories or compartments and then arrived at certain figures, and you then added up those figures and arrived at the figure of $66,089.

Mr. St-Laurent: No. If you add up all of these figures in the pay office you do not get the amount that the pay office cost because from doing the systems level estimate and apportioning that over the entire sheet there is also included in the pay office on these literal translations the cost of refinishing all of the sick bay and in fact, other spaces as well.

Mr. Cafik: But the sick bay is listed. What you are trying to tell me, then, is that there is absolutely no way that we can draw any kind of conclusions from these estimates either in terms of category, items or anything else.

Mr. St-Laurent: That is correct. That is what I have been telling you for three weeks now, Mr. Cafik. These figures do not mean anything in a literal translation. The only figure that I can put a fair and reasonable assessment on is the total figure at the bottom of the page.

Mr. Cafik: And you have absolutely no basis on which you can justify that other than by using such words as systems estimates and systems something else or a bottom-up study; it does not mean very much to me in terms of justification.

Mr. St-Laurent: Then I could not possibly explain it to you, Mr. Cafik.

Mr. Lefebvre: It is going to have to be explained to somebody, Mr. Chairman.

Mr. Cafik: As far as that is concerned, I think we have gone about as far as we can go in that. I would like to go on, if I may, because we want to conclude tonight and I would like to relate all this evidence later when we have a few days off and weigh it all up.

Mr. Boulanger: Mr. Chairman, if you will permit, I have a supplementary for Mr. St-Laurent. Mr. St-Laurent, if I wanted you to make an assessment for me of the cost of a

• 2105

custom-built TV cabinet and you merely told me that it would cost $432 to manufacture it, according to what you told Mr. Cafik I would never know if the cabinet cost $50 and the fittings $370.

Mr. St-Laurent: At the time I spoke to Mr. Palmer about the estimates and recommended that they be accepted I did have that information. I do not have that information for these items at this moment. I did not retain it.

Mr. Cafik: Are you convinced, Mr. St-Laurent, that that information is not available? Did you file it and you just do not remember where it is, or was it specifically destroyed?

Mr. St-Laurent: I do not recall but I am convinced that it is not available.

Mr. Cafik: You must have gone to considerable lengths to determine these estimates. It would be a fair amount of work, would it not?

Mr. St. Laurent: Yes, indeed.

Mr. Cafik: What kind of a mess does this make of the argument that there was not sufficient time to write down what you were talking about?

Mr. St. Laurent: In retrospect, that is probably a correct statement. I should have taken the time to write down these additional interpretations.

Mr. Cafik: So, the argument of pressure of time is not very valid because you spent an enormous amount of time in preparing documents that are meaningless. You could have spent less time in preparing meaningful ones. Would you not agree?

Mr. Lefebvre: A supplementary. Why was the time spent and the effort made to give us these estimates that do not mean a doggone thing? How much time was spent on preparing these sheets that we have been using for six weeks and which we suddenly found out the other day do not mean a thing? Who prepared these sheets?

Mr. St. Laurent: These sheets were prepared in February of 1967 the site of Davie Shipbuilding Ltd. and in the office of the Resident DDP Project Officer, and they have been on the file ever since.

Mr. Lefebvre: In the office of Davie Shipbuilding?

Mr. St. Laurent: In the office of the Resident DDP Project Officer.

Mr. Cafik: Who is he, Mr. St. Laurent?

Mr. St. Laurent: Mr. Palmer.

Mr. Cafik: Mr. Palmer. And they were prepared in your office. Is that correct?

Mr. Palmer: We had two offices and there was working space. There were four of us working on this project. There was ample space for people to work but it was not necessarily with communication one with the other.

Mr. Lefebvre: Why were they prepared if they are irrelevant and useless?

Mr. St. Laurent: They are just summary sheets.

Mr. Cafik: Of what? What are they summarizing, the work not to be done?

Mr. St. Laurent: They are summarizing, in order that I could use an adding machine to get to the figure at the bottom of the page.

Mr. Cafik: You did not need to add it up because you had the total before you worked out the details. Is that not correct?

Mr. St. Laurent: Yes, that is precisely correct.

Mr. Cafik: Then what the devil did you need an adding machine for? What you needed was a machine that would subtract. You took the total figure and wrote in a whole bunch of figures until you got down to nothing. That is really in effect what you did. You did not need to have this in order to add up to a certain figure.

Mr. St. Laurent: No, I did not.

Mr. Cafik: This Committee and everybody else would have found it a lot more sensible if you had written, "Repair all the furniture in 45 areas on the ship in the following numbers for $62,000", or whatever it is. That would have made some kind of sense. We would have been very critical of it but it would not have made complete nonsense, like the method you did use. Anyway, I would like to get on, if there are no more supplementaries on that point.

The Chairman: I would like to ask one question of Mr. Palmer. I think you told us earlier that you had utter confidence in Mr. St. Laurent and you did not bother to check any figures whatsoever. I may be wrong, but I think Mr. St. Laurent said that you prepared these figures.

Mr. Palmer: No, sir.

The Chairman: Who prepared them, Mr. St. Laurent?

Mr. St. Laurent: I did.

The Chairman: And you showed them to Mr. Palmer?

Mr. St. Laurent: Not specifically; I discussed the estimate with Mr. Palmer.

The Chairman: Mr. Palmer knew they existed.

Mr. St. Laurent: He knew they existed but I do not think he went over them specifically.

Mr. Cafik: Did Mr. Palmer know that these were figments of the imagination? Did you realize, Mr. Palmer, that these were fabricated figures and they bore no relationship to the work that was described alongside them?

Mr. Palmer: Did I know that these were fabricated figures?

Mr. Cafik: Yes.

Mr. Palmer: I knew that they were sheets with produced figures, but not necessarily fabricated figures in the common usage of the word.

Mr. Cafik: What I mean by "fabricated"—and I do not want to be insulting about this—is that the figures bore no relationship to the work that was described opposite them.

• 2110

Mr. Palmer: Mr. Cafik, I discussed with Mr. St-Laurent in toto the entire result, and he gave me the background of the difficulties which he had encountered and the conditions which existed on the ship. He summarized it orally for me.

Mr. Cafik: My specific question is did you realize that these figures were not related to the jobs that were described beside them? Do you want a specific example of what I am talking about, Mr. Palmer? You seem a bit confused.

Mr. Palmer: I am not confused. I am hesitant because of the way you posed your question.

Mr. Cafik: You pose it your way and answer it.

Mr. Palmer: No, I cannot because I do not know what you are asking.

Mr. Cafik: I will tell you very specifically what I am asking. It shows on this thing here that there are desks in the pay office and beside that item in pencil it shows the figure 4 and it also shows 276 hours and $160 worth of material.

Mr. Palmer: I did not know anything about the details which are shown here. I only knew it in toto. I knew the method which had been employed.

Mr. Cafik: All right. It is the method that we are really talking about. The method that was employed by Mr. St-Laurent was to take that figure of $66,089 and try to marry it to an outdated, outmoded and worthless job description.

Mr. Palmer: I knew the method that Mr. St-Laurent utilized in discussing this, as he has already mentioned, with the representatives of Davie Shipbuilding and the representatives of the Naval Overseer.

Mr. Cafik: But you had no idea of the method he used to produce this document?

Mr. Palmer: No, I left that up to him.

Mr. Cafik: Mr. St. Laurent, did you ever discuss with any of your superiors the fact that you had to go about preparing this kind of estimate in this manner?

Mr. St. Laurent: Not that I recall, Mr. Cafik, no.

Mr. Cafik: Did you not feel that it was important enough to bring to their attention that you were doing this?

Mr. St. Laurent: No, I did not.

Mr. Lefebvre: Under whose orders were you when you were asked to make these useless estimates? Did somebody specifically give you an order to prepare these estimates from your total, backing up to all the items that were refinished?

Mr. St. Laurent: No, that was entirely my own affair.

Mr. Lefebvre: What was the purpose of it if they do not mean a thing?

Mr. St. Laurent: I cannot recall specifically, but I think what I was intending to do there was to provide a résumé so that I could discuss with the resident project officer.

Mr. Cafik: What would you possibly discuss with the resident project officer as a result of all these figures that bear no relationship to the specific job described? Of what value would it be for that purpose, or for any other purpose?

Mr. St. Laurent: At this time I do not appreciate the value, Mr. Cafik.

Mr. Cafik: You do not know why you did this?

Mr. St. Laurent: Not at this time, no, I think that was my intention at that time.

Mr. Lefebvre: Was it in 1967 you prepared these sheets?

Mr. St. Laurent: Yes, that is correct.

Mr. Lefebvre: Was it because questions were already being thrown at you, or at somebody else, about the cost of this furniture, and somebody was seeking to justify the total cost, basing it on individual items?

Mr. St. Laurent: No, there was no intent to do that at any time. In fact, it was not intended that these papers would form part of the DDP 779.

Mr. Lefebvre: Then we do not know why you did it, you do not know why you did it, and we do not know why we are still using these sheets, because they do not mean a thing?

Mr. Boulanger: In one word, Mr. Palmer, relative to what Mr. St. Laurent used to tell you orally on these reports, and coming back to my example, if Mr. St. Laurent said that a TV set cost $450 and he figured that $200 was the price of the cabinet and $250 was the price of the insides, you would say "All right"; and that in spite of the fact that it could have been $350 for the insides and just $100 for the cabinet? For you, the total price was enough?

Mr. Palmer: The total price was enough.

Mr. Boulanger: That is it.

Mr. Lefebvre: I just have one more question. Page 20, which has your name on the top, Mr. Palmer describes the work that has been done to a chair. This is in the other thick document which refers to both X-782 and X-784 and shows that 36 man-hours plus $12 in material were spent on a chair. That adds up to $195.60. What type of chair was this?

Mr. Palmer: I do not know.

Mr. Lefebvre: Would anybody here now be able to tell?

The Chairman: Mr. St. Laurent has told us that those figures do not mean anything.

Mr. Lefebvre: This is another set. Do these sheets mean anything?

Mr. St. Laurent: Those are the sheets to which I referred earlier, that were my con-

• 2115

ceptualization of the work that was required; and these are the augmented figures by the refinishing, on total assessment.

Mr. Lefebvre: Are these useful and realistic figures?

Mr. St. Laurent: No, sir.

Mr. Lefebvre: Those, again, are not.

Mr. St. Laurent: That is correct.

Mr. Cafik: This is the premise upon which all the other premises are being built, or from which all the other useless figures come.

The Chairman: Mr. Lefebvre...

Mr. Lefebvre: We cannot ask further questions because we have nothing to work with.

The Chairman: ... I suppose we have come to the end of the road on this. We will have to say that the furniture was repaired on a hit-or-miss method, orally, without any figures to back it up; that taxpayers' money was spent orally this way; that these figures presented to the Committee mean nothing; and that we can only assume that it was an oral job and, that being so, there is no way of checking whether or not the work was done, or done correctly. We just have to assume that it was as careless, slipshod, reckless and irresponsible a way as anyone could do any piece of business.

Some hon. Members: Hear, hear.

Mr. Crouse: You can also add "sloppy" to that, Mr. Chairman.

Mr. Cafik: Mr. Chairman, may I pursue X-1237 for a moment? I would like to direct my first question...

The Chairman: Before you go on to that, Mr. Cafik, I want to be assured, as I am sure does the Committee, about this requisition...

Mr. Cafik: Yes; about the duplication of the chairs.

The Chairman: ...relative to the chairs included in this list of work to be done. We were told it was given to the Davie people. Now we are told it was done orally. But it does include the 26 seating arrangement chairs.

The subcommittee was told that they were not repaired by Davie but by the Navy, and we were told that it was done orally, by telling Davie to cross off those chairs and not to fix them.

We have asked the Department if they can produce any letter, or any document, wherein they wrote to Davie saying, "Please remove the 26 seating arrangement chairs from the requisition on 784 and deduct that from the estimate price that you have given us".

Has anybody in the Department of Defence Production, or in the Navy department, been able to produce any written document to show that this was so? If so, Mr. Wallace...

Mr. Wallace: Mr. Chairman, there is no document available to indicate this. The only point I can make is that the chairs were not on the ship at that particular time. The contractor has confirmed to me in writing that he

was advised orally and he says, in addition, that the chairs were not on the ship at that time because they had been taken off previously, some two or three months before, under 427, or whatever it was.

The Chairman: Were they on the ship at the time the requisition was written up?

Mr. Wallace: No, sir.

Mr. Cafik: The fact that they were, or were not, on the ship really is irrelevant to the problem. We paid to have them repaired.

Mr. Wallace: I have already been asked that, Mr. Chairman. This question has been asked a number of times.

Mr. Cafik: Yes, that is right.

Mr. Wallace: And we have told you a number of times that the contractor did not include the cost of these briefing room chairs in his estimate, and we did not include it in ours.

Mr. Cafik: But they were included in the job description.

Mr. Wallace: Apparently they were, yes.

Mr. Cafik: And not withdrawn in any formal way.

Mr. Wallace: I do not have any piece of paper to support or substantiate this comment.

The Chairman: So, Mr. Wallace, it is fair to say that we have to take on oral word on this, with nothing to substantiate...

Mr. Wallace: Other than the fact that I wrote to Davie Shipbuilding immediately after you had raised the question in the first instance. I asked them if they were able to provide any evidence in the form of a piece of paper that may have been transmitted by our project officer on the spot, and they were not able to produce such a piece of paper. But I would like to read the letter, if I may.

The Chairman: Yes, surely.

Mr. Cafik: Mr. Chairman, this appears to be the only case of something being listed that was not done. In all the cases we talked about earlier an awful lot was done that was not listed.

• 2120

Mr. Wallace: Mr. Chairman, I wrote to Davie Shipbuilding on April 3 1969. I will summarize this for you. I said that the Public Accounts Committee in its hearing on the *Bonaventure* had raised a question concerning room chairs under DDP 779, No. X427; that these chairs were sent to the Naval Supply Depot for repairs; and that DDP 779, X784 had requested him to furnish an estimate of cost for repairs to certain items of office and cabin furniture. The Public Accounts Committee had noted the briefing room chairs referred to were included on page 7 of the specifications.

I told him that a review of our records did not disclose, and that we could not find any evidence, that we had communicated with the company to indicate that these chairs were not to be included, and asked him if he would please indicate whether the briefing chairs were included in his estimates and did he have any evidence to substantiate that this item was in fact excluded from the estimate, or any evidence to substantiate our discussions with him on this point.

I mentioned these reports; that our project officer had discussed this with the contractor; and that this was to be expressly excluded. His reply was:

> I refer to your letter dated 3rd April, 1969, concerning the briefing room chairs. I have been advised by my staff that your understanding that Mr. S. Palmer, the Project Officer on the job, advised our superintendent, Mr. J. Lennox, to exclude these items from the estimate is correct and we confirm that these items were in fact excluded by Mr. Lennox.
>
> The reason for these items being excluded from the estimate was that they were no longer in the ship, having been removed and handed over some three months earlier in accordance with the requirements of AWR H-76 DDP-779 Form X-427, copies attached.

This is the only evidence I can provide.

The Chairman: Would you table those letters, Mr. Wallace?

Mr. Wallace: I do not have a copy of this original. Could I get one?

The Chairman: Yes, the Clerk will arrange that. In no place in that letter did he say—I may not have followed it too closely—but the Davie people did not say that the cost of fixing the chairs was not included in the $61,853.

Mr. Wallace: I asked him if it was included in their estimate, I believe, and he said it was not included.

Mr. Cafik: Does Davie shipyard have records indicating what they did under each of these contracts that we have been referring to on the furniture side of the refit?

Mr. Wallace: Mr. Chairman, I do not know what records Davie Shipbuilding keep.

The Chairman: We will direct that question to them when they come.

Mr. Cafik: Yes, the point is that if they do have records, they might be able to conclude that they did not in fact do the work on these particular chairs. But if they do not have records, if they are running their department or their operation the same as the Department runs our side of it, then I do not know how anybody could ever conclude whether they were done or not done.

An hon. Member: It is in the report; they do not keep records.

Mr. Cafik: They do not have any records; we do not have any records. They tell us that they did not do it and we are supposed to accept that, although this particular contract specifically asked them to do the job.

The Chairman: I understand that it was Mr. Palmer's responsibility to tell the Davie people to exclude these chairs. That was in the letter.

Mr. Palmer, do you recall telling the Davie people about these chairs, and to exclude them because they were elsewhere, and the navy was going to fix them?

Mr. Palmer: Mr. Chairman, there had been an earlier specification raised in the summer, I think it was, of 1966 for furniture. Before the estimate on that had been completed by Davie Shipbuilding, the naval overseer raised another X-779, I think it was in the fall of 1966, covering the briefing-room chairs—I forget the number it was—and specifically on the X-779 it makes specific reference that these were to be deleted from the specification which was in existence at that particular time. That big requirement was cancelled, but the small requirement for the briefing-room chairs remained.

My understanding was that these copies of this big specification which existed in 1966 were recalled by the naval overseer, and my • 2125

understanding was that he was trying to utilize these in order to save reproduction for any subsequent work, and these were incorporated. I have a very vague recollection of talking about this to the general superintendent. I cannot remember the specific detail. I remember there was some conversation between us, but I could not tell you when it actually happened.

The Chairman: As far as you are concerned, you honestly feel that the Crown did not pay Davie for fixing those 26 chairs.

Mr. Palmer: No, sir. I believe they did not do that.

Mr. Cafik: Mr. Chairman, did we not have evidence to indicate that the original job descriptions that were prepared by the Department of Defence Production prior to the refit were submitted to Davie Shipbuilding and they refused to make a bid because the work descriptions were out of date? Is that correct?

The Chairman: You are right on that, Mr. Cafik, only it was supplied by the Department of National Defence, and they wrote up this list of specifications to repair all the furniture. They gave it to the Davie company and asked for a bid and Davie said, "Take it home; it is a year old; we will not quote on it", and then they divided the furniture into various sections.

Mr. Armstrong: I think I could correct that, Mr. Chairman. That is true up to a point. Then there was a demand raised which covered all of the furniture, cabin furniture, office furniture, and the mess deck furniture. This is the one that Mr. Palmer is referring to, and it was number X-337. That was in fact estimated on by the company, and the estimate came to $550,000.

The naval overseer decided that he could not afford to spend that much money on repair of furniture and it was broken down into three sections, one dealing with cabins which was X-782, I think, and the one we are discussing now, the repairs to the office furniture. The mess decks, it was decided, would be done by the ship's company. The total of all the furniture repairs, including, I think, the smaller items that we discussed earlier, came to $233,000, I think.

Confirming what Mr. Palmer said, when the item was raised that provided for the removal of those chairs from the briefing

room, I think it also provided for cancellation of the repairs in that original X-337, the one that was cancelled, the $555,000. The requisitions were broken down into separate ones, and we had one requisition dealing with the cabin furniture and another with the office furniture. The sheets that had backed up X-337 were taken off and put on the separate ones, and the briefing chairs remained on it although they had been cancelled by the earlier one. And I think this confirms what Mr. Palmer was saying.

The Chairman: I think, Mr. Armstrong, you would have to agree that it was pretty careless and sloppy business for your men to hand a list of furniture to be repaired one year old, and then for the Department of DDP to do the very same thing and hand a list that was one year old to any firm asking them for a quote. You would admit that that was a pretty obsolete way of doing business for both departments, giving a list 12 months old.

Mr. Armstrong: I suppose that is probably true.

Mr. Cafik: Mr. Chairman, I have one further question on this in respect to Mr. St. Laurent who prepared the estimate of $66,089. When you did so, obviously you had some idea of what areas were to be worked on or you could not even have arrived at that rough ballpark figure. You had the job description and in that job description the briefing room chairs were mentioned. When you prepared your estimate, I presume you prepared an estimate of $66,089, which included the repair of those briefing-room chairs. Is that correct?

Mr. St. Laurent: No, the briefing-room chairs I was directed by Mr. Palmer to specifically exclude.

Mr. Cafik: You were directed by Mr. Palmer to exclude them.

Mr. St. Laurent: That is correct.

Mr. Cafik: And you did not make any mention of that on the job description.

Mr. St. Laurent: Yes, I believe that is noted on the last page, page 7 of X-784.

The Chairman: It is in there, and it says see DDP X-427, which means he did not estimate it. But at the same time Mr. St. Laurent tells us that these sheets do not mean anything. Now in this case they do mean something.

Mr. Cafik: I do not even find where you see that.

The Chairman: Page 7 of X-784, the estimate section, the last page, under 45, briefing room. And then it says, "See DDP X-427".

• 2130

Mr. Cafik: Yes, I have it here, X-427. But that does not mean a thing. Let us get this thing straight. The X-427 covers only their removal, it has nothing to do with the repair of them as far as I can see.

Mr. Armstrong: The note I have on this is to the effect that X-427 covered the removal and the replacement which is what you mentioned, Mr. Cafik, and cancelled the repairs of the chairs which were listed on the X-337 which was the one that was estimated at $550,000. So it did, in fact, cancel the repair of the chairs that was listed on X-337.

Mr. Cafik: No, but we are looking at the operative documents, the documents that really mean something, the ones that were instituted and put forward.

Mr. Armstrong: I was only attempting to explain, Mr. Cafik, how this came to be the...

Mr. Cafik: I understand the background and how it was arrived at, but I am trying to point out right now to the Chairman who has indicated that this does excuse it with the X-427 and that comment on page 7 on X-784 does not answer anything.

The Chairman: It says, "see DDP X-427" but X-427 has to do with the removal of the chairs only, it has...

Mr. Cafik: Nothing to do with repairs?

The Chairman: ...nothing to do with repairs.

Mr. Cafik: You are looking at this, but I think the point is that your not of X-427 is completely irrelevant, because X-427 does not, in fact, call to do the job which is called for on page 7 of X-794 work description.

Mr. Lefebvre: May I read the following:

> 26 x 2 Briefing Room chairs repaired by Naval Repair Facility but charged for repair by Davie

Mr. Cafik: Yes, that is right.

Mr. Lefebvre: What does that mean?

Mr. Cafik: That is something you must have written yourself.

Mr. Lefebvre: No. I certainly did not write that.

The Chairman: Just a minute, Mr. Cafik. Mr. Armstrong will make an observation here.

Mr. Armstrong: You did say that X-427 only covered the removal and replacement of chairs, but there is a doubt on it. This specification supersedes and cancels repairs listed under "briefing room" on page 7 of List 2 of AWR H-63 DDP 779 Serial No. X-337. So it cancelled that repair and, as I explained, the sheets from X-337 when it was broken off were handed over and put on X-784, whatever the number is, and they still show the briefing room chairs, but, in fact, they really had been taken off. Mr. St. Laurent was aware of that as well as Mr. Palmer and the company.

Mr. Boulanger: I do not understand English very much, but these sheets do not mean anything because they need something to prove that it was there when it was not there.

The Chairman: You understand English very well, Mr. Boulanger. That is exactly what I said.

Mr. Lefebvre: What does this note mean on the bottom of page 7, Mr. Chairman? Is there anybody who understands that?

The Chairman: I wrote that:

> 26 Briefing chairs not included in DDP Estimates

I wrote that.

Mr. Lefebvre: We are not looking at the

same page 7. I am looking at Contract X-784 the last page.

The Chairman:

> ... Briefing Room chairs repaired by Naval Repair Facility but charged for repair by Davie

That is my note that I wrote on there in order to ask a question of the gentlemen when they came before the Committee.

Mr. Cafik: Mr. Chairman, I would like to get on with my questions. It is getting a bit late and I would like to ask two or three specific questions on...

Mr. Boulanger: There is one matter I would like to bring up. I know about furniture and all that, but Mr. St. Laurent what you are trying to tell us is you did with the people's money as I would do with my own money in my own business. I call a man in my stockroom and I say, "Look I have $4,000 worth of tables, chairs, junk and everything. How much would it cost me to have them fixed?" That is private. That is my own money, so you say to me, "I will give you $1,000 and fix everything up for you." So you let me thing now that after you came to this figure and then you say a figure that my experience tells me it is right. You are trying to tell us this is the way that you run that job.

Mr. St. Laurent: Essentially yes, although it was done in lesser quantities than the total of X-784, but philosophically that is correct.

The Chairman: All right. Are we ready to go on to X-1237 which deals with lockers?

Mr. Cafik: I would like to talk to Mr. Wallace, if I may, on this.

The Chairman: Is your question on X-1237?

Mr. Cafik: Yes, it is on X1237 which is on one page.

The Chairman: One page, and no requisition or any specification...

Mr. Cafik: No, and no work descriptions. I gather from correspondence I have received from the Department in respect to certain questions that there was no job description for this. Is that correct, Mr. Wallace? I am going from memory here.

Mr. Wallace: Mr. Chairman, the job description is as indicated on DDP 779. I understand that the principal naval overseer or one member of the staff had met with Mr. Palmer and considered that there was a requirement for assistance from the shipyard to do a certain amount of work. The RCN, to my knowledge, prepared the estimate in terms of whether they wanted 100 men or 20 men and it was Mr. Palmer's responsibility to sit down with the contractor and determine what the costs would be to meet this requirement. Incidentally, the reference there to material requirement DOS, means "determine own source". That means if there is material to be required as a result of this specification the contractor is to supply it.

The Chairman: May I say at this point that the two lines on the very bottom are mine—

the Clerk used my copies—a memo to myself to ask these questions, "examine lockers and change in bases for same. Contractor quoted, get breakdown of cost of material". Those are my notations.

Mr. Cafik: Mr. Chairman, I am directing this question to Mr. Wallace. According to information that you gave to this subcommittee while we were at the Headquarters going into the details of this, you explained that a considerable portion of this contract price, $19,728, arose as a result of Contract X-81. Contract X-81 called for the removal and the return to the ship of a number of items. The one I am referring to is the 66 lockers. I gather from what you indicated at that time that these lockers were delivered. They were a little different from the old ones, the mounting holes in the bottom of the lockers were in a different position and, consequently, there was a considerable amount of extra work required in order to fit those lockers and bolt them down in a secure manner aboard ship. Is that correct?

• 2140

Mr. Wallace: Mr. Chairman, your words are correct except that I believe this information was provided by the RCN, by either Capt. Maxwell or by Lt. Cdr. Hanlon.

Mr. Cafik: That could be. I am sorry Mr. Wallace. Are they present here? Is Capt. Maxwell here?

Mr. Wallace: May I say one thing, Mr. Chairman. I do not believe when we were at Headquarters there was specific reference to X-81 at that time.

Mr. Cafik: I have a note—I stand to be corrected by others who were present at those meetings—that I made at the time I was at Defence Headquarters which says "part of this contract was due to job X-81, but because of mistakes in lockers, location holes, this contract was required". That was made right on the spot. I wonder, do any of the other fellow-members of the Committee would you agree with the position I have taken that I am expressing the view that they expressed to us at that time? Captain Maxwell, do you agree that the work that I have outlined does constitute part of the reason for this contract X1237?

Captain T. W. Maxwell (Maritime Systems, Engineering Section, Department of National Defence): Yes, sir. That is what we told you in subcommittee.

Mr. Cafik: Do you have any reason to change your testimony or change your position at this time?

Capt. Maxwell: No, sir. This is information which was given to me and which I passed to the subcommittee. As far as I know it is correct.

The Chairman: Who would give you this information, Captain Maxwell?

Capt. Maxwell: I think it was Lieutenant-Commander Hanlon.

The Chairman: Is Commander Hanlon present?

Capt. Maxwell: No, he is not here, Mr. Chairman.

Mr. Cafik: Captain Maxwell, at the same time you had indicated, and I think not only in respect of this but of other items, the importance of having lockers and equipment bolted down properly aboard ship because of rough weather.

Capt. Maxwell: Quite correct, sir.

Mr. Cafik: And you felt that it was very important that these things be bolted down and this was part of the reason. The reason I ask this question is that when we went aboard ship I took the liberty of going with some gentlemen from the Department of Defence Production or National Defence—I do not know where they were from—and a couple of other members of my little subcommittee, to have a look at these lockers. We were taken to various locker rooms and much to my surprise the majority of the lockers that I saw were not bolted down at all. As a matter of fact I pushed a few of them over. And I have photographs here of lockers that you could turn upside down just like that.

Capt. Maxwell: I have seen the photographs, Mr. Cafik.

Mr. Cafik: Yes. I also had a look at how these lockers were mounted. I looked at all kinds of them and I found that in fact this very thin sheet metal base on the lockers had holes drilled in it—sometimes two, sometimes three, sometimes four—and these holes were not in any specific place. They were obviously just drilled in at random—and in some cases there was one, sometimes none, sometimes more bolts—into an angle iron base upon which these lockers sat. Now that kind of physical evidence that I saw with my own

eyes would certainly lead me to believe that no one went to any great deal of trouble to bolt down those lockers. Captain, when you were aboard did you have a look at these lockers to check out the story yourself?

Capt. Maxwell: Yes, sir.

Mr. Cafik: You did. After having looked at the lockers, would you agree with the assessment that I have made of them and their condition in terms of being bolted down?

Capt. Maxwell: Yes, I agree that there were a number of lockers not bolted. I have no explanation for why they were not bolted at that particular time that we were down there. I suppose there is an explanation. There must be. It is customary to bolt lockers to something solid in a ship. Otherwise they are going to come adrift and kill somebody. What you say about fastening of lockers being rather random I am sure is correct. But nevertheless they have to be drilled and bolted.

Mr. Cafik: You had also indicated, Captain, that these lockers that were delivered were not the usual style and size and so on and therefore, because they were mounted in great banks of lockers, a lot of adjustment had to be made in other lockers to fit one between two others. Do you feel, after your viewing of that ship, that that was so, that it was such a big problem as put forward?

• 2145

Capt. Maxwell: Perhaps not as big a problem as put forward but a problem nonetheless. I do not think I ever implied that the locker work was a large proportion of X-1237. Having now seen the job, I do not believe that it was a large proportion.

Mr. Cafik: But in the beginning it was certainly put forward as a notable reason for this contract having been necessary. As a matter of fact I cannot think of any specific items that you mentioned other than those lockers, although in all fairness, you said that there were other things. But this was the one that stood out, the one that merited mentioning as justification for this work order.

Capt. Maxwell: I think we mentioned bunks—slats in bunks and repairs to bunks. I do not recall making a particular issue of this, other than having to explain it because it is rather an unusual thing.

Mr. Cafik: The fixing of the lockers?

Capt. Maxwell: The fixing of lockers is a bit unusual. Repair to bunks is more easily understood, I would think.

Mr. Cafik: When you were talking a moment ago you left the impression that there were sort of a few lockers that were not bolted. I think you would agree with me that the vast majority of them were not bolted. In fact you really had to go out of your way to find any that were bolted.

Mr. Armstrong: Mr. Chairman, I do not like to interrupt but we have the Executive Officer here. I think you would appreciate, Mr. Cafik, that the ship could not sail with the lockers unbolted. They would be all over the ship. The ship has been through all sorts of storms. I do not know whether it had been damaged at the time you saw it but we could have the Executive Officer give some evidence here. He will explain to you why there were some lockers unbolted at the time, I think.

Mr. Cafik: All right. Now what I would like to know is—and I think that is an interesting point—how did the ship get to Halifax when we went to visit it with the vast majority of its lockers not bolted down?

Mr. Armstrong: I would be glad if the Executive Officer could give some evidence on this because I think you would be aware that it could not sail and go through stormy weather without their being bolted down.

Mr. Cafik: As a matter of fact I spoke to some of the seamen aboard and I gathered that it was a kind of common occurrence to find the lockers lying all over the place.

The Chairman: Will you direct your question to Commander Fox?

Mr. Cafik: Yes. Commander, I think you know the question. Perhaps you would say something about these lockers.

Cdr. Fox: First of all, the methods of securing lockers you probably investigated, sir, and you saw a number of them in different types of securing arrangements. When we are inspecting the ship and checking it from time to time, this is one of the things we check and we invariably find lockers loose for a number of reasons. One is that on the top of them, some of them have a sort of V piece like this with a lug on it and a bolting arrangement through. Now if people are not attentive to these they will shake loose as there is a lot of shuddering and vibration of

the ship working in the seas. This is something that we have to chase people on a lot of the time because when those drop off the securing has gone. At the base the lockers sit in a frame of angle irons. I do not know if there is a requirement to have them secured through that angle iron but if they are attached at the top and they sit in the angle iron they will be secure.

Mr. Cafik: Well, then, why would new mounting holes be required in the base if they were not bolted?

Capt. Maxwell: They might be required in the upper securing points. They have got to be secured. You never get a locker back in exactly the same place so you are going to have some sort of drill holes.

Mr. Cafik: I understand, Captain, from the evidence that you gave to us that these lockers arrived and they had to be taken as a matter of fact on the Davie Shipbuilding property and those mounting holes put in the bottom of the lockers. Is that right, Mr. Chairman?

The Chairman: Yes, that is right. That was given to the subcommittee as the reason why this contract was so high.

Mr. Cafik: What do you have to say about that? I would say obviously that was not the case.

Capt. Maxwell: As I recall the evidence given to the subcommittee, it was that part of this X-1237 was to make adjustments to seatings and to bolt down lockers. I do not remember ever saying that any lockers were

• 2150

taken back ashore to the premises of Davie Shipbuilding and worked on. They were put on board and put in the messes, and some assistance from the shipbuilder was required to secure these lockers in place. This was part of the work carried out under 1237. I do not remember saying that any lockers were taken back ashore and worked on and then put back on board the ship.

Mr. Cafik: No. I think you are quite right that you did not say that they were taken back off the ship. But as a matter of fact I requested drawings, which I do not believe I have yet seen, of the new locking arrangements—or I should say bolting arrangements—and you were going to get me a drawing of the base of that filing cabinet showing me where the old holes were and where the new ones had to go; these were going to be done right in the shop of Davie Shipbuilding Ltd. I have not seen the evidence yet.

Capt. Maxwell: They were not to be done in the shop. We tabled at the subcommittee five or six photographs and some drawings of various types of lockers, and at that time I said that I could not get a drawing which would indicate to you exactly what had been done on that ship because no drawing had ever been made. This was all done by eyeball.

I attempted by means of photographs to illustrate what I was telling them.

Mr. Cafik: Is it not true that you implied to our Committee that these mounting holes were certainly done?

Capt. Maxwell: I do not recall giving any such implication.

The Chairman: Captain Maxwell and Mr. Cafik, we have some handwritten notes here from the subcommittee, and these lockers we are talking about were used lockers that you had to repair as you will remember, Captain Maxwell. Many lockers were taken out by the ship's crew but few were taken out by Davie Shipbuilding Ltd. at $200 a carload to ship these lockers from Quebec to Montreal. There were approximately 2 carloads that went up to Montreal for repair.

Mr. Cafik: Is it not true that when they came back, the mounting holes were in the wrong place, because they could not repair some of them, and they had to supply new ones of a different type? Is that not what was said?

The Chairman: I think the new ones were the ones that had the holes in the wrong places, and had to be redrilled. I am just going by memory, not by notes.

Mr. Cafik: Yes, that is correct. I feel in respect to this X-127, in regard to the lockers, that we were certainly either mislead or I purposely misled myself. I say this because it was one of the great shocks of my life when I went aboard that ship and found the lockers, that I had envisaged to be beautifully arranged in straight rows and to be very secure were not at all; I bumped into one and knocked it over. From that point on I began to have a look at them; that was a real shocker to me, because I believed from the testimony we had that quite the opposite would have been the case.

The Chairman: Mr. Armstrong.

Mr. Armstrong: How long had the ship been at sea, Mr. Cafik?

Mr. Cafik: I really have not any idea.

Mr. Armstrong: I think probably 18 months or 19 months. A lot of lockers could come loose in 18 months.

Mr. Cafik: According to what you said, Mr. Armstrong, surely these things would have been kept in repair; you said yourself that the ship could not go to sea with such loose lockers.

Mr. Armstrong: Yes, I said you cannot sail a ship with the lockers loose.

Mr. Cafik: How did they sail it for two years with the lockers loose?

Mr. Armstrong: I did not say they sailed for two years. You said that. I said, you saw the ship 18 months after it came out of the shipyard, and you now say that the lockers were all loose. This is 18 months later. I do not know. I was not on board.

Mr. Winch: They were not even bolted at all?

Mr. Cafik: That is right.

Mr. Armstrong: Are you suggesting that the ship sailed for 18 months with all the lockers loose?

Mr. Cafik: All I know is that it came back after 18 months with them all loose.

Mr. Armstrong: I have the Executive Officer and he will explain it to you.

Mr. Cafik: All right.

Mr. Armstrong: He is the man that is responsible for the living conditions.

The Chairman: Maybe Mr. Wallace can help here. Before you answer, Mr. Wallace, I want to welcome, a former Chairman of the Public Accounts Committee, Senator Alan Macnaughton. We are glad to have you aboard the *Bonaventure*.

Mr. Macnaughton: Thank you.

The Chairman: Mr. Wallace.

Mr. Wallace: Mr. Chairman, I would like to add to what Mr. Armstrong has said. Simply because Mr. Cafik found a number of lockers unbolted some 18 months after the ship left Davie Shipbuilding Ltd., does not mean that these lockers were not in fact bolted at the time it left the shipyard.

• 2155

The other point I would like to make is that it is my understanding that the locker arrangement that Mr. Cafik saw in Halifax was not the same that existed in the ship when it left Davie Shipbuilding Ltd. It is my understanding that subsequent to the ship leaving Quebec, that the ship's staff rearranged the lockers and the bunks in the various messing areas, in order to provide a recreational area for the ship's crew. Perhaps the Cdr. Fox can talk on that point.

The Chairman: Commander Fox.

Cdr. Fox: This is true to an extent. Some of the lockers were rearranged in small numbers in certain areas. If I take an example, I could illustrate the reason for this. A small mess deck on the port side was practically full of bunks and lockers, so that there was virtually no recreation space near the mens' bunks. This means that if a man wants to write a letter, or do something of this sort, he has to go down to the main cafeteria which is only available at very small hours out of the 24, because of the four meals which take a long time to serve and clear up. I have suggestions submitted to me all the time for possible improvements to living conditions. In this case they came and said, that since there was an enclosed flat, so to speak, just beyond the end of this mess, which is sheltered from the weather decks, and since it is reasonably warm and not used for anything, could they have approval to move four lockers out of there. They said they would have them properly mounted by ship's staff so they could have an area for a card table near their bunks. I would take a case like this and look at it myself, and if it seems reasonable to put it to the hull officer I would say: "Have a look at this for obstructions and check to see whether it meets any other restrictions." "If you see it is feasible, give me your recommendation and we will go ahead with it if it seems to be sensible." We do it with ship's staff ourselves, provided they are properly mounted. There is an example of four lockers that were moved from one place to another for the benefit of the ship's crew.

The Chairman: Mr. Cafik.

Mr. Cafik: Commander, when I was abroad ship I also took the opportunity to go to the

various—I will call them—repair areas for the ship. There you have an electrical shop, a machine shop, another for furniture repair, another for other purposes. I think there are six or seven on board: perhaps you would fill me in on that as to the number and then I will proceed with the questioning.

Cdr. Fox: I could not say the exact number, if you were going to add up all the machinery and electrical shops. However, for hull work, which would apply to this, there are five basic shops, and these include a general repair shop which is basically woodworking. There is a plumbing shop, a sheet metal shop, a welding shop and a water tight shop which is basically for looking after seals and water tight doors and so on.

Mr. Cafik: While I was on board going from one shop to the other in order to find for myself the answer to a problem that had bothered me a great deal in the course of this inquiry; I always thought—perhaps because I am watching too much television and not in the navy—that ships were kept in "shipshape." It bothered me that all of a sudden, a ship coming in for a refit would have to have all this enormous amount of work done on furniture; I thought that kind of thing would have been kept up as the ship went along. In the course of my questioning of those in charge of each one of these repair areas on board ship, I asked a great deal of questions along this line.

One particular officer, I do not know his name—but there are others who were with me that day—he made this issue clear to me in answer to a specific question. I asked him that in the course of a year, would a ship be in a worse state of repair in terms of its furniture and general fittings than it was a year before? I said I realized that there might be paint chipped and things like that, but in terms of working conditions, would it be any worse? He thought not. He thought, as a matter of fact, that there might be a period of three or four months when you had exercises and other major problems that would come up, where the ship would get in a bad state of repair on these minor items, because there was not time to do the job. However, then you would also have a period of two or three months where you concentrate on this kind of repairs and catch up.

• 2200

After discussing this matter, looking at the work orders that went through and how they were processed, I came to the conclusion that in fact the ship should have been what I would call "shipshape" when it came in. This then leads me to wonder how all such things as lockers, bunks, slats and so on referred to in contract X-1237 got in the state that they were in.

Cdr. Fox: When you say "in the state that they were in" you are talking of course about the previous time.

Mr. Cafik: When it came into refit the evidence that I have would lead me to believe that the ship was in pretty good shape in terms of its furniture repair, lockers and all the rest of it before it even started its mid-life refit.

Cdr. Fox: I could not speak for that time. However, I would like to give you an example of the case as you see it now. For instance, the ship has just come in. As you saw, we are entering what we call a normal work period which takes us from the time we entered, supposedly on April 16—we had come in shortly before that—to early in July. That was the original plan. Now that is largely a ship staff period of work, when we would get to work on all these things. There is a big outline of projects down there right now, including renovation, painting, retiling where tile is damaged and all this kind of thing, to be done during this period. For instance, we have something like 500 lockers that are marked right now for replacement because there has been a shortage of them throughout the last year and we have not been able to make up normal attrition. We have demands in for replacement now.

Mr. Cafik: Would that be done by your own department or would it be subcontracted out?

Cdr. Fox: I do not know how they are put into the stores system but presumably where the survey is short we get replacement ones and these would be reworked or repaired.

Mr. Cafik: For instance, could all these 500 lockers going out for repair be removed by ship personnel?

Cdr. Fox: Yes, they would probably be taken away by stores trucks.

Mr. Cafik: Who would take them off the ship, the regular personnel of the ship?

Cdr. Fox: Oh yes.

Mr. Cafik: It would be?

Cdr. Fox: In the Halifax dockyard, where we are now, yes.

Mr. Cafik: I gather that during the course of the mid-life refit there was an awful lot of seamen on board and that they actually did perform many functions of this type during the course of the refit? Is that correct?

Cdr. Fox: I was not there at the time so I do know...

The Chairman: There was an average of 250 men.

Mr. Armstrong: Mr. Chairman, you will remember that I mentioned to you the original estimate was $550,000. That was the Company estimate for that whole X-337. When the items that were broken off—the officers' cabins, officers' furniture, with a few other small items—into the 233 that left $316,000 of that original one. That was all done essentially by the ships crew with the exception of some of the repairs that were done at the naval supply depot in Montreal.

Mr. Cafik: I do not think this ties in exactly with information received in our subcommittee—I do not know about our full Committee. At one stage in subcommittee we were led to believe that these people did not have anything to do with any repairs aboard ship. Is that correct, Mr. Chairman?

The Chairman: While the refit was on—maybe Captain Lynch would like to speak to this—he had an average of 250 seamen at his disposal. Maybe they were used. Perhaps you could explain.

Capt. Lynch: These seamen were not at my disposal, Mr. Chairman. The ship was in commission. Being in commission, the Commanding Officer was responsible for the safety and security of the ship. The bulk of the seamen that were required on board were required for adjacent compartment fire-watching, which I think I explained to the Committee once before. That is, when welding permits were issued to the yard's workmen they were required to go to the compartments adjacent to the compartment that was being welded on to prevent fires from being communicated through a bulkhead or a deck.

In general, we started the refit with the very good principle that we were not going to mix naval work by naval seamen with contract work by hourly-paid men that belonged to unions. As time went on, and this is a very good example, we found the X-337 was too extensive for us to afford so it was broken down into three parts. I do not want to mislead the Committee and claim that X-1237 was for this purpose—I cannot testify to that—but I do remember that at the point when we found we could not afford over half a million for this habitability item and we broke it down into three major slices and decided to do one in-house, we broke our principle of not having navymen work alongside our contractor's workmen. It is my recollection that the ship's company was augmented as much as possible with Ordinary Seamen and Able Seamen to permit as much of this work to be done as possible.

Mr. Cafik: What you are saying is that these 20 people referred to in X-1237 worked in conjunction with navy personnel in performing this work.

Capt. Lynch: Yes, this is a second reversal. It is my recollection, Mr. Cafik, that we tackled the job of doing the furniture with naval resources using ship's company who were specifically not under my control.

Mr. Cafik: You say you tackled it...

Capt. Lynch: We bit off a little more than we could chew, so it is my recollection that we asked for some assistance in turn from Davie Shipbuilding.

The Chairman: The question here, Mr. Cafik and members of the Committee, is that we want to know why you authorized an expenditure of $19,728 to have 20 men for a period of four weeks to assist the ship's staff in repairs to bunks and the securing of furniture in 24 spaces. When the subcommittee looked at that and saw a bill for approximately $20,000 we naturally wanted to know why it would cost so much money to have 20 men for four weeks do that little bit of work. We were told in the subcommittee that one of the reasons that it cost so much was because of all the work that was spent on securing these lockers and so on and that that, along with other incidental things, was the reason this bill got up to nearly $20,000. We then asked why it was necessary to pay Davie Shipbuilding to hire 20 men when you had men around the ship, why they could not have done this, and you have given your reasons just now.

Capt. Lynch: Are they satisfactory, Mr. Chairman?

The Chairman: I do not think they are entirely satisfactory. We are at a loss to know

why it was necessary to get 20 men when you had 250 men around there. We thought surely there was a time when you could have used your own men without having to go out and hire men from Davie Shipbuilding.

Capt. Lynch: Mr. Chairman, I do not know how many men were on board at the precise time when work order X-1237 was authorized, but there was an ebb and flow of men. At one or two points I can recall that we augmented the ship's company for such purposes. But if you notice, we are asking for 20 men for four weeks. This comes back to 3,668 man-hours. Let us assume that the task we undertook was for, shall we say, 200 man-weeks and that we found that we could only achieve 120 man-weeks with the number of seamen available—because scores and scores of men were required for the ship's safety and security duties. Just because we had a number of men on board, 100 or 200, does not mean that they were all available for this task. If we had 200 man-weeks to do and we had 120 man-weeks resources then we would need 80 man-weeks of assistance to complete a job by, shall we say, contractor sea trials or some milestone that limited our ability to lengthen the job.

• 2210

The Chairman: I think that explains it. The other point in this connection, I think, concerns Captain Maxwell. I realize that he was given the information by another officer and he passed it on to the Committee as it was given to him. However, the information relayed to the subcommittee was not in accordance with what we saw when we visited the *Bonaventure*.

Capt. Maxwell: I am sorry, sir; I think that is a bit unfair. It was 18 months after the work. If you are referring to the lockers . .

The Chairman: Yes, the lockers.

Capt. Maxwell: I think it is impossible to say because lockers are loose now after 18 months at sea and coming into a new working up period that has any relation whatsoever.

The Chairman: I will let Mr. Cafik speak to that because he saw them personally.

Mr. Cafik: Mr. Chairman, if I recall correctly, there were numerous lockers I looked at that never had any securing holes in them at all. So it was not that they had been secured and came loose; they just had never been secured.

Capt. Maxwell: At top or bottom, Mr. Cafik?

Mr. Cafik: Certainly at the bottom.

Capt. Maxwell: Perhaps I should explain that sometimes they can be dropped into a socket and secured at the top and that is sufficient.

Mr. Cafik: There was no securing at the bottom. That is where we were told they were being secured.

Capt. Maxwell: Mostly they are, yes.

Mr. Cafik: That is where we had the problem with the holes.

I have one other question that raises quite a problem, I think, for us in the Committee. First, does the work description in this X-1237 have any meaning, or is it also something augmented by verbal arrangements that are not written on this slip of paper. In other words, it says, ".. the securing of furniture in 24 numbered spaces". If we were to judge this contract by the other one, it could mean 24 or 244 or it could mean anything. What does it mean in this particular case?

The Chairman: Captain Maxwell, there is a notation here that has apparently been added, 73 lockers. Was that something we arrived at in the subcommittee? The work order says 24 but there is a note here for 73.

Capt. Maxwell: It is 24 in number of spaces, Mr. Chairman. I do not recall the 73. I do not know what that would be.

Mr. Cafik: It was 72 at the subcommittee. I have the same note of 73 lockers made at the time of that meeting. It is odd, and this is typical of all the confusion involved in this, that at that time they said there were 73, but I have had a letter saying there were 66 in X-81, which are the lockers we are referring to and by my calculations there were 16. So, it is very confusing.

Mr. Wallace: I do not believe at any time the Committee attempted to say to you that 16 or 73 or whatever other number was given to you were the only lockers that were worked on by these people on the ship because there are over 1,000 lockers. There are over 1,000 bunks. This work order covers securing of furniture, lockers and bunks and repairs to bunks.

Mr. Cafik: Mr. Wallace, are you saying that the 24 in number of spaces does not mean anything?

Mr. Wallace: I would say that it is correct to the best of my knowledge. I have not counted them.

Mr. Cafik: So in other words, it is not thousands of lockers, but it is only those lockers or those things within those 24 spaces. Is that correct?

Mr. Wallace: We are talking about 24 number of spaces. These are primarily the areas in which the crew, the sailors, live. I have not gone down to count how many lockers or how many bunks there are in each of these spaces.

The Chairman: Mr. Wallace, may we ask this question then. This is the document that you were giving to the Davie Shipbuilding Limited asking them to quote on and give you a price. Is this correct?

• 2215

Mr. Wallace: They were required to provide 20 in number of men for four weeks to the Navy and the Navy controlled the use of these men. They received their direction, as I believe I told Mr. Cafik in answer to a letter that he wrote to me, they took their direction to the supervisor, who was Davie Shipbuilding personnel, to the workers. It was the Navy said that, "You have to do these bunks, or you have to do these lockers or you have to do this job".

The Chairman: Let us deal with the question. This is a sheet that you presented to the Davie Shipbuilding people which said, "Please give us your quotation". I hope you added. "The best possible price you can give us". I hope you said that. It says on here:

> Your estimate is requested for the provision of 20 in No. men for a period of 4 working weeks for assistance to ship staff in repairs to bunks and securing of furniture in 24 in No. spaces.
>
> MATERIAL REQUIREMENTS:

You would give this to Davie Shipbuilding and they would quote you a price and they did, a price of $19,728 to do what was on there.

Mr. Wallace: That is right, sir.

The Chairman: So the Committee has nothing to go by other than exactly what is there and that is what it cost to do that work.

Mr. Wallace: Mr. Chairman, Mr. Cafik wrote to me some time ago and asked if we had an estimate or a breakdown of the estimate for this particular X-1237 and I believe I provided him with that information. Perhaps you would like to table that, Mr. Cafik.

The Chairman: Mr. Cafik, does that change the description on this contract?

Mr. Cafik: All it says in terms of that is:

> Labour: 20 men, 4 weeks at 40 hours per week; 3,200 hours; foremen and shop work, 440 hours; miscellaneous, 28 hours; total 3,668 hours.

This ties in exactly with the figure on X-1237 and $950 worth of material. It ties in exactly, so there is no difference in the description. It is broken down a little bit more but not very meaningfully.

Mr. Wallace: I think it is important, it is significant I believe, to note that this job, apart from the lockers, included the repairs to some 600 bunks.

The Chairman: It does not say that on the sheet.

Mr. Wallace: This was the work that the Navy wanted these people to do. We had no control over what work the men did.

Mr. Crouse: On what basis, Mr. Chairman, did they make their bid?

The Chairman: Mr. Crouse they made their bid, we were told by Mr. Wallace, from this sheet. Is that not correct?

Mr. Wallace: That is correct.

The Chairman: Well then, why did you make the other observation about 600-odd bunks.

Mr. Wallace: Obviously, they requested, or wanted, to have some idea of what work these people would be required to do. It was a question of repairing and securing bunks and securing lockers.

Mr. Cafik: The 600 bunks you referred to, where are they located in the ship? Are they in the cabins and so on?

Mr. Wallace: No, these are in the 24 spaces. These are for sailors. There is a difference between a bunk and a boat.

Mr. Cafik: All right. There is a real question, Mr. Chairman, it is the last one I have until I digest this and come back again when we talk to Davie Shipbuilding. We have these contracts in front of us that have inadequate

work descriptions. We are told that verbal instructions were given and more work, in fact, was done. I was hopeful that I would be able to go down and find out exactly whether more work was done or not. Now we find, and we have to clarify this I think first, we find that in fact the personnel aboard the ship were doing some furniture repairs as well.

If we go down to look at that ship to find out what was done, how are we supposed to know whether it was done by Davie Shipbuilding or whether it was done by the personnel aboard the ship? Is there any way we can tell? Have you a description of the work that the men on board the ship performed during that refit? What reason have we got to believe, in fact, that the personnel aboard the ship did not do a lot of the work in those cabins we have referred to, if in fact it was done?

Mr. Wallace: Mr. Chairman, if we pursue this line of assumption you might say that the Davie Shipbuilding did no work at all and it was the entire ship's staff that did the whole refit.

Mr. Bigg: That is definitely possible.

Capt. Lynch: That is definitely impossible, sir.

Mr. Cafik: No, I am just wondering as a basis of judging, how am I going to sit down now and analyse this thing?

Mr. Wallace: All I can say, Mr. Chairman, is that I know the ship's staff did not do any painting of cabin furnishings or cabin areas or in the office spaces. The ship's staff, apart from being used as...

• 2220

Mr. Crouse: Mr. Chairman, I wonder as Captain Lynch was the naval overseer on this job if he could not tell the Committee what fields you were responsible in and did you examine the amount of work that was done by the 20 men in question on this order?

Capt. Lynch: Mr. Chairman, do you wish me to repeat what I said at the first testimony I gave?

The Chairman: I do not think it is necessary, but you can do it briefly if you wish.

Capt. Lynch: I was responsible for specifying the work to be estimated on. I was responsible for estimating whether we could handle the quoted amounts and prices returned by the company. From this point I passed the material to the resident DDP production officer who was responsible for all contractual arrangements. When the work was done I was responsible for its acceptance on behalf of the Department of National Defence and the turnover of the work to the ship's commanding officer.

Mr. Crouse: What is the name of the DDP officer that you turned your estimates over to?

Capt. Lynch: The resident DDP production officer?

Mr. Crouse: Yes.

Capt. Lynch: They were not my estimates, they were the estimates of Davie Shipbuilding. It was Mr. Palmer who has been here just today.

Mr. Crouse: Has the Committee been given the names of the men who actually prepared the entire *Bonaventure* refit estimate?

Capt. Lynch: I was not present when this was done, sir. I cannot answer that question.

Mr. Crouse: I am trying to find out, Mr. Chairman, who decided whether the ship's sides needed to be painted or not or if the bottom needed to be painted or not. You have already told the Committee, Captain Lynch, that this was not your responsibility. I would like to know who went down and made this assessment. What are the names of the men who did this, and are these men still with the Department of Supply and Services?

The Chairman: I think we are just a bit off the subject, Mr. Crouse. I believe you mentioned painting and I would prefer that we stick with .

Mr. Crouse: Then may I find out the names of the men who actually prepared the *Bonaventure* refit estimate.

The Chairman: For which part, the furniture, the painting, or the whole thing?

Mr. Crouse: The names of the men or man who prepared the *Bonaventure* refit estimate. I think we should have that list. What I am leading up to, Mr. Chairman, is that I would like to know if these men are still with the Department. We are dealing now with the past, but in view of the testimony that has been given tonight in response to Mr. Cafik's questioning I think it is imperative that the Canadian public know what these particular

men who made such a colossal blunder of this work are planning and working at right now, and if these blunderers are still in charge of some of our projects I think the Canadian taxpayers would like to know this, Mr. Chairman.

The Chairman: Mr. Crouse, before we write our report the Committee will make those decisions and if the Committee decides to give those names in the report, the Committee will discuss it later on.

Mr. Crouse: Will you have the names at that time, Mr. Chairman?

The Chairman: If it is the wish of the Committee to so do. Mr. Wallace.

Mr. Wallace: I just wish to make one point, Mr. Chairman, in answer to Mr. Crouse. There are two sets of specifications. There are the specifications on which we based our invitation to tender for the known work, which was prepared in advance by the Navy, and there is a second set of specifications which were prepared as a result of opening up machinery, and this was also done by the Navy. There were two different sets of specifications prepared at different times. The initital package, if you wish, was prepared many, many months prior to going out to tender and prior to the ship going into refit. These are the specifications that are used for tendering purposes. The other specifications by the Navy are raised on the job while the refit is being carried out.

• 2225

Mr. Boulanger: Mr. Chairman, at the very beginning I said something humorously to the effect that as a businessman if my general manager could give me—and with my English I used the word "boat" instead of "ship"—a ship that was worth $150 million today when it was bought for $30 million, and get it all fixed up for $14 million, that he would be a very good manager. Of course, I never used to go into little things like this, being a business-minded type of man, but I am starting to worry a bit. I will be back in good health again and I have an awful lot of questions to ask, but I will pass for tonight.

The Chairman: All right, Mr. Boulanger. We will now conclude the meeting and conclude the investigation of the five furniture contracts, but they will remain open for any questions the Committee may want to ask in the future. For the time being we will call an end to our questioning. On Thursday of this week Mr. Winch has a number of questions he wants to ask about the hydrofoil, and with particular reference to the fire on the hydrofoil and I would suggest, Mr. Armstrong, that Captain Allan and Commodore Bridgman be present for questioning. We will ask the Clerk to have a member of the de-Havilland company here on Thursday, if possible, to answer questions as well. We may need a motion to call a member of the deHavilland staff.

Mr. Cafik: I will so move if you need it, Mr. Chairman. I would like...

The Chairman: Is this a question?

Mr. Cafik: No, I do not have any questions. I just wish to make a comment because there are many Committee members present whom I do not see except at these Committee meetings. As the Chairman of the small subcommittee on the furniture aspect, I guess we will be having another one or two meetings with Davie Shipbuilding Limited and the other members and then, after we have gone into a further depth study of the facts, I propose to prepare a draft report on that aspect of it for presentation to this Committee.

The Chairman: When we receive your report we will have them all except for one, and then the subcommittee will be able to give a full report on the four sections. As I said this morning, the Davie people will be present on Tuesday and Thursday of next week, so I would like you to have your questions ready concerning their part in this refit. There being nothing further, the meeting is adjourned.

APPENDIX H

HMCS BONAVENTURE, REFIT 1966-67

Summary of Department of Defence Production estimate of cost of additional-work-arising X782, by cabin

	Number of cabins	Cost
Cost of repairing furniture in individual cabins		
Under $500	1	$ 451
$ 500—$1,000	19	14,791
1,000— 1,500	20	23,593
1,500— 2,000	18	31,565
2,000— 2,500	17	38,633
2,500— 3,000	4	10,461
3,500— 4,000	2	7,758
4,500— 5,000	2	9,227
6,000— 6,500	1	6,111
	84	$ 142,590
Average cost per cabin		$ 1,697

Prepared by the Auditor General's Staff

APPENDIX I

SHIPBUILDING AND HEAVY EQUIPMENT BRANCH

OTTAWA 4, Ontario

April 3, 1969

Mr. T. Veliotis,
Vice-President and General Manager,
Davie Shipbuilding Limited,
P.O. Box 130,
Levis, Quebec:

Dear Mr. Veliotis:

The Public Accounts Committee in its hearing on the BONAVENTURE raised an observation concerning the repairs and upholstering of briefing room chairs which you removed and returned to the ship under DDP. 779, No. X427, dated 6 October, 1966. The chairs were sent to the Naval Supply Depot, Montreal, by the Royal Canadian Navy and required work carried out at one of their repair facilities.

Our Form DDP. 779, No. X784 requested you to furnish an estimate of cost for repairs to certain items of office and cabin furniture as described in the specifications attached to the form. The Public Accounts Committee has noted the briefing room chairs referred to above were included on page 7 of the specifications. It is our understanding that Mr. J. Palmer, the Project Officer on the job, advised your superintendent, Mr. J. Lennox to exclude these items from your estimate. A review of our records, however, fails to disclose evidence of such a communication. It would be appreciated, therefore, if you would confirm that the repairs outlined on page 7 under item:

Briefing Room F.S. 112 1/2-124 2 Deck Stbd.

(a) was not included in your estimate,

(b) any evidence you may have to substantiate that this item was in fact excluded from your estimate, and

(c) any evidence to substantiate our discussions with you on this point.

An early reply would be appreciated.

Yours very truly,
R. D. Wallace,
Associate Director.

APPENDIX J

DAVIE SHIPBUILDING LIMITED

Shipbuilders, Shiprepairers,
Marine and Industrial Engineers

P.O. Box 130
Levis, Quebec
Lauzon, April 16, 1969

Telex 011-254
Cable Address 'Davieship' Levis, Que.

Mr. R. D. Wallace
Associate Director

Department of Supply and Service
Shipbuilding and Heavy Equipment Branch
Ottawa, Ontario

Dear Mr. Wallace,

I refer to your letter dated 3rd April, 1969, concerning the briefing room chairs. I have been advised by my staff that your understanding that Mr. J. Palmer, the Project Officer on the job, advised our superintendent, Mr. J. Lennox, to exclude these items from the estimate is correct and we confirm that these items were in fact excluded by Mr. Lennox.

The reason for these items being excluded from the estimate was that they were no longer in the ship having been removed and handed over some 3 months earlier in accordance with the requirements of AWR H-76 DDP-779 Form X-427 copies attached.

Yours very truly,
J. Veliotis

DEPARTMENT OF DEFENCE PRODUCTION
(Shipbuilding and Heavy Equipment Branch)

ADDITIONAL WORK ARISING OUT OF H-188 1st SUPP.
DEPARTMENT'S SPECIFICATION FOR REFITTING OR REPAIRS

DATED 6 October, 1966

CONTRACT NO.

HMCS □ BONAVENTURE
CNAV □

D.S.L. A/C 24/362
SERIAL NO. x 427

TO DAVIE SHIPBUILDING LTD, LAUZON, P.Q.

SPECIFICATION NO. H-362

	DESCRIPTION OF WORK	MANHOURS	DIRECT COST	
			LABOUR	MATERIALS
	Your estimate is requested on the following work:			
1	Disconnect 52 in number chairs from deck and transport to Naval Overseeing Store for survey.	1,040	4,108	60
2	On completion of repairs or renewals chairs are to be transported from store to ship and resecured to deck in briefing room.			
3	This specification supercedes and cancels repairs listed under Briefing Room on page 7 of list 2 of AWR H-63, 779 No. 337.			
4				
5				
6				
7				
8				

*Excluding F.S.T.

CHECK APPLICABLE BOX (x)

☒ This work can be carried out during the scheduled period of refit.
☐ This work will delay completion of the refit by _____ days.

We undertake to execute the work specified above within the time and cost indicated.

Providing authority received by 21/10/66

14/10/66	Vice-President and General Manager	
DATE	POSITION	SIGNATURE

SUMMARY OF COST

MANHOURS	1,040 hrs at 3.95
MATERIAL	60.00
LABOUR	4,108.00
OVERHEAD	% —
PROFIT	7½% on mat. 5.00
*TOTAL	$ 4,173.00

REQUEST FOR ESTIMATE

You are requested to inspect the work specified above and to furnish on estimate of cost and time required.

6 Oct. 1966	PNO	R. L. HONLON CAPT.
DATE	POSITION	SIGNATURE

AUTHORITY TO TAKE WORK IN HAND

You are hereby authorized to undertake the work as specified for the sum of $4,173

26 Oct. 66	PNO	J. A. M. LYNCH.
DATE	POSITION	SIGNATURE

FOR DDP AND DND HEAD OFFICE USE ONLY

DDP 26 Oct. 66

FORM DDP 779 FOR CONTRACTOR

WORK CATEGORIES

A. (X) Work arising from Specification Item H-188 1st SUPP.
B. ( ) Deviation at ship from dwgs.
C. ( ) Repair/refurbish material in yard custody
D. (X) Necessary new work
E. ( ) Work arising from tests and trials
F. ( ) Additional services
G. ( ) Other

HMCS BONAVENTURE
ADDITIONAL WORK REQUEST NO. H-76

The work, when approved, will be assigned the following control numbers as cross reference.

Spec. No.	779 No.	826 No.
H-362	X-427	

WORK DESCRIPTION

Your estimate is requested on the following work:

1. Disconnect 52 in number chairs from deck and transport to Naval Overseeing Store for survey.
2. On completion of repairs or renewals chairs are to be transported from Store to Ship and resecured to deck in briefing room.

This specification supercedes and cancels repairs listed under Briefing Room on page 7 of list 2 of AWR H-63, 779 No. 337.

Attachment (s) ( )

MATERIAL REQUIREMENTS AND RECOMMENDED SOURCES

(All material not listed to be supplied by contractor)

Distribution : (PNO) Appvl. ref:
DSL/GM PO NC CE
Documentation PNO
Department PNO Cost est
Supply PNO Compln date
T & M DDP
Oseer sig
DDP/RPO

REMARKS:

REQUEST ESTIMATE (X) 779 ( ) 826
Anticipate work will be carried out:
(X) Now, on local authority
( ) Now, after CFHQ/DDP approval
( ) After Design Change Procedure

After receipt of estimate, authority to proceed, if approved, will be passed to DSL on signed copies of the DDP Form involved.

R. L. HONLON CAPT. DATE 6 Oct. 1966

J. A. M. LYNCH, CAPTAIN. PNO QUEBEC

The Queen's Printer, Ottawa, 1969

WORK CATEGORIES	HMCS BONAVENTURE ADDITIONAL WORK REQUEST NO. B-76
A. (X) Work arising from Specification Item B-104 1st SUBP. B. ( ) Deviation urgently from ships. C. ( ) Repair refurbish equipment in yard custody D. (X) Necessary new work E. ( ) Work arising from trials F. ( ) Additional services G. ( ) Other	This work, when approved, will be assigned the following control numbers as cross reference. Spec. No. 779 No. 828 No. B-104 X-427

Work Description:

Your estimate is requested on the following work:

1. Dismantle 55 lb anchor chain from dock and transport to Naval Overseeing Store for survey.
2. On completion of repairs or renewals chains are to be reassigned from Store to Ship and restowed in dock in locking rooms.

This specification supersedes and cancels repairs listed under Briefing Room on page 7 of Int 3 of AWH B-40, 779 No. 427.

Attachment (s) ( )

Material Requirements and Requirements Routings
(All material not listed to be supplied by contractor)

Contractor: (FNO) Address DSL/GM PO No Cpl Documentation FNO Inspection FNO Cost est Supply FNO Comply with T & M DDP Comp sig DDP/RPO Remarks	Request Estimate (X) 779 ( ) 406 Assigned work will be carried out: (X) Now, at local authority ( ) Later, at an CFHQ/DDP approved ( ) After Dockyard Change Procedure After receipt of estimate, carefully to proceed, if approved, will be passed to DSL on signed copies of the DDP Form involved. R. L. HUNTON CAPT. (N) 2nd 6 Oct. 1965 J. A. M. LYNCH, CAPTAIN, FNO QUEBEC

The Queen's Printer, Ottawa, 1965

HOUSE OF COMMONS

First Session—Twenty-eighth Parliament

1968-69

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: Mr. A. D. HALES

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 35

THURSDAY, MAY 8, 1969

Public Accounts, Volumes I, II and III (1966 and 1967)

Reports of the Auditor General to the House of Commons (1966 and 1967)

WITNESSES:

(*See Minutes of Proceedings*)

20289—1

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. A. D. Hales

Vice-Chiarman: Mr. T. Lefebvre

and Messrs.

Boulanger,	Guilbault,	Noble,
Cafik,	Harding,	Noël,
Crouse,	Leblanc (*Laurier*),	Rodrigue,
Cullen,	Major,	Tétrault,
Flemming,	Mazankowski,	Thomas (*Maisonneuve*),
Guay (*Lévis*),	McCutcheon,	Winch—(20).

(Quorum 11)

Edouard Thomas,
Clerk of the Committee.

MINUTES OF PROCEEDINGS

THURSDAY, May 8, 1969.
(38)

The Standing Committee on Public Accounts met this day at 9.39 a.m., the Chairman, Mr. A. D. Hales, presiding.

Members present: Messrs. Cafik, Crouse, Cullen, Flemming, Hales, Leblanc (*Laurier*), Lefebvre, Major, Noble, Thomas (*Maisonneuve*), Winch (11).

Also present: Messrs. Bigg, Burton.

Witnesses: Mr. A. M. Henderson, Auditor General of Canada; Mr. E. B. Armstrong, Deputy Minister, Department of National Defence; Mr. G. W. Hunter, Deputy Minister, Department of Supply and Services; Cmdre A. G. Bridgman, Director General Maritime Systems, Department of National Defence.

The Committee viewed a short film on the foil-borne tests of the hydrofoil *HMCS Bras D'Or* and questioned the witneses.

The Committee also questioned the witnesses concerning the fire aboard the hydrofoil.

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

Edouard Thomas,
Clerk of the Committee.

20289—1½

EVIDENCE

(Recorded by Electronic Apparatus)

Thursday, 8 May 1969

• 0939

The Chairman: Gentlemen, will you please come to order.

This meeting has been set aside to further our investigation on the hydrofoil. For easy reference I would like to inform the Committee that the Minutes of Proceedings and Evidence, in respect of this matter appear in Issue No. 21 of March 4, and follow in Issue No. 23 of March 11 and Issue No. 24 of March 13.

We visited the hydrofoil in Halifax on March 27 and had the privilege of going aboard. At that time we asked questions of the ship's staff. This is the first meeting that you have had an opportunity to further your questioning on the development of the hydrofoil. As you recall, the cost of the hydrofoil started

• 0940

out at approximately $9 million cost and rose the building of the hydrofoil, which cost $3.2 million for the repair and the additional cost, design changes and program stretched out, revised the total cost of the fire to $6.5 million. This is a very large expenditure to the Crown and it is this that we are investigating and questioning. The paragraph from which the investigation originates is in the Auditor General's Report of 1967, page 51, paragraph 97.

Before we start our questioning, Mr. Armstrong, the Deputy Minister of National Defence, has been good enough to bring a six-minute film of the last test of the hydrofoil. I am happy to say—I think the officials are too—it was rather successful. We will show the picture first, and then proceed with the questioning.

Mr. Cullen: Mr. Chairman, on a point of order. With the greatest respect to your summing up, I want to dissociate myself from your comment that this project started out at $9 million and ended up at $50 million. I think that is an oversimplification of the situation. I understand that this is a development project and that the first nine million were phase one so to speak, of the operation. In this we had the fire, and then in addition to that there are these added phases. I do not think that anyone, when they started out, felt that this project would only cost $9 million and accelerate to $50 million.

As I understand it, and I have read this evidence again, I do not think that the intention was that they would be able to complete this project for $9 million, I would hope later, that someone from the Department or who is involved in this would explain just what they mean by a development. I get the impression that it is not comparable to going out and building a ship and knowing exactly what is going to be the cost. Any development project is taken in two phases, knowing from the start that the cost is going to be more.

I think the approach was wrong. They could have said, this may end up costing $40 million or $25 million or something of that nature; to oversimplify it by saying it started at $9 million and ended up costing $50 million, I think possibly gives a slightly wrong impression. I want to dissasociate myself from that part of your summing up.

The Chairman: I appreciate your comments. I think the purpose of the Committee is to find out why these development cost's accelerated from $9 million to $50 million. Now we will show the picture.

• 0945

Commodore A. G. Bridgman (Director General, Maritime Systems, Department of National Defence): Since that film was taken she had been at sea on five different days doing foil-borne runs. You will not see any fancy manoeuvering today, only straight runs with a modest turn involved. Some of the froth which you see at the stern is from the hull-borne propellers which are trailing at this stage. There is a clear picture of the bow-foil which is used not only to support the ship but to steer it as well.

Mr. Winch: How fast was she going?

Cmdre Bridgman: Thirty-five knots, sir. The lift-off occured in the 18-20 knot range. At this stage we are not sure of the ultimate speed, but I would say in excess of 50 knots at this stage.

Mr. Winch: Has it been tried in rough sea?

Cmdre Bridgman: No, not yet. The rough sea trials will take place later this summer. These are all in fairly calm water just off Halifax.

Mr. Winch: May I ask you if the rough sea trial will take place, before you replace the concrete on board with a $10 million weapon system?

Cmdre Bridgman: Yes, they will, sir.

Mr. Winch: What is the length of it, sir?

Cmdre Bridgman: The length is 151 feet.

Mr. Winch: There is one point which interested me when I was there, but I did not get an answer; there must be some arrangement. Could you please tell us, regarding the protection of the crew on board, when you get over 50 in rough weather what safety equipment do you have in the way of lifeboats or life rafts, in the event they are needed?

Cmdre Bridgman: There are inflatable life rafts, Mr. Winch.

Mr. Winch: Would they be in the bow or the stern?

Cmdre Bridgman: They would be towards the stern.

Mr. Lefebvre: Of how many men is the ship's crew comprised?

Cmdre Bridgman: The ship's crew will be approximately 25.

An hon. Member: How was the noise?

Cmdre Bridgman: The noise was as expected. On the very first run, there was a bit of vibration in going from hull-borne to foilborne. That has been eliminated in subsequent runs. It was just a question of choosing the right combination of bow foil trim and application of power.

• 0950

The Chairman: Commodore Bridgman, perhaps you would like to say a few words at this point on anything connected with your recent trial. I think the Committee would be glad to hear that as a follow-up to these pictures if you wish to make some comments.

Cmdre Bridgman: Thank you, Mr. Chairman. The film you have just seen was taken the first day of the foilborne trials which, I believe, was April 9. Since that time the ship has been to sea on five different days for further foilborne trials. All of these trials so far have been carried out at approximately the 35 knot point and she has been doing successive runs over a measured mile to try and get the optimum combination of bow-foil setting, application of power and so on for lift-off and splash-down. The reason we are still operating in the 35 knot range rather than going higher is that at about 35 knot one or two of the bearings on the down shaft of the power transmission system tend to get hot and at the moment a "fix" is being designed for this, that has not yet been installed. It is hoped it will be installed by about next Monday. Once that bearing problem has been overcome, which has to do with the flow of oil through the bearing, she will then do foilborne trials in calm water off Halifax until she reaches full power and then, hopefully, after that we will start the next phase of the rough weather trials out to sea. We anticipate that she will get to the rough weather trial stage this summer.

The Chairman: Thank you very much. Gentlemen, we had hoped to have a representative of the de Havilland Aircraft of Canada, Limited with us this morning. Unfortunately, they were unable to send a representative. It was rather short notice on our part, and with air travel problems and the fact that they had other commitments to meet, they are unable to be here this morning but if at any time you want them, I am sure they will come.

Captain Allan, who is the Hydrofoil Project Manager, is sick at the moment and unable to come. He would have come if we had really pressured the issue but I suggested that it would not be necessary this morning.

Mr. Winch has made a bit of a study of this hydrofoil and he has a few questions that he wanted to ask pertaining to the visit to the hydrofoil. I think, with your permission, we will let Mr. Winch ask his questions, and if the others will make a note of their questions we will follow in that sequence. Mr. Cafik.

Mr. Cafik: Yes, on a point of order, Mr. Chairman. The report following our visit to

the hydrofoil was made by Mr. Winch. Is it being made available? I have not got a copy.

The Chairman: They have not been circulated to all the members. I thought we would wait until we have them complete. They are all in except Mr. Rodrigue's and as soon as he puts his in, I thought we would mimeograph them and send all four to the Committee.

• 0955

Mr. Cafik: I think it may be helpful if we could have that available at this time. I think it deals specifically with fire, does it not, Mr. Winch?

Mr. Winch: Yes; also my questions are based on the report which I made.

Mr. Cafik: Yes, you and I have discussed this privately. I thought I would have had a copy by now but I think it would be helpful background.

The Chairman: I am sorry, Mr. Cafik. It was a matter of trying to get the whole thing together for circulation at the same time. However, that is the situation.

Mr. Winch, would you ask your questions now?

Mr. Winch: Yes, thank you, Mr. Chairman. I had originally intended asking eight questions but on reviewing the meeting which I unfortunately could not attend some time ago because I was with the External Affairs and National Defence Committee in Europe, and because I do not want to repeat the question I asked at that time, I now have five major questions.

On March 6 of this year the Department of National Defence tabled with this Committee a report of the circumstances surrounding the hydrofoil fire. On page 3 of this document it states:

> the inspection records did not afford proof that the hydraulic system in use had been fully inspected; documentary evidence of quality assurance was incomplete and thus inadequate;

In view of this statement our Committee requested that on the occasion of our visit to the hydrofoil in Halifax the daily inspection sheets should be made available. They were made available, Mr. Chairman. Our Committee noted that not only were some pages missing but also that in a number of instances there was not the required inspection stamp and initials of the inspecting official.

In view of the foregoing, two questions come to mind which I will ask together in order to facilitate the answers.

Firstly, has any explanation been sought and received as to why some pages were missing and why the required stamp and initialling in some instances were also missing?

Secondly, has there been an inquiry as to whether or not the missing inspection certification or missing pages involve the installation where the hydraulic leak occurred suspected of starting the fire as reported by the Board of Inquiry? If so, what were the results of these investigations.

The Chairman: Commodore Bridgman, would you like to answer that?

Cmdre Bridgman: I am afraid I can only attempt a general answer here. Captain Allan, who was intimately involved in this, could have given you a very precise answer. I know some of the story and I will do my best, but certainly, where I cannot answer, we will get the information from Captain Allan and table it for a subsequent meeting.

On the first part of the question as to any explanation being sought or received as to why some of the entries were not appropriately signed...

Mr. Winch: And some pages missing.

Cmdre Bridgman: ...and some pages missing, I understand that the missing pages were simply lost. They just were not able to find it and no one has ever been able to find out where it was or why it was lost but it was simply lost. I do know that Captain Allan does not attach any great significance to the fact that this page was lost. The information that was available on the pages that were there, or the lack of information, was certainly sufficient to justify the statement made in this report that the inspection records were inadequate to prove that the system had been fully inspected.

As to the signatures being missing, the explanation, as I understand it, was simply that they were just behind in their work, that they would have been put in in due course, but they just had not got to it.

The second question, was the missing page particularly relevant to the suspected joint ...

Mr. Winch: Or the lack of certification on the pages that were missing.

• 1000

Cmdre Bridgman: Yes. The missing page, I am not absolutely certain here so I will not say categorically, but I believe that the missing page was not relevant, but the lack of certification was relevant to some of the joints in the area of the fire.

Mr. Winch: Could I then ask one supplementary on this because I do not quite understand.

Commodore, you said that one reason why there was not the stamp nor the initialing on inspection was because of lack of time. Are you telling this Committee that a man who is responsible for inspecting a valve or anything else, which is his specific duty at that time, has not got the time to put on a stamp and his initials, which will take him about 15 seconds?

Cmdre Bridgman: I did not mean to say that there was lack of time, if indeed I did say it. I think I said that they were behind in the bookkeeping. Whether it was lack of time or something else I am not absolutely certain.

Mr. Winch: This could not be bookkeeping, sir, because the man's actual initial has got to be on his inspection; so that is not bookkeeping. It is a matter of, did he inspect or did he not?

Cmdre Bridgman: First of all, the inspection, of course, takes places in the ship; the recording takes place in an office. The fact that the recording in the office was not up to date does not automatically prove that the inspection did not take place on the ship. The findings which are summarized in this paragraph 9 on page 3 was that the inquiry did not contend that the inspection had not taken place. They contended that there was lack of documentary evidence to prove that it had taken place—if they can make that subtle difference.

Mr. Winch: I want to make one comment and then I will go on, and that is, this is not a matter of recording or of bookkeeping because the documents that were shown our Committee on board the hydrofoil were those which had or did not have the actual stamp and the signature of the inspector.

Cmdre Bridgman: That is correct.

Mr. Winch: Thank you. I think that is sufficient for the information, sir.

Our Committee, when we visited the hydrofoil in Halifax, noted that the engine room is equipped with two most efficient devices to detect fire, one which operates by sighting flame and one by detecting excessive heat. Why were these devices not operational when an important test was undertaken in the engine room?

Cmdre Bridgman: I think, Mr. Winch, that either Capt. Allan or I covered that point in previous testimony. The explanation is that the ship was under construction at the time; it was not a complete ship. The trials that were being carried out were trials that are necessary to be carried out during the construction process, not at the end of it. Among some of the things in the ship which were incomplete, of course, were the fire detection and fire fighting devices. There were alternative fire fighting arrangements, of course, such as hand-carried fire extinguishers and fire hoses from shore, not from the ship. But the ship's own fire fighting resources were not complete at the stage that this trial was being carried out.

Mr. Winch: Even although the electrical generators were operating on board ship?

Cmdre Bridgman: Yes.

Mr. Winch: Even although they were operating on board ship?

Cmdre Bridgman: Yes.

Mr. Winch: That is the evidence we are given in this document.

Cmdre Bridgman: Yes, the trial was an electrical generator trial, but it was a trial that was necessary to be carried out long before all of the other things in the ship were complete.

Mr. Winch: Then the answer is that these two most efficient devices were not operational when you started important testing in the room?

Cmdre Bridgman: They were not complete.

• 1005

Mr. Winch: That is fine, and that leads into my next question.

Our Committee on the hydrofoil noted that immediately adjacent to the doors of the engine room there is a hand operated warn-

ing device in the event of fire which is activated by pulling a key ring on a chain, that pulling same sounds a warning signal immediately and there is a lapse of 15 seconds before the fire extinguishing equipment comes into operation. We were told that the 15 second lapse of time is to allow personnel inside the engine room to get out through the two escape doors on opposite sides of the engine room. We were told that this mechanical equipment and the extinguishing equipment was in operation.

The question is, why was not a man stationed at the hand-operated system when two men were inside the engine room conducting an important test?

Cmdre Bridgman: I am not sure that I can answer for the contractor in this regard. As to why one was or was not, I think it came out in previous testimony that the Principal Naval Overseer and his staff were not informed that a trial was going on on that date, so it was impossible for them to have insisted on anyone being stationed there. There were two men in the vicinity of the engine room, and the one who was inside—and I think this is Capt. Allan's previous testimony—was the eye witness to the fire, but he was injured in the fire and the only other man available to either get him out or to operate the CO_2 fire extinguishing system—and had it been operated I believe we never would have got the man out—chose, as was stated earlier, to assist the injured man in getting out and he did not operate the CO_2 fire extinguishing system.

Mr. Winch: That is exactly the point, Mr. Chairman, I am trying to get at according to the information we were given. The man inside the engine room was very badly burned, and his co-workman had only one interest and that was to get him out and, therefore, he did not pull the chain, and that is understandable. What I cannot understand is why one man was in the engine room alone for a test and why there was not a man standing by whose sole responsibility was to pull that chain in the event of fire and give the immediate warning signal and allow 15 seconds for a man to get out or be brought out.

The Chairman: Mr. Winch, I think this question is for the manufacturers or the de Havilland people to answer. In all fairness to the Department, if they had been notified that the test was going to take place, there would have been more men aboard and the chances are that this would not have occurred. It is unfortunate the de Havilland people are not here to answer your question.

Mr. Winch: I hope we will get an answer to that from some source.

The Chairman: Yes.

Mr. Cafik: A supplementary, Mr. Chairman, on that very point. The thing that interests me is that the naval overseer was not informed as to the date of the test. Was there any obligation on the part of de Havilland of Canada Limited to inform the naval overseer? This strikes me as being a most peculiar situation where he did not know it was coming up, or did it occur on short notice and they did not plan this?

Cmdre Bridgman: This again was discussed when Capt. Allan was here. I am not sure of the legalities of an obligation, but they certainly had a procedure whereby the naval overseer's staff contacted the firm to ask each day what trials were coming up and I believe that they did ask whether any trials were going to be carried out or whether this particular trial, anyway, was going to be carried out on Saturday, November 5, 1966. As far as I know, they received a negative answer, that it was not planned to carry it out. As far as they knew, they had attempted to find out and had obtained the information that the trial was not going to be carried out. I believe it was subsequently decided at very short notice that they would carry it out.

• 1010

The Chairman: It would be safe to say Commodore, that de Havilland of Canada Limited had a moral obligation, but maybe not a legal obligation.

Cmdre Bridgman: Yes, certainly a moral obligation, but the procedure was that the naval overseers were not taking all that many chances and they were asking...

The Chairman: I see others wishing to speak. There will be supplementaries to this particular point. That is agreeable, Mr. Winch, as long as they are supplementary to this point.

Mr. Winch: Right.

The Chairman: Are you finished, Mr. Cafik?

Mr. Cafik: I have just one more question. I suppose one could then fairly conclude that

when de Havilland—I hate to use the word "misinformed"; I do not think it is the right word—were asked whether this trial was going to take place they had indicated that it was not or they had not indicated it was?

Cmdre Bridgman: Yes, they had not indicated that it was going to take place. That is probably the fairest way of putting it.

Mr. Cafik: In spite of the fact that you asked them if anything was going to take place. So the key problem in respect to this fire would stem from that central point. Had you known, or had they informed you then I presume the naval overseer would have behaved in a different manner.

Cmdre Bridgman: He may have, but his purpose in being there would not have been for fire protection and so on. His purpose in being there would have been to see whether this electrical generator which was on trial was performing the way it was expected to perform. And he or his representative, even though they had been there, might not have been stationed at that point in time at a point where they would have done much different.

Mr. Cafik: In other words, the naval overseer may not have taken any different precautions to eliminate the possibility of fire?

Cmdre Bridgman: I am not sure that I can say precisely what the naval overseer would have done. The naval overseer was Captain Allan, who would normally have been here today, and that would be a better question to ask him. Obviously, the more people who had been there, the better the chances would have been of more precautions being taken.

The Chairman: Mr. Noble, was your supplementary? If not, I will go to Mr. Bigg.

Mr. Noble: Mine has to do with the fire, Mr. Chairman, but I will wait until my turn comes. Is that correct?

The Chairman: I think Mr. Hunter would answer the first part of that question and perhaps the Commodore the second part.

Mr. G. W. Hunter (Deputy Minister, Department of Supply and Services): Mr. Chairman, there is no change in the form of the contract. I think Mr. Lefebvre is referring to the fact that we are considering with National Defence whether we would continue the policy of the government being its own insurer. Mr. Armstrong and I have exchanged correspondence in connection with the current DDH contract. It has not been settled yet because it has not needed to be settled, but we will be deciding shortly.

The Chairman: I think Mr. Lefebvre wanted to know if there were a fire today on the hydrofoil

Mr. Lefebvre: If a similar contract was let today for another type of construction would the government still be the only one responsible for paying the damages caused by such a fire under similar conditions, or would the contractor now also have some responsibility?

Mr. Hunter: The conditions are the same, Mr. Lefebvre, except that having learned a lesson from this fire we are told by National

• 1015

Defence that all fire precautions have been considerably tightened up. Even though we had about four sets of inspectors doing the job before they have been further tightened up. But the policy is still the same, it has not been changed.

Mr. Lefebvre: Have there been any other contracts let recently where these clauses are still part of the contract?

Mr. Hunter: Sir, these clauses would be part of any contract that has been let since that time.

Mr. Lefebvre: It has not been changed, just tightened up, as you say.

Mr. Hunter: Yes, sir.

Mr. Lefebvre: So we still could be liable for the same type of expense today?

Mr. Hunter: Yes, sir.

The Chairman: Commodore Bridgman.

Cmdre Bridgman: I think part of Mr. Lefebvre's question was whether we would in future allow the contractor the same sort of free hand regarding inspection. Was that the last part of your question?

Mr. Lefebvre: What I am trying to find out, sir, is whether or not the government has protected itself from now on against similar happenings where a $6 million fire occurred and the government was the only one who had to pay the shot.

Cmdre Bridgman: To deal purely with the inspection part of it, which is the Department of National Defence responsibility, in para-

graph 14(a) of the report that you were given concerning the fire we said:

> Government inspection would be introduced to supplement contractor inspection, and appropriate DND inspection standards would be written into the new contract.

So in the case of the hydrofoil we certainly increased DND participation in the inspection. Speaking for any area of interest that I have in construction or equipment contracts, I certainly think we would insist on similar opportunity to inspect.

Mr. Lefebvre: We should not expect a similar happening coming to our attention, say, next year or the year after.

Cmdre Bridgman: I sincerely hope not, sir.

Mr. E. B. Armstrong (Deputy Minister, Department of National Defence): May I just add a word in respect of Mr. Lefebvre's question. As Mr. Hunter said, we are examining whether the government under such circumstances as those pertaining to the hydrofoil or other construction of ships or other articles for the Department of National Defence should be its own insurer. If you recall the evidence, Mr. Lefebvre, Mr. Hunter indicated that over the last several years—I have forgotten the length of the time that was involved—this policy, based on their examination of it, had in fact saved the government a considerable amount of money. We are examining the problem now and whether or not one should make a recommendation to the government that they should not be their insurer, in my opinion, is open to question because I think up to this point it probably has been a policy that has saved money rather than cost money.

Mr. Lefebvre: I brought this up but I do not want to take up too much time on it. I was under the impression that under normal conditions in contracts of all types contractors usually protect themselves by taking out insurance for public liability, fire and theft and everything else and I was just wondering why the de Havilland people, who are a big firm, would not have done this as a matter of course.

The Chairman: Mr. Hunter?

Mr. Hunter: Because they were instructed not to do so by us, Mr. Lefebvre. These were general conditions. DDP-26 to the contractor expressly states not to insure, that the Crown will be the insurer.

Mr. Lefebvre: Would it have added that much cost to the contract if you had let de Havilland insure themselves, or what would the major reason be for that decision.

Mr. Hunter: I would say the major reason is just what Mr. Armstrong has said. Our experience over the last 13 years, if I can recall the figures, showed that where we had approximately $500 million a year work in construction to which the Crown has title the losses averaged over the 13 years something around $300,000 per year, and that included $3,200,000 for this fire. This was the only fire of this size that happened in 13 years. So the cost to the Crown to not insure was $300,000 per year. Had we insured at a reasonable

• 1020

rate, which I checked at that time, the cost per year would have been about $1 million. So that we feel that the Crown saved $700,000 a year for this 13 years that I have a record of.

Mr. Lefebvre: Does this cover construction items or all the equipment?

Mr. Hunter: This covers all Crown property, under construction in contractors' plants such as the Hydrofoil, or aircraft at Canadair: anything where the Crown is paying progress payments and taking title.

The Chairman: I will go to Mr. Cullen. I have to watch these supplementaries or Mr. Winch will not finish his questions. All right, Mr. Bigg.

Mr. Bigg: I believe that we asked for a legal opinion from the law officers of the Crown on this very point. Did we get that?

The Chairman: We had that decision: it is Appendix 25.

Mr. Bigg: Are we still waiting for that?

The Chairman: No, we have it. It is Appendix 25 in your minutes. Mr. Cullen?

Mr. Cullen: I want to concur with what you said, Mr. Chairman. I am one of those who, in essence, is opposed to supplementaries and with the greatest respect to my colleague, I think we are getting away from the area in which Mr. Winch was involved. He is pursuing a certain line, and now we are on insurance. If we are going to discuss insu-

rance, I think that is another subject, but I must say I think my supplementary is on the point.

I understand that the systems, according to Mr. Winch's letter, were not installed at the time, and this lever or switch or whatever it is that could be pulled...

Mr. Winch: That was installed.

Mr. Cullen: But was this strictly to make a sound indicating that there was a fire, or was this to get the fire equipment going?

Mr. Winch: No, the equipment which I am referring to now, and which I think you have now, is the mechanical equipment. The mechanical equipment is outside and right alongside the escape doors of which there are two. There is a chain with a ring, and when the chain is pulled down, this equipment immediately sounds a warning that there is a fire in the engine room. There is then a lapse of 15 seconds in order to allow anyone inside to get out of the two escape doors. At the end of 15 seconds the pulling of this chain releases the fire extinguishing equipment.

The Chairman: Thank you. I warn you gentlemen, we are not going to drift into insurance when we are talking about safety valves during the next round.

Mr. Winch: Mr. Chairman, part of my next question actually is what is now being discussed but it does go a little further.

As a result of the expensive experience gained owing to the fire on the Hydrofoil, have the recommendations that were made by the Board of Inquiry been implemented, not only relative to improving firefighting provisions and organization, but also the type of fluid couplings to be utilized, that flammable fluids be isolated, that National Defence personnel be informed in writing in advance any testing, and that the quality assurance requirements be made more stringent and explicit. These are definite recommendations of the Board of Inquiry and are contained on page 3 of the document with which Mr. Armstong so kindly supplied us.

Cmdre Bridgman: Yes, to the best of my knowledge, Mr. Winch, all of those items in paragraph 11 have been implemented.

Mr. Winch: Have been implemented. Then, Mr. Chairman, I have only one other question. It does not deal with the fire but I think it is a matter which is of interest to our committee.

It has come to our Committee's attention that some unique features are embodied in the construction and the equipment of the Hydrofoil. To give one example, our Committee was told of a requirement of a compass which always points to true north. This equipment in other ships is of such a very large nature, and I understand it weighs in the neighbourhood of 75 pounds, that this compass was not adaptable for the Hydrofoil, so the department—I am not quite certain which one—according to my information, paid a Canadian company $28,000 for research, and it came up with a most efficient compass which is now installed on the Hydrofoil, which is about the size of a large cigar box, and weighs not more than 14 pounds. Our Committee was advised, when we went over the Hydrofoil, that many navies in the world

• 1025

are interested in this achievement and that two have either placed, or are contemplating placing, orders with the Canadian firm which did the deveopment.

My question is, in view of the evidence we had from one of the legal patent men, from the department some weeks ago, should not the government be able to licence or collect a royalty, or at least have a return of its research money?

The Chairman: Mr. Hunter, I suppose your department would purchase the compass and that you should make some comments on it.

Mr. Hunter: I am not aware of the details of this, Mr. Winch, but if it were a development to which the Crown had rights, we would automatically turn those rights over to Canadian Patents and Development Ltd, sir, which is a Crown Corporation set up to do just what you say, to exploit and get the best return possible from any patents that the Crown holds.

Mr. Winch: Mr. Chairman, Mr. Hunter will remember that at our request, he had one of his top men either in his department...

Mr. Armstrong: It was the Department of National Defence, sir.

Mr. Winch: He told us that there had not been found up until that date anything whatsoever that could be licenced, or upon which they could collect a royalty. I know that our subcommittee gave this as one example where the Canadian Government paid research money, the item was developed, it is

functioning, and other navies want it. Why can we not get the government's research money back?

The Chairman: Perhaps Mr. Winter could answer you other part, Mr. Winch. Has your department made efforts to sell this compass to other countries. Is this, what you wanted to know, Mr. Winch—what effort has been made to sell it to other countries?

Mr. Winch: It is being sold.

The Chairman: Yes, but more extensively was your question, was it not?

Mr. Winch: Because the Canadian Government paid for the research and it worked and is now being sold to other countries, should there not be some return to the government?

Mr. Armstrong: Perhaps I could just comment on it. I do not know the specific item and I would have to inquire about it to get you a definite answer. But if, in fact, it has features that were developed at the cost of the Crown we would have the rights to it. I think you will recall, Mr. Winch, that Mr. McGee said that there would be a further review of the Hydrofoil to determine whether since his initial review there were any patentable items. I do not know about this particular item. I would be glad to inquire about it for the Committee and report to you on it.

The Chairman: Mr. Noble and then Mr. Crouse.

Mr. Noble: Mr. Chairman, I should have taken advantage of the opportunity you gave me a while ago, however, Mr. Lefebvre has asked my question, but perhaps I will put it this way: am I correct in assuming that it is customary for the government to assume all responsibility in respect of fire during construction and other installations of all projects being built under contract, such as the Hydrofoil?

The Chairman: Mr. Hunter, I think you answered that: as long as the government continues the policy of self-insurance. In other words, if we had a fire this afternoon on the Hydrofoil under the same conditions, we would still have to foot the bill as we did in the last fire.

Mr. Hunter: That is right, sir.

Mr. Winch: That was not the case on the *Bonaventure*.

Mr. Hunter: Sir, I think I mentioned to the Committee, in the case of refits there is a ship repairs policy that the ship repairer has on his whole yard to cover all his commercial work and it was deemed difficult to sort out what would be Crown property because refits come in for usually a relatively short time. The *Bonaventure* took a little longer, but it came under the same class. It was insured by the yard under their over-all ship repairs policy. There was a $35,000 fire, as you know, on the *Bonaventure* which was paid by the contractor and he, in turn, claimed on his insurance.

Mr. Winch: Is it therefore the understanding of this Committee that what you said of a government responsibility only applies on new construction and does not apply on any refits?

Mr. Hunter: That is right, sir.

The Chairman: Mr. Noble.

Mr. Noble: Were materials and fluids used on the Hydrofoil more flammable than those used on other ships and did the cramped quarters on the Hydrofoil contribute to the fire hazard?

• 1030

The Chairman: Commodore Bridgman.

Cmdre Bridgman: I think the answer, sir, is that some of the hydraulic fluids are more flammable than some of the hydraulic fluids that are used in normal ships. We had to go to this type of fluid for a variety of reasons. It is an aircraft type of fluid.

Sir, the other part of your question has to do with the cramped quarters. Cramped quarters always tend to increase the potential for fire but I would not say that the hydrofoil engine room is the most cramped that I have seen in my career at all. There are lots of cramped quarters in other ships too.

Mr. Noble: Such as submarines?

Cmdre Bridgman: Such as submarines.

Mr. Noble: Mr. Chairman, I was also interested in the recommendations made after the investigation but, of course, Mr. Winch has pretty well covered that. Were all the items listed on page 378 complied with? It is quite an extensive list.

The Chairman: Are you referring to the Minutes?

Mr. Noble: Yes, the Minutes of March 11, on page 378 in the second column.

The Chairman: I think they are the same as those in the fire report.

Cmdre Bridgman: I think I answered that question previously, that to the best of my knowledge all of those recommendations have been implemented.

Mr. Crouse: Thank you, Mr. Chairman. Commodore Bridgman, could you tell the Committee if on the hydrofoil all the exposed parts of the engine where heat is conducted are now covered by asbestos?

Cmdre Bridgman: I think "all" would be a very sweeping statement. I am not sure that it is asbestos in every case but, certainly, there has been a program of covering those areas where there is intense heat such as could cause hydraulic fluid to ignite. It has been insulated for two reasons, one fire protection, and the other is to just cut down the heat level in the engine room, to improve comfort.

Mr. Crouse: Mr. Chairman, I put the word "all" in there on purpose because it is not only fire hazards with which I think you and your Department should be concerned; I believe there is also a necessity to have asbestos covering on all exposed heat pipes as a protection for the crew, who on a ship of this size travelling at this speed could well be thrown against a hot pipe. This could cause physical damage which would impair the operation of the ship. I again put my question, could you tell us if all exposed heat pipes are now covered with asbestos covering?

Cmdre Bridgman: Yes, I think the answer most certainly is yes, to the type of situation that you are envisaging. I think had you been able to make a trip to Halifax you would have seen that the piping and other surfaces in the engine room are extensively covered. The definition of heat, of course, requires some interpretation because not the whole of the diesel engine, for instance, is covered; yet there is heat being radiated from every part of a diesel engine but it is not sufficient heat to cause burns. I think any area that could cause burns to people or inflammable fluids to ignite are now covered.

Mr. Crouse: Mr. Chairman, on a point of procedure, am I limited only to questions on the fire? I have some other questions that are pertinent to what we have seen this morning.

The Chairman: We will take any other questions pertaining to the fire and the responsibility thereof and then branch into another section, Mr. Crouse.

Mr. Crouse: I have other questions so I will pass for the moment.

• 1035

The Chairman: All right. We will come back to you. Mr. Cafik?

Mr. Cafik: Yes, specifically on the insurance problem. I can understand the position that has been expressed by you and I think, frankly, it is a good policy not to ensure our own goods especially when you have so much involved. The question that I have is that de Havilland surely must have insurance on its own buildings and on all work in progress. In spite of the fact that you gave them instructions that the Department would carry its own insurance, or assume its own liability in the event of fire, surely their ordinary policies would have covered the fire in any event? Has this been looked into or any questions raised in this regard?

Mr. Hunter: I am sure the auditors would look at it, sir, because it is a question of what is allowed in overhead. The contractor would not be allowed any charge for insurance on government property in his plant, we will say, the de Havilland plant at Downsview. He has a running coverage of work in process in his plant plus his buildings and everything and he would exclude the value of government property, which at times would be very high in the plant and would practically double or perhaps triple the cost of his insurance, but he is expressly told, "Do not insure". So his insurance policy would only cover all other than government property. It would cover his own buildings, his own tooling and he would cover everything that was his own, but he would not cover the property to which the Crown holds title.

Mr. Cafik: So you feel that because de Havilland does such a large degree of government work that the argument I put forward would not then necessarily apply?

Mr. Hunter: I am quite sure it would not in that plant. I can see your point. In a very small plant where only 5 per cent perhaps was government work, there would be a possibility that it would be impossible or more costly to exclude it than to not. In this case it would be. In fact it was a separate job; it was moved away from the de Havilland plant

down to Marine Industries Ltd., and I am certain they would not be covered there for this Crown-owned property.

Mr. Cafik: Could I ask the Auditor General a question in this regard? Has your Department looked into this possibility, Mr. Henderson, that it was in fact covered with insurance in any event?

Mr. A. M. Henderson (Auditor General of Canada): Mr. Cafik, we would look over, and we do look over, the reports of the Audit Services Division that examines these specific contracts, the same Division that at the present time, has been making this examination for you on the *Bonaventure*. No insurance charge would be admissible in that contract because of the requirement that the Crown will be its own insurer on the basis Mr. Hunter has described, and we would not expect the Audit Services people to permit it. In other words, they would exclude it if they saw it because it is not an admissible charge.

I think the actual kind of coverage that de Havilland would have had—this is subject to there being any correcting—would be some type of general catastrophe coverage in the event they found themselves forced to pay a claim through negligence. For example, if de Havilland is proved negligent in this particular case, so far as this fire is concerned, and they are required to pay, presumably they might have recourse to some type of overriding coverage which they placed with Lloyds in the same way that manufacturers generally carry a lot of customer protection in case somebody passes away from eating their product and they had a very stout claim on their hands. Some general thing which comes because it is so widespread and because there are so many limitations. It does not come too expensive. You can get these very large policies from Lloyds and people like that. That would be in the general overhead, however, but would not be identified in the charges that Mr. Hunter's auditors would be passing on. Would that perhaps help you?

Mr. Cafik: Mr. Henderson, it is not whether we were paying for insurance, I know that we were not and I know that the Department itself carries its own insurance. This is not the central argument. The point I am trying to establish is that in spite of those conditions, which you have outlined, is it not possible that this fire was, in fact, insured by de Havilland in one way or another. I mention, first of all, through their general blanket coverage it might just happen to have been included in any event and I think that should be looked into.

• 1040

The second point is such as you point out, if there is negligence on their part, then they would be liable in spite of the fact that we were carrying our own insurance, as it were. And if there is a degree of negligence that could be proven, then of course they would be found liable and they in turn would be able to claim from their insurance company if they carry the usual routine insurance of the manufacturer. I think this should be looked into.

Mr. Henderson: Yes, you have a good point. But here where the Crown has stipulated and said that it is taking the major insurance risk and therefore does not expect the contractor to incur it, the latter is not going to admit any charges.

You have let the contractor in effect off the hook unless it is proved that he is negligent later on.

Mr. Cafik: But on the matter of negligence he is not off the hook, Mr. Henderson.

Mr. Henderson: Oh no, I say unless it is proved that he has been negligent in the discharge of it, or wilfully damaged Crown property or done something to Crown property.

The Chairman: I think we can answer Mr. Cafik's question here. Mr. Cullen I hope as a lawyer will follow in.

We could prove negligence on the part of De Havilland Aircraft of Canada Ltd., I think this Committee could do this without too much trouble. But on page 404 of the *Minutes of Proceedings and Evidence*, Mr. Hunter said:

> In our general conditions there is a Section 12, Care of Crown Property, which reads as follows:

I will read the pertinent part:

> ... The Contractor shall take reasonable and proper care of all property, title to which is vested in Her Majesty, while the same is on or about the plant and premises of the Contractor or otherwise in his possession or subject to his control and shall be responsible for any loss or damage resulting from his failure to do so...

We are all right up to that point. Then it reads:

> ... other than loss or damage caused by fire or by ordinary wear and tear.

I would like Mr. Cullen to comment on that in a minute. Mr. Winch.

Mr. Winch: Would you also, sir, please read paragraph 6 of the Board of Inquiry Report which is found on page 2 and the first sentence in paragraph 7.

The Chairman:

> 6. The exhaust trunking of the auxiliary gas turbine reaches approximately 1000° Fahrenheit when the engine is operating. Although it was insulated, small areas of metal surfaces were exposed at the joints. The hot section of the engine casing reaches approximately 400° Fahrenheit, hot enough to ignite hydraulic fluid.
>
> 7. The hydraulic leak was closely followed by a flash fire along the deck head of the engine room ...

This would be evidence enough to this Committee to prove negligence on the part of De Havilland. But the question is, why would the Department put into Section 12 that last sentence:

> ...other than loss or damage caused by fire ...

And I presume the answer is that they are self-insurers and that is why that point is in there. Now, I think the Committee would have to weigh here, if you establish negligence does the last part become redundant? Mr. Cullen, would you comment on this part for the Committee?

Mr. Armstrong: Mr. Chairman, could I make one little correction? In that paragraph that you read, paragraph 6, if you will recall, there was a typographical error, and that was that the word "hot" enough was "not" enough, and that was corrected.

Mr. Cafik: I am not personally convinced that the reading of this Section 12 in regard to the Care of Crown Property means in effect that if a fire occurred as a result of negligence that there would be no obligation on the part of the manufacturer. I am not convinced of that by this reading, in spite of what it may say literally. I feel that they are obligated, and I feel that if there is negligence—I am not saying that there is; I do not know enough of the facts—if there is negligence on the part of DeHavilland that caused this fire, I feel that the Crown has the right to lay claim for the damages that occurred as a result of that fire, and that money would be recoverable from De Havilland and De Havilland in all probability would be able to claim from their insurer.

• 1045

The Chairman: I think this is the crux of the whole matter right here.

Mr. Winch: As Mr. Armstrong said, the word is "not", not "hot", so that it reads:

> ... not enough to ignite hydraulic fluid.

Can we please have an explanation then as to what started the fire by igniting the hydraulic fluid?

Cmdre Bridgman: There were other areas that were hotter than 400°. I think this was the point. The engine casing is 400°, but there were other areas, as stated in the first part of paragraph 6:

> The exhaust trunking of the auxiliary gas turbine reaches approximately 1000° F. when the engine is operating.

And as I recall there was evidence that some of the joints were exposed. So there could have been 1000° F. temperature on exposed joints.

Mr. Crouse: We are right back at my original question then, Mr. Chairman, as to why the hot pipes were not properly insulated with a special covering.

Cmdre Bridgman: As I recall, sir, your question was: "Are they now covered"?

Mr. Crouse: Are they now covered? But we went over this ground before. The evidence is lying here, Mr. Chairman, and these questions were all asked on a previous occasion.

Cmdre Brigdman: I think the answer, sir, at that point was that the ship was not complete and the insulation was not complete.

Mr. Crouse: Well then, the negligence is obviously lying on the part of the contractor because they conducted a test before it was adequately protected, and this is the point we are trying to establish, Mr. Chairman, negligence on the part of the builder.

The Chairman: Yes. Well now, Mr. Cullen and then Mr. Major.

Mr. Cullen: Mr. Chairman, I think any comments by myself insofar as the legal end

of this are superfluous because we asked for legal opinion which was given to the Department on December 1, 1966. I think there is a prima facie case of negligence here and the items that occurred to me as a result of the questioning were that I thought it was negligent not to call the Defence officials, not to have instant means at hand to stop or prevent the fire, not to have properly tested or protected the joints, to do testing before manual and automatic systems were ready. And then even if the manual one was ready, the type that Mr. Winch was referring to, there was only one place where you could pull that chain and that was in the ship, and why there was not one outside and why there would not have been one maybe even further than that.

So I think there is a prima facie case of negligence here on behalf of the contractor. But Mr. Evans, the Legal Officer, has given the legal opinion and even if there is negligence, we are after all the insurer.

I think you can draw this analogy. If you are driving your car down the street and making a turn and you are obviously being negligent in your driving and you run into a telephone pole, you are negligent in the operation of that motor vehicle. But your insurance company is the one that pays notwithstanding the fact that you have been negligent.

I think that is the situation we have here. We have the Crown in two capacities; one as the owner, and one as the insurer. If in fact as a result of the negligence there was a claim against De Havilland, then they in turn would come against the Crown, not in its capacity as owner of this particular ship or as the one authorizing the work. They would have a claim against the Crown as the insurer. Mr. Evans said that whether they were negligent or not really is not significant because we are the insurer, and then he says:

> ...even if the Crown had a claim against the Contractor, he in turn would have a claim under his insurance policy against the Crown for reimbursement of such claim.

And there is a DDP contract that holds the contractor not liable for fire and which—and this is the big thing:

> ...unconditionally insures the Contractor against fire loss, from any cause whatsoever...

• 1050

So unless the contractor actually sets a fire himself by arson, there really is not a claim that the government has against De Havilland, even if there is negligence. You are negligently driving your car, you are insured for it.

The Chairman: Mr. Cullen, what you are saying then, the way this Section 12 is now, is that any contractor could be as negligent or careless as he likes and cause a fire, knowing that he would not have to pay the shot and the government would pay the insurance.

Mr. Cullen: I think if there was a degree of negligence, that is gross negligence, it could lead to a charge of arson, shall we say. If you are grossly negligent and have flames and oil all over the place, I think you would have to go to that degree of negligence, gross negligence, and then it would be arson. Then you would have an arson situation on your hands.

The Chairman: But did negligence cause the fire?

Mr. Cullen: I do not know. I am not the judge. You ask me as a lawyer.

The Chairman: We might have to go to a judge. Mr. Major, is your question on the same point?

Mr. Major: It is on the same point, Mr. Chairman. It is this. Mr. Henderson might make a note of this because it is pertinent, although it has nothing to do with this particularly as the Department is just following a policy of the government. I can speak for the insurance industry, which always provides for recuperation in a loss. If the government is going to act as its own insurer then it should follow the common practice of the insurance industry to leave itself open for recuperating losses from its contractors, depending on what the situation is. This is a normal industry procedure. This is how we operate.

Mr. Cullen: That would be a claim, Mr. Chairman, against a third party. For example, if there is a car accident and the driver of the other car is negligent, you pay the damages to the fellow who has bought your insurance and then you recuperate from the driver of the other car. There has to be a third party.

Mr. Major: There is a similar situation here.

Mr. Cullen: But the third party here is the Crown. It is almost, as I said, in two capacities; it is the driver of the car and it is also

the insurer of the car. There is not any third person.

The Chairman: That is an interesting observation. I think Mr. Hunter and Mr. Armstrong might note that for redraft of their policy.

Now, Mr. Cafik, were you on the same line?

Mr. Cafik: Yes. I am not too sure—I am not a lawyer—but I appreciate the subtleties of the argument put forward by Mr. Cullen, and I think a lot of what he says is quite right. Certainly I would agree with it. But in terms of the analogy drawn between the car and the driver and negligence, I do not think this is apropos in this particular case. It sounds right but I do not think it is because in this particular case of the car and his negligence, the driver is being insured against hiw own negligence, and that is the whole point of the problem. And in this particular case, I say that de Havilland in all probability is insured apart from the fact that the government is its own insurer in this particular case; that de Havilland is insured by an insurance company against negligence on its behalf in regard to any properties that it may have on its plant that it may be working on, and I think that in that particular case it has a claim against the wrong insurance company.

Mr. Hunter: This policy, the Marine Builders' Risk Policy, that we give the company covers the point that you have just made, Mr. Cafik, because it says here:

> 11. This insurance also specially to cover loss of or damage to the subject matter...

being the hydrofoil

> ...of this insurance through error of judgment, fault, negligence of Master, Mariners, Engineers, Pilots or any other person whether in the employ...

This Marine Builders' Risk Policy, which is modelled exactly after the Lloyd's policy, covers the very point that you have made. Therefore he would not have other insurance to cover the negligence of any employee because he is covered here.

Mr. Cafik: What is this policy you are referring to? Is that a policy that the government has written up to cover its non-insurance of the item?

Mr. Hunter: Yes, sir. This is called Marine Builders' Risk Policy DDP-32, and it has, I am told, exactly the same conditions as the Lloyd's policy that the contractor would have taken out if we had not said not to take it out. It is exactly the same because of the fact that in all of these shipyards they also have for their commercial work a similar kind of policy. They have similar standards for fire fighting that Lloyd's impose on them. And I think I mentioned to the Committee before that we impose even more stringent regula-

• 1055

tions on the contractor, as far as fire prevention and inspection are concerned, than do Lloyd's themselves because Lloyd's come and visit the yard and they in theory are really checking on what he is doing for the Crown as well. We have about four other levels of inspection as well as the Lloyd's arrangement.

Mr. Cafik: I think what you bring up, Mr. Hunter, is very interesting. I had no idea until this very moment that this non-insurance that we had took the form of a positive document. And if Mr. Cullen knew that at the time he was speaking I think he is quite right. I had no idea. I thought that it was simply the absence of any contract.

Mr. Cullen: Mr. Cafik, that was in the letter referred to, I think, as Appendix F—the letter dated December 1, 1966 which had the legal opinion in it. It specifically referred to the document that Mr. Hunter has mentioned.

The Chairman: Mr. Bigg.

Mr. Bigg: I would like to know how we can insist that people who do work for the government then in fact give us the proper warning of tests and so on. It is impossible for us to protect government property unless we know these tests are being made. What possible pressure can we put on de Havilland or any other contractor if they have no responsibility whatsoever for a $6.5 million fire? Is that a fair question? What regulation can we use to ensure that in future we do not have this sort of thing happen?

The Chairman: It is time to sum up. I would suggest to the Committee, for your approval, that we have found enough evidence in our investigation of this fire to come to the conclusion that there was negligence on the part of de Havilland for allowing this fire to happen.

Mr. Cafik: I do not have such evidence. I suspect it, but as you know I was away with the External Affairs Committee in Europe and you may have got evidence during my

absence that would lead the remainder of the Committee to conclude that. I would suspect it, but I do not conclude it at the moment.

The Chairman: Maybe we will put it that way. There appears to be evidence. Why would this Committee not be within its right to ask de Havilland to appear before this Committee and defend themselves on this charge from the Committee? I know that when we have come into legal disputes we have on one or two occasions asked the Auditor General to get a legal opinion from his law people on this matter and I will ask him now if he would entertain that. Maybe he will not approve of it—I do not know—but I will make that suggestion to you, Mr. Henderson. Maybe this is too short a notice. Perhaps you would like to think it over.

Mr. Henderson: Mr. Chairman, I would like, if I may, to be permitted to take that under advisement. Mr. Cullen very kindly read out the law opinion of Mr. Evans of the Department which because of my absence I have not been familiar with. I am not a lawyer myself but I think that generally speaking, from the wording I read, I would share Mr. Evans' views. I do not know that I would want to approach it so much as to try to seek a conflicting opinion. On the other hand, if you would permit me, sir, I will discuss the case with my legal advisers and return to the Committee with a short statement on the subject before I ask them for a flat opinion. Would that be satisfactory?

The Chairman: Agreeable. Now we will adjourn but before adjourning, Mr. Cafik, you asked a question in the House yesterday and you were told to refer it to the Committee. I will refer it on your behalf and ask Mr. Hunter what progress has been made on the audit report and if you are going to table it with the Committee and send a copy to the Auditor General.

Mr. Hunter: The audit is not strictly complete, sir. We have advice on the over-all figures of the audit but there are certain details still that the audit services are attempting to get for us in the way of some further breakdown. As far as tabling the audit report in the Committee is concerned,

• 1100

we have been told by the Department of Justice that it would be contrary to the provisions of Section 35 of the Defence Production Act to disclose the full contents of the report without the permission of the contractor. My Minister would have answered yesterday, had he been able, that it was his intention in due course that the major conclusions of the government's audit be made available to the Standing Committee on Public Accounts.

The Chairman: Mr. Henderson.

Mr. Henderson: May I ask Mr. Hunter if that report could be made available to me in its present form? My officers have requested it but I understand that it is in the course of discussion with you. At what point may I be furnished with a copy, Mr. Hunter?

Mr. Hunter: I would say as soon as possible, Mr. Henderson.

Mr. Henderson: What day would that be? When would that be, please?

Mr. Hunter: It will be up to the Audit Services Bureau to be satisfied that they have sufficient information and to give us the report.

Mr. Cafik: I would like to direct this question to the Auditor General. Although he was absent at the time he may know. When we were discussing the special audit team going to Davie Shipbuilding, I brought before the Committee the suggestion that someone from the Auditor General's department ought to be available and perhaps even on the scene during the course of this audit. Did you have anyone there?

Mr. Henderson: No, I did not, Mr. Cafik, because we have access to all of the reports of the Audit Services Bureau. What I am anxious to ascertain at this time is, when this particular report is made available to me, whether or not it will be made available to the Committee because it is important that I plan my work in order to be able to serve the Committee best.

Mr. Cafik: For what reason did you decide not to have representatives on that team?

Mr. Henderson: Because in our view, Mr. Cafik, it is essentially the responsibility of the Executive—in this particular case the Department of Defence Production—to perform this work and it would possibly have inhibited them and rendered me in a position where I

could hardly criticize it had I participated in the work. I should now like to see the conclusions and the basis on which the work was carried out and the report thereon to the Committee.

Mr. Cafik: Thank you very much, Mr. Chairman.

The Chairman: The meeting is adjourned. We meet Tuesday, when the Davie Shipbuilding people will be here.

The Queen's Printer, Ottawa, 1969

HOUSE OF COMMONS

First Session—Twenty-eighth Parliament

1968-69

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: Mr. A. D. HALES

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 36

TUESDAY, MAY 13, 1969

Public Accounts, Volumes I, II and III (1966 and 1967)
Reports of the Auditor General to the House of Commons (1966 and 1967)

WITNESSES:

(*See Minutes of Proceedings*)

20291—1

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. A. D. Hales
Vice-Chairman: Mr. T. Lefebvre

and Messrs.

Boulanger,	Guilbault,	Noble,
Burton,	Guay (*Lévis*),	Noël,
Crouse,	Leblanc (*Laurier*),	Rodrigue,
Cafik,	Major,	Tétrault,
Cullen,	Mazankowski,	Thomas (*Maisonneuve*),
Flemming,	McCutcheon,	Winch—(20).

(Quorum 11)

Edouard Thomas,
Clerk of the Committee.

Pursuant to Standing Order 65(4)(b),
Mr. Burton replaced Mr. Harding on May 8, 1969.

MINUTES OF PROCEEDINGS

TUESDAY, May 13, 1969.
(39)

The Standing Committee on Public Accounts met this day at 9:34 a.m., the Chairman, Mr. A. D. Hales, presiding.

Members present: Messrs. Boulanger, Cafik, Crouse, Cullen, Flemming, Guay (*Lévis*), Hales, Lefebvre, Major, McCutcheon, Noble, Rodrigue, Thomas (*Maisonneuve*), Winch—(14).

Also present: Messrs. Bigg, Harding,

Witnesses: Mr. Richard Lowery, President and Mr. Takis Veliotis, Vice-President and General Manager, Davie Shipbuilding Ltd.; Mr. G. W. Hunter, Deputy Minister, Department of Supply and Services; Mr. R. Langlois, Counsel to Davie Shipbuilding Ltd.; Capts. J. A. M. Lynch and G. R. Monteith, Department of National Defence; Mr. G. R. Long, Assistant Auditor General; Mr. I. J. L. Palmer, Department of Supply and Services.

Moved by Mr. Winch, and
Agreed,—That the Davie Shipbuilding Ltd. representatives be allowed to have counsel present and that they be afforded the protection of the Canada Evidence Act.

The Committee agreed to accept other furniture contracts as exhibits:
Contract X 782 (*Exhibit V*),
Contract X 784 (*Exhibit VI*),
Contract X 1237 (*Exhibit VII*).

The Committee questioned the witnesses concerning the refit of *HMCS Bonaventure,* in particular the furniture contracts.

The Committee questioned the Deputy Minister of Supply concerning the availability of the audit report on the refit of *HMCS Bonaventure.*

At 11:00 a.m., the Committee adjourned to the call of the Chair.

Edouard Thomas,
Clerk of the Committee.

20291—1½

EVIDENCE

(Recorded by electronic apparatus)

Tuesday, May 13, 1969.

• 0933

The Chairman: Gentlemen, we have with us this morning Mr. Richard Lowery, President of Davie Shipbuilding Limited, who is sitting beside Mr. Henderson. On Mr. Lowery's right we have Mr. Takis Veliotis, Vice-President and General Manger, who was in direct charge of the 1966-67 refit of the aircraft carrier *Bonaventure*. Sitting on Mr. Veliotis' right is Mr. Langlois, who is the legal counsel for Davie Shipbuilding Limited.

Mr. Winch: Mr. Chairman, I have one very brief question.

The Chairman: Mr. Winch?

Mr. Winch: May I ask whether or not since our last meeting you have received any up-to-date information from the Department of Defence Production on if, and when, we are going to get a report of the special auditing group.

The Chairman: We will wait until Mr. Hunter comes; I expect he will be here, Mr. Winch.

I am going to ask Mr. Lowery to make a statement, Mr. Veliotis will then make a statement and after that the meeting will be open for questioning. I might suggest to our witnesses that this is a very difficult room to hear in, the acoustics are poor, and because our recordings are done by an electronic method if they would speak into the microphones it will facilitate the recording. Speak as loudly as you can.

Mr. Lowery, if you wish to make your statement we would be glad to hear from you.

Mr. Richard Lowery (President, Davie Shipbuilding Limited): Thank you, Mr. Chairman. Can you hear me?

The Chairman: Yes, that is fine.

Mr. Lowery: Gentlemen, before any questions are put to me I should like to make my position clear in order to facilitate the operations of this Committee.

I am President of Davie Shipbuilding Limited with a shipyard at Lauzon, Quebec. I am also President of Canadian Shipbuilding & Engineering Limited which company has

• 0935

shipyards at Port Arthur and at Collingwood, Ontario. I am also a Vice-President and Senior Technical Officer of Canada Steamship Lines Ltd. My office and headquarters are in Montreal and I only visit the shipyards which are under the direct management of vice-presidents. Mr. Veliotis, on my right, is the Vice-President and General Manager of Davie Shipbuilding Limited.

I am a naval architect and I am Vice-President of the Society of Naval Architects and Marine Engineers, which is an international organization with headquarters in New York City.

From the foregoing, gentlemen, you will realize that my personal, detailed day-to-day knowledge of the *Bonaventure* refit is limited. It was for this reason that Davie Shipbuilding's press release was issued in the joint names of Mr. Veliotis and me. In that release Mr. Veliotis was identified as being in direct charge of the 1966-67 refit of *Bonaventure*.

Whilst I am willing to help the Committee to the best of my ability, I should say that in the interests of accuracy and of first-hand knowledge, questions of detail should properly be addressed to Mr. Veliotis. Thank you.

The Chairman: Thank you, Mr. Lowery.

Mr. Takis Veliotis (Vice-President and General Manager, Davie Shipbuilding Limited): Mr. Chairman, I am pleased to state on behalf of Davie Shipbuilding Limited that we welcome this opportunity to appear before you and to co-operate to the fullest extent with you in your investigation relating to the refit and improvement of HMCS *Bonaventure* in 1966 and 1967.

As I was personally responsible for the project, I have done the utmost to prepare myself in the short period of time available to me in order to answer any questions relating

to the five specific DDP forms 779, serial Nos. X-81, X-427, X-782, X-784 and X-1237. You will understand, however, that I may not be in a position to answer publicly certain of your questions if these answers involve revealing information which is in the nature of confidential information or what I will term "industrial intelligence". If this situation arises, Mr. Chairman, I will have to request that the Committee sit in camera and I trust that you will agree to such a request.

Furthermore, there having been statements made here implying impropriety of conduct on the part of Davie Shipbuilding Limited in the performance of this contract and even suggestions that the Crown should institute legal proceedings in a recovery of certain amounts paid to our company, I ask leave of the Committee to be assisted by counsel. Furthermore, for the same reasons, Mr. Chairman, I pray that my evidence on behalf of Davie Shipbuilding Limited be given under the protection of the House of Commons.

Finally, and believe me, Mr. Chairman, it is with a certain degree of reluctance that I raise this, I am somewhat concerned as to how much information I can reveal on the refit and improvement of the HMCS *Bonaventure* because the HMCS *Bonaventure* Improvement Program Contracts Specifications, issue no. 1, bears a security classification. I am instructed that in view of such security classification, I am not allowed to even refer indirectly to the contents of said contracts specifications unless specifically authorized by the authority which has classified the document.

Mr. Lefebvre: Mr. Chairman, I think this is something we should clear up right away so that members will be able to question the witness. I believe this morning we will be studying the furniture contracts, is that correct?

The Chairman: That is correct.

Mr. Lefebvre: Is there somebody present from the Department of National Defence or

• 0940

the Department of Defence Production who will clearly state right away whether or not there are any items on this particular contract that are classified? So far I do not think we have run into this aspect of the situation when questioning other witnesses.

The Chairman: Mr. Lefebvre, you are quite right. We will be dealing this morning with the five contracts that have to do with the refitting and refinishing of the furniture. Up to this point, the matter of classification or secret information has never been mentioned. Unless someone objects to this, we will proceed on the basis that there is nothing classified with the refitting or fixing of the furniture. Is there anyone here from the Department of Defence Production? Mr. Glassford, would you come forward please?

Mr. J. S. Glassford (Assistant Deputy Minister of Supply (Purchasing), Department of Defence Production): This is a matter for the Department of National Defence.

The Chairman: Captain Lynch, Captain Maxwell, or Captain Monteith. Captain Monteith do you see any reason why the discussion of the furniture repairs should be classified information? There is nothing that we would be transgressing?

Captain R. G. Monteith (Director of Maritime Maintenance, Department of National Defence): Nothing, sir.

Mr. Lowery: May I ask Captain Monteith how he knows that when he does not know what questions are going to be asked?

The Chairman: Mr. Lowery we will deal with the individual questions as they arise.

Mr. Winch: Mr. Chairman, in view of what has been said by Mr. Lowery and because I know all members of this Committee believe in being absolutely fair, if I have a seconder I would like to move:

> That Davie Shipbuilding Ltd., be invited to have counsel present and that on evidence given there shall be the protection of the Canada Evidence Act.

The Chairman: That does not require a seconder, Mr. Winch. Is it agreed that they have counsel present?

Mr. Winch: And with the protection of the Canada Evidence Act as was requested.

Mr. Lowery: Mr. Chairman, we are not too conversant with proceedings before committees, but is it possible for me to make a recommendation or not? I was going to recommend that the Department of National Defence be instructed to declare the situation

on this security as rapidly as possible, if I may make that suggestion.

Mr. Winch: The declaration has been made that there is nothing they know of on the matter before us now that is classified.

Mr. Lowery: No, no, sir, not according to the Official Secrets Act, we cannot take what Captain Monteith says. With due respect to Captain Monteith, he will agree that I cannot take his word.

Mr. Winch: Whose word will you take?

Mr. Lowery: We have to have something in writing which is stated to come either from the Minister or his accredited representative.

Mr. Winch: Could I ask just one more question? Before you came here knowing you were going to make this statement did you contact the Minister asking for any letter?

Mr. Veliotis: May I answer, Mr. Chairman? I did contact Captain Lynch. It came to my

• 0945

attention that the improvement specifications, that is the contract specifications for HMCS *Bonaventure*, bear the mark of classification "Restricted". I contacted Captain Lynch and I was told that steps would be taken for the document to be declassified. It is not for me, sir, to suggest how a document is declassified; however, the Official Secrets Act, DDP instructions I believe Form 255, and other documents given to us by DDP, do state that the declassification of the document has to come from the originator. In order to expedite matters, I am ready to accept a statement from the Deputy Minister of National Defence saying that this document is not classified any more. This will clear the air, Mr. Chairman, and we can proceed without any further delays.

Mr. Cafik: Are you pretending that these documents, X-81, X-427, X-782, X-784 and X-1237 are, in fact, classified; is that what you are saying?

Mr. Veliotis: No, Mr. Chairman. The documents themselves, X-81 and the other documents that the member mentioned are not classified. However, in order for me to give explanations, in order for me to explain the situation, I will have to refer to the other parts of the specification which are classified.

Mr. Lefebvre: Mr. Chairman, I would just like to repeat what I said a couple of minutes ago. Never in all the weeks of our questioning on these particular items have we ever been told by any of the witnesses, including the Deputy Minister of National Defence and the Deputy Minister of Defence Production, that any of these particular items we wished to study this morning were classified. Therefore, I do not think we will have. . . Does this mean that we will have to cancel this meeting and wait for a letter from the Minister or the Deputy Minister?

Mr. Lowery: No, I am prepared to talk on the *Bonaventure*. I think Mr. Veliotis was advising the Committee ahead of time that he may have to take refuge in this situation if questions were raised which, in his opinion, might violate the Official Secrets Act. In the meantime, the question of classification can be settled as far as we can tell.

The Chairman: All right, Mr. Lowery, then we will proceed on these contracts as listed because they are not classified documents. The motion Mr. Winch put before the Committee was that Davie Shipbuilding Ltd., be allowed to have counsel present and that they be afforded the protection of the Canada Evidence Act. That has been moved; is the Committee agreed?

Motion agreed to.

The Chairman: We shall proceed.

Mr. Lowery: Is that the same as the protection of the House of Commons, sir, that Mr. Veliotis asked for? I am not clear about that.

The Chairman: Your question again, Mr. Lowery?

Mr. Veliotis: If I am allowed, Mr. Chairman, I will repeat my statement. I said: "Furthermore, for the same reason, Mr. Chairman, I pray that my evidence on behalf of Davie Shipbuilding Ltd., be given under the protection of the House of Commons."

The Chairman: I am afraid we will have to get *Beauchesnes* out and check on that one.

Mr. Winch: I have never in all my years known of the protection of the House of Commons. The protection of the House of Commons only covers the members in the House of Commons. The protection of the Canada Evidence Act is a protection both before a

Committee as I understand it and also in a court of law.

Mr. Cafik: Mr. Chairman, it seems to me a very unfortunate situation. All we want are some facts relating to a few documents for the benefit of this Committee. We have started off on such a highly technical note, in a legalistic manner that although it may be necessary I think it is very unfortunate we have to proceed in this particular manner. We are not a court of law, we simply want information about these particular contracts.

The Chairman: I might advise the witnesses that you are not under oath but we expect the answers to be just the same as if you were under oath. I would like to read from *Beauschênes* which states:

> 309. The privilege of freedom from arrest and molestation is attached to all witnesses summoned to attend before either House of Parliament, or before parliamentary Committees, and to others in personal attendance upon the business of Parliament, in coming, staying and returning.
>
> Every witness attending before the House or any committee thereof may claim the protection of the House in respect of the evidence he is called upon to give and also ask leave to be assisted by counsel.

Is that clear? We shall proceed. Captain Monteith?

• 0950

Capt. Monteith: Mr. Chairman, if I could just make one point in fairness to Davie Shipbuilding, the documents relating to the improvement side of the work done to the *Bonaventure* in 1966 are, indeed, classified and action is being taken within the Department of National Defence to have these documents declassified.

The Chairman: Thank you, Captain Monteith.

Mr. Cafik: A question on that.

The Chairman: On that point?

Mr. Cafik: Yes, on that point. When you say the documents, are you referring to such documents as X-81? Is that a classified document?

Capt. Monteith: No, I am not, Mr. Cafik.

The Chairman: Not these that are before us. Now, in order to keep the Committee within the bounds of questioning, I would like to say to our witnesses that we are dealing this morning only with the furniture contracts that have been mentioned, X-81, X-427, X-782, X-784 and X-1237. These five contracts originated from the work arising on the refit of the *Bonaventure*. I think the total of them is $233,562.

The Committee has been advised that this work was done without calling for tenders from any other companies, but the work was done on a firm price basis by means of officials of the Department of Defence Production contacting officials of your firm, and between the two a set price was arrived at. We will then proceed with X-81 for $2,600.

Before doing that I wonder if I might ask the Committee to have the forms X-782, X-784, and X-1237 tabled as exhibits. We did table the other two, but we left out three. I think each member has a copy of these.

We will proceed with X-81 in the amount of $2,600. Mr. Cafik?

Mr. Cafik: I gather from what has been said so far here this morning that I should in fact direct my questions to Mr. Veliotis. Is that correct?

Mr. Veliotis: That is correct.

Mr. Cafik: So all the questions I will put, unless stated otherwise, will be to you, sir.

First of all, let us talk about the nature of X-81. Do you have any idea how this document X-81 was prepared?

Mr. Veliotis: Mr. Chairman, I would like to refer to the expression "contracts" which has been used to described the form DDP.779, on which form DDP.779 the serial number X-81 appears. To my knowledge, Mr. Chairman, the officials of the Department of Defence Production have stated before you that these forms are not contracts, and we agree. These forms DDP.779 are entitled "Additional work arising out of..." and relate to alterations and additions arising from inspection and examination of the ship. When you read the

contract documents you will immediately realize that these forms and the amendments that follow are merely extensions to the original contract.

Mr. Chairman, I believe that this is most important to clarify if X-81 and the other forms which you have termed as contracts are contracts or not, and I would like in this regard to refer you to the following extracts from the contract documents. I am referring now to the contract dated March 25.

• 0955

Mr. Cafik: Mr. Chairman, I wonder if I can interrupt, because I do not know that it is necessary to go through all this. We have heard all the argumentation as to whether they are technically contracts or not, and on this point I have follow-up questions that I would like you to ask. If you insist on going through it, fine, but I think we would expedite the Committee by foregoing such evidence.

The Chairman: Mr. Veliotis, I might clear a point here. Mr. Cafik is quite right. We spent considerable time on this matter of whether this was a contract or just a piece of paper, but we have established the point that the piece of paper with the amount of money on it of $2,600 in this case, was in fact transferred to a contract amendment and appeared as part of the original contract, and that you as the Davie Shipbuilding Limited were in fact paid $2,600 for this work. Is that correct?

Mr. Veliotis: Mr. Chairman, I would like to suggest, sir, that it is absolutely necessary from our point of view to clear that matter, because at the outset you mentioned contracts. Everybody speaks about contracts.

The Chairman: Well, Mr. Veliotis, what would you like us to call it?

Mr. Veliotis: Work arising from the contract.

The Chairman: Just a minute now, we will get this point clear. Work arising ex-sheet number X-81. Now are you agreed?

Mr. Veliotis: Yes I do, Mr. Chairman.

The Chairman: And then would you be agreed that the amount of money on here of $2,600 was paid to the Davie Shipbuilding Limited?

Mr. Veliotis: Under the amendment of the contract, amendment No. 1 dated . . .

The Chairman: Mr. Long will give us that information, the amendment number.

Mr. G. R. Long (Assistant Auditor General): The amendment is No. 4.

The Chairman: No. 4 amendment. All right, we are agreed on this point that you were paid that amount of money for the work arising from X-81. Now we are prepared, Mr. Cafik, to proceed.

Mr. Cafik: Yes. Mr. Veliotis, in connection with this point that you are raising, let me ask you a very specific question. On this document you call "Work arising from X-81", does this in any way commit Davie Shipbuilding Limited to perform any particular work on that ship?

Mr. Veliotis: It instructs Davie Shipbuilding to perform the work described in this form DDP.779.

Mr. Cafik: No, it is not 779, it is X-81 we are talking about, Mr. Veliotis.

Mr. Velioteis: I said, Mr. Chairman, if I may complete my phrase? I said DDP form 779 serial No. X-81.

Mr. Cafik: Which is described as you say as "Work arising X-81".

Mr. Veliotis: X-81, Mr. Chairman, is the serial number. The full description of the document is DDP form 779 serial No. X-81.

The Chairman: This will be understood in all the contracts accordingly.

Mr. Cafik: All right. Now may I ask a question? This does obligate—you say it describes a certain job to be done, and it has got a certain dollar figure attached to this which I presume your firm put on there.

Mr. Veliotis: I had not completed my answer when I was interrupted by Mr. Cafik, Mr. Chairman. I started saying that this form DDP. 779 serial No. X-81 describes the work to be done and intended to be done, and attaches a guide and specifications. This was my answer to the question, but I was not—I was interrupted and I did not complete it.

Mr. Cafik: All right, I would now like to ask the question again. Were you obligated to

perform the work that was described in this DDP.779 X-81?

Mr. Veliotis: I was obligated to perform the work that was described on DDP.779 serial No. X-81 in accordance with the contract and the terms and conditions of the contract. If you wish me, Mr. Chairman, to elaborate on what I mean, in accordance with the terms and conditions of the contract, I will have to

• 1000

be rather lengthy. But I think it would be absolutely necessary because the point I am trying to make is that the description on the form is a guidance description. There are interpretations; there are instructions from the overseer, the naval overseer, and what appears on the form is not only the exact work I have to do. It may be more or it may be less.

The Chairman: Well now, in order to get a firm base to start from, we will allow you, Mr. Veliotis, to explain on this particular one, and then that description will be useful in the other four as we come to them. So we will have you outline what you wish concerning the original or general contract, I presume.

Mr. Veliotis: Thank you very much, Mr. Chairman. I think it will be very helpful if everyone was able to understand the situation.

The Chairman: Mr. Veliotis, after this is clarified, we will not be able to have lengthy answers. We must have short, concise and to the point questions and answers.

Mr. Veliotis: I appreciate that, Mr. Chairman, but it will depend upon the question which I receive.

The Chairman: That is right.

Mr. Veliotis: The question may require a lengthy explanation. I believe that my role here is to explain things; you will have to bear with me if that is possible.

The Chairman: Very well.

Mr. Veliotis: I will refer to the General Conditions, DDP 26A, which is an attachment to the contract and forms part of the contract. Paragraph 6 reads as follows:

> All work shall be subject to inspection by the inspector prior to acceptance. Should the work be defective in materials or workmanship or otherwise not be in accordance with the requirements of the contract, the Inspector shall have the right to reject the work or to require its correction. Inspection by the Inspector either at the plant of the Contractor or of any of its sub-contractors shall not relieve the Contractor from responsibility for defects or other failure to meet the requirements of the contract.
>
> The Contractor agrees to accept and be bound by the Inspector's interpretation of the meaning of the specifications.

There is another paragraph on the same document, DDP 26A, which as I mentioned before, forms part of the contract; it reads as follows:

> The Minister may at any time and from time to time order a suspension of the work, in whole or in part, and make modifications of, changes in or additions to the specifications, changes in methods of shipment or packing and in the place or time of delivery. All directions given by the Minister with respect to the foregoing shall be complied with by the Contractor.

I will now refer to the DDP 29 document, paragraph (4):

> If any part of the specifications provides for a method of construction or for the supply and/or use of materials, equipment or parts which are not specified with particularity, the Contractor shall have the right of selection provided that the construction so performed and the materials, equipment and parts so supplied and/or used are in accordance with normal marine building practice for the type and class of work covered by the contract, and provided that the specifications and all other contract requirements are fully complied with. Subject to the foregoing, the Inspector shall be the final judge of the quality, quantity and suitability of the workmanship, parts, materials, plant, machinery, apparatus, tools and equipment used in or for the purposes of the work and as to the meaning or interpretation of the specifications, and his decision with regard to the foregoing matters, or any of them, shall be final and binding upon the Contractor. All orders, directions or

instructions at any time given by the Inspector with respect to the work or the conductor or progress thereof, or with respect to the parts, materials, plant, apparatus, machinery, tools or equipment used in or for the purposes of the work, shall be promptly and fully complied with by the Contractor.

• 1005

In the same document mention is made of the Naval Overseer which is Appendix A; paragraph (6) states:

Without limiting the generalities of DDP Forms 26a and/or B,

1. Naval Overseers will be responsible for ensuring that the characteristics of designs, drawings and specifications of ships, ship-components, materials and equipment conform with Naval requirements, and that the work as a whole complies with the intention, whether expressly stated or implied.

Mr. Winch: Does implied mean verbal?

Mr. Veliotis: Implied means verbal, oral and so on. For example, if you were to go to the Overseer and say, "What does this mean?" he would give you an explanation. Since the contract states the intent, there is nothing for you to do but to take his directions.

The Chairman: Are you finished Mr. Veliotis?

Mr. Veliotis: One moment please, Mr. Chairman. The terms I just quoted under paragraph (6), Naval Overseers, are not part of DDP 26A; they are part of the Request for Proposal, Appendix A—Terms of references. I would like to make that correction. This is also part of the contract.

The Chairman: Mr. Cafik, you had a question.

Mr. Veliotis: I would like to mention one more paragraph, Mr. Chairman, with respect to the Naval Overseer who is the sole authority and judge:

The Naval Overseers will be responsible for interpreting specifications and drawings when required.

I believe that what I have said will help you to understand the authority of the Naval Overseer and to realize what the contractor has to contend with.

The Chairman: Mr. Cafik.

Mr. Cafik: I would still like to know what the obligation was that you felt you had to perform for the work that was described in this particular contract. I know that whatever you say, Mr. Veliotis, in all fairness must be considered in relation to the background that you have just outlined. I am not questioning that kind of background or the nature of the contract itself. What I am trying to find out, and I think it is in the public interest to find out is this. What functions does this DDP serial number X-81 obligate you to perform? Is the DDP obligated in any way to pay you a certain amount of money for the performance of that work? That is really the question. I realize that your answer has got to be taken in the light of the background which you have already painted for us.

When you received this job description on Form 779 in respect to serial number X-81, what did you do with it? I presume it had a job detail description attached to it. Now what did you do with it?

Mr. Veliotis: First of all, we had a job description which we call a guidance specification. The first thing that we did was to discuss it with the PNO staff—this is the Principal Naval Overseer staff—to find out what that piece of paper meant.

Mr. Cafik: Mr. Veliotis, with whom did you discuss this contract and who, on the part of Davie Shipbuilding, actually discussed this?

Mr. Veliotis: The people responsible for the refit are the Superintendent, Assistant Superintendent, Foreman, and Assistant Foreman; they discussed it with the PNO staff. I cannot tell you with which one the name was dis-

• 1010

cussed, but it was discussed and it was the practice to ask explanations. For instance, if you read that paper which was termed, Mr. Chairman, as a detailed specification, the first paragraph, third line on my left hand side, it says: "to remove and replace two boat lockers." If I was taking this document as a detailed specification, telling me what to do without question, I would have to go and find

two lockers in which two boats were locked. We asked them what this statement meant and they said, "It is a mistake; it is a boot locker where boots are locked in, not boats."

The Chairman: Mr. Veliotis, I am sorry to interrupt but I think we must get on the same ground and the same basis. The Committee has form 779 before it and a specification sheet is attached to it. Do you have the same two documents in front of you? Would you please look at them. We want to be on the same ground here.

Mr. Cafik: I think he is, he was talking about boat lockers and it is true that this document misspells the word "boat" as "boot".

The Chairman: Did you see the specification sheet?

Mr. Cafik: I must say this is not the only mistake we bumped into.

The Chairman: We are clear now, we both have the same two sheets.

Mr. Veliotis: Yes, we have the same.

Mr. Cafik: Mr. Veliotis, you indicated that someone in your firm discussed with somebody in the Principal Naval Overseer's office what in fact this job description meant, what was involved in that work. Is that correct?

Mr. Veliotis: This is correct.

Mr. Cafik: Who prepared the fixed price bid for the performance of that work?

Mr. Veliotis: The supervisor's staff at Davie Shipbuilding Limited and the trades involved with that particular work.

Mr. Cafik: They prepared the bids. Did they do so on the basis of this documentation?

Mr. Veliotis: On the basis of the documentation, on the basis of explanations received by the PNO staff, the ship's staff, and by actual inspection of the work described to be done and as explained.

Mr. Cafik: At Davie Shipbuilding Limited, after you had your discussions with the PNO Office, did you prepare any kind of a document that indicated what was really supposed to be done as opposed to what these documents set out?

Mr. Veliotis: No, we did not prepare any such document at all, Mr. Chairman.

An hon. Member: How did you know what to do?

Mr. Cafik: When there were so many of these amendments or work arising situations—there were well over 1,500, I understand—it is difficult to understand why everything was done verbally and nothing was committed to paper in terms of the job which was actually to be done.

Mr. Veliotis: It was not done entirely verbally, Mr. Chairman. It was done on the understanding of the work that had to be performed, as described to us by using the drawings, by using marked-up drawings and by going to the site and inspecting the item, and they explained things to us and said, "No, this is not what we mean. This part has to be moved from here to there".

If I understand the question, you want to know how we estimate it. It is simple. We do not go and remove item "A" from place "X" to place "B", that would take two persons 25 minutes or so. In a case like that, depending on the type of work, we would call in the trades that are involved. If it involves, let us say, burners, welders, slingers, cranemen, labourers, and so on, the superintendent will call them in and the fellow who had discussions with the overseer will tell them, "Go and look at the work and tell us what manpower you require to do the work". When they give us their manpower requirements, we then convert them to man-hours and we multiply them by a charge-out rate. This is how we go about it. I believe, Mr. Chairman, that if I am allowed to explain X-81 I might be able to give Mr. Cafik his answer, because I do not really understand what he wants me to explain.

• 1015

The Chairman: That is fine. He will ask...

Mr. Cafik: I know the direction in which I am going and perhaps if you would just answer the questions we might both get there. I am trying to establish something here. I am not saying it will do you any harm, I just want to know the facts. Do you feel, with respect to X-81, that Davie Shipbuilding Limited was obligated to perform a certain function for which they were going to receive a certain fixed amount of money?

Mr. Veliotis: I think I answered that question, Mr. Chairman. I said that Davie Shipbuilding Limited, guided by the specifications, guided by the explanations given to them by the PNO staff, with visual inspections on the spot, as well as other documents that they had in their possession, estimated the manpower requirements for this particular job and submitted their estimate to the PNO for his perusal.

Mr. Cafik: All right. Now,...

Mr. Lowery: Mr. Cafik, if I may say so, I think the answer to your question is yes, provided it is made clear that the documents attached to the estimate do not tell the whole story.

Mr. Cafik: Obviously I cannot take the word "yes" to mean yes in all circumstances. You have already painted the background and it is against that background that we accept your answer. I think you are terribly suspicious that we are going to take your words out of context. That is not true. That is not the object of this Committee. Our object is to find out if the work that we paid to get done was done, what that work was and how much it cost. The answer, then, in effect is that this is a document which commits Davey Shipbuilding Limited to the performance of a certain amount of work for a fixed amount of money, unless it was changed by some kind of a work order. You could cancel it out...

Mr. Veliotis: Yes, with the qualifications you have outlined.

Mr. Cafik: Yes, of course.

Mr. Veliotis: Yes, certainly.

Mr. Cafik: In other words, it is a contractual arrangement between Davie Shipbuilding Limited and the Department of Defence Production. Is that correct?

Mr. Veliotis: That is correct.

Mr. Cafik: You know what I said, it is a contractual arrangement between you and DDP?

Mr. Veliotis: Well, "contractual arrangement" is a term that you may use. As I said at the outset, it was an offer that was made by Davie Shipbuilding Limited and there was no consideration that it was to be a contract at all. This had to be introduced as an extension of the main contract. We only have one contract.

Mr. Cafik: Yes, but this document, of course, authorized that to be done.

Mr. Veliotis: The document authorized what, sir?

Mr. Cafik: I presume that this document, as soon as it is completed and signed by the appropriate officials on both sides, means in effect that this will be transferred to another document as part of the main contract and it is authorization to do so?

Mr. Veliotis: It is authorization, but to be...

The Chairman: Mr. Veliotis, your answers will have to be shorter and more to the point or we will never get any place. I think the answer here is yes or no.

Mr. Veliotis: I cannot give a yes or no answer. I have to say yes, but I wish to point out that this and all other forms 779, as well as this particular X-81, have no life of their own. They are totally dependent on the original contract as to consideration, manner in which the work is to be performed, authorization to be obtained, and so on.

Mr. Cafik: All right. Let me ask you another question to perhaps put this in its right context. This does not apply to this specific contract or this specific X-81, call it what you like, but if this were drawn up by DDP and sent to you people with a job description which was inadequate—and we have all been pretty well led to that conclusion—and you went and talked to them and said, "We obviously, from experience, know that you people do not have any idea what you are talking about, perhaps you would explain it to us", and they explain to you what this piece of paper means and you come up with a price, which in this case was $2,600. Suppose that three months later, before you got around to performing the job, DDP came to you and said, "We do not want this work arising from X-81 performed, we want it cancelled" and you say, "All right", would we have to pay the $2,600 in any event?

Mr. Veliotis: That is a hypothetical question. I will have to give you a hypothetical answer, Mr. Chairman. If that happened and if, as I have said, it is a hypothetical question, I am not here to testify on hypothetical questions. I am here to testify to the facts as

they are known to me. If you ask a specific question as to the facts I will answer it.

Mr. Cafik: All right.

Mr. Veliotis: A hypothetical question to build up a sort of Perry Mason case is not for me to answer. I understand, Mr. Chairman...

• 1020

The Chairman: All right, to save time I will rule it a hypothetical question and we can now proceed.

Mr. Cafik: I think this is very disturbing.

An hon. Member: These are specific questions.

Mr. Winch: The work order was transferred into amendment No. 4 to be carried out under contract?

Mr. Veliotis: Yes, it was.

Mr. Winch: It was?

Mr. Veliotis: Yes, that is correct, it was.

Mr. Cafik: All right. Does this job description, which is inadequate—and we understand that—describe work to be done that was not done?

Mr. Veliotis: It does, Mr. Chairman.

Mr. Cafik: What is that work?

Mr. Veliotis: The work described to be done under X-81 which was not done is the following: A nine desks...

Mr. Cafik: Whereabouts are the nine desks, Mr. Veliotis? Where are they listed?

Mr. Veliotis: I am sorry, sir. They are: "A 26 in number, seating arrangements; and A 20 in number, writing trays."

Mr. Cafik: Mr. Veliotis, how do you know that that job was not done?

Mr. Veliotis: I know and I will endeavour to explain to you.

In explaining to you I will have to relate, Mr. Chairman, the X81, the X-337, X-427 and X-784. All four of those forms have to be taken together in order for me to explain why the work was not done.

Mr. Cafik: Mr. Veliotis, I will have to check this, but they were not all prepared at the same time?

Mr. Veliotis: No, they were not prepared...

Mr. Cafik: I do not know how the defence can be based on the whole group taken in unison.

Mr. Veliotis: We are not in defence, Mr. Cafik.

Mr. Lowery: Mr. Chairman, may I make a comment here. I agree it is not in defence but, as I told you, I myself did not deal with this matter in detail and I had the same problem as you had when I tried to find out about it: I wanted simple answers. Unfortunately I found out that it is rather complex and the forms are related even though they did not happen at the same time, and I had to let Mr. Veliotis give me the entire explanation because it is not possible really to give proper explanations on one of these items without, in fact, referring to the others.

Mr. Cafik: All right. That is fair enough but perhaps I could proceed. You could give us that answer in a moment. We are talking here about where you have prepared an estimate to do a certain job described in a written form and also in a verbal form. You did so, I believe, by this document on June 20, 1966. The subsequent contract, which is X-427, was October 6, 1966, and what I want to know is on what did you bid on June 20. Obviously, you could not have looked at the contract that was drawn up on October 6. It is what happened at that time that I am concerned about, not the light you put on it after the whole thing is over.

Mr. Veliotis: Mr. Chairman, again I object to the use of term the "contract" in referring to the forms.

The Chairman: I think this is understood.

Mr. Veliotis: Yes, but just for the sake of clarity. I regret to disagree with Mr. Cafik, Mr. Chairman, but I have to relate the four of them so that you people here will understand how it happened. I cannot possibly explain one form without explaining the other.

This matter of X-81 is related to X-337 which was cancelled later, X-427 which as Mr. Cafik said was in October, and X-784. I believe if you let me tell my story it will clear the situation and perhaps questions that will be asked after will be much better.

The Chairman: Mr. Cafik, I do not think...

Mr. Cafik: I prefer it the other way. I would like to know what was in your mind and on what you bid on June 20.

Mr. Veliotis: This is what I intend to tell you, Mr. Chairman.

The Chairman: Mr. Veliotis, I would not like to take all that time at the moment, but simply get the answer the question that Mr. Cafik has asked.

Mr. Cafik: On June 20 when you made a bid on this thing, were those briefing room chairs involved in it?

Mr. Veliotis: No, they were not involved. They were not included in our estimate.

• 1025

Mr. Cafik: Did you prepare a written estimate?

Mr. Veliotis: Yes, we did prepare an estimate. Yes, we did, sir.

Mr. Cafik: Are those documents available, Mr. Veliotis?

Mr. Veliotis: No. Do you mean the working documents?

Mr. Cafik: Yes.

Mr. Veliotis: What they formerly told us to put down on the estimate—no, I do not have that document. It was not prepared on a form.

Mr. Cafik: It was not prepared on a form?

Mr. Veliotis: On a Davie Shipbuilding form, if I understand your question.

Mr. Cafik: Yes.

Mr. Veliotis: It was not prepared. I do not have such a document.

Mr. Cafik: What authority did you have, and from whom, not to bid on this when it was attached to the job description?

Mr. Veliotis: I believe, Mr. Chairman, that I explained the background and by whom I had the authority: the authority I had by the PNO.

Mr. Cafik: So the PNO is the one who told you not to do that.

Mr. Veliotis: Certainly.

Mr. Cafik: Is that correct?

Mr. Veliotis: This is correct.

Mr. Cafik: Is the principal naval overseer Captain Lynch?

The Chairman: Right.

Mr. Cafik: I wonder if we could call Captain Lynch here for a moment.

Mr. Veliotis: Mr. Chairman, I believe that...

The Chairman: We will hear from Captain Lynch first and then we will come back to you, Mr. Veliotis.

Mr. Cafik: Captain Lynch, you have been involved in these hearings for some time and you have heard a great deal of discussion about these particular briefing room chairs. To my knowledge, there is no evidence that you have put forward so far indicating that you, yourself, or your office requested that they be removed from this particular job description at that time. Would you care to comment?

Captain Lynch (Acting Director General, Programmes): Mr. Chairman, I would like to repeat the introduction to my first testimony, which was in similar fashion to the executives of Davie Shipbuilding, that I could not possibly look after all the detail in this contract personally, otherwise I would not have needed a staff.

Also, early in my testimony, when under questioning about exactly what was done, I suggested to the Committee that they hear from Davie Shipbuilding as to their opinion. I did not mean by that that Davie Shipbuilding knew more about it in 1966 than I did. I meant that perhaps they knew more about it in 1969 than I do now.

I do not recall the details about when the briefing room chairs were worked on or removed; I can speculate. But I can say if I was satisfied in 1966, I would back my decision today. That is about as far as I can go.

Mr. Cafik: Captain Lynch, in regard to whatever DDP Form 799X we were talking about at that time, I understand from your evidence in regard to the signing of this document that you did not really check out or discuss with anybody what was actually involved in terms of work. In fact, it was put

forward, I believe by yourself, that what you did was relate the price, in this case $2,600, to the order of priority, found out how much money you had left from Parliament that had been allocated to do the job, and if there was enough money there and there was sufficient priority you authorised it and you did not in any way determine whether this was a fair price or an unfair price. I believe the testimony indicated that you did not even discuss the nature of the real work with the people who gave the verbal descriptions. Is that not a fair statement?

Capt. Lynch: Mr. Chairman, that is not a fair statement. We have had many discussions with this committee, with myself testifying, and it is simply impossible to state that on a certain date I did not discuss something or I did discuss something with my staff. When you have a staff you have people you can trust implicity; you have people you have to check from time to time and you have people you have to check all the time.

With regard to something like X-81, it is quite probable that I discussed it in some detail, but I cannot testify that I discussed it in detail or with whom, but I can testify that I was satisfied with it because my signature appears at the bottom of that form and my signature is a good signature; it has never been misused.

Mr. Veliotis: Mr. Chairman, may I ask Mr. Langlois to make a statement on my behalf.

The Chairman: Mr. Langlois is legal counsel for Davie Shipbuilding. Mr. Langlois.

Mr. R. Langlois (Legal Counsel, Davie Shipbuilding Limited): Mr. Veliotis has said that they did not bid on the briefing room chairs

• 1030

in Form X-81. What Mr. Veliotis wants to have an opportunity to describe to this Committee is: first, were the chairs in the room at that time? I think it is important, because if they are not there you obviously do not bid on them. Second, what use was made of the briefing room at the time that X-81 was drawn up. This Mr. Chairman, is what Mr. Cafik does not want Mr. Veliotis to explain.

Mr. Cafik: On a point of order, I think that is quite improper and I do not like to think you will make that kind of statement again. I do not know what Mr. Veliotis wants to explain, I only know that I want answers to my questions. As I indicated earlier, he can have ample opportunity to explain. I wanted to know the situation in regard to this particular contract at that particular time, and Mr. Veliotis does not in any way need to appeal to any other contract in order to tell us that the briefing room chairs were not in that room. I do not believe that you need to impute motives to anybody on this Committee and it ill behooves you to do so.

The Chairman: Just a minute, gentlemen, the Committee has nothing to go by other than what we have before us, this work order or contract, call it what you will, and its attached specification of work to be done on which the Davie people bid and for which the Department of Defence Production paid the money. We have nothing else to go by except these two documents and if anybody can produce a written document to say that the briefing chairs were not included or were removed from this specification we would ask you to present that document. Can you present that document?

Mr. Veliotis: Mr. Chairman, I cannot present that document because I do not have such a document. I am here, Mr. Chairman; I am in other words the document. My evidence is the document. Evidence is not only a piece of paper. Evidence is what I am saying. Evidence is knowledge of the facts the way they are known to me.

The Chairman: Mr. Veliotis, may I say to you, that we who are in charge of handling the taxpayers' money cannot operate on a verbal basis. We must have documents to submit to this Committee to say that such and such was the case. Now can you produce the document?

Mr. Veliotis: I have no document to produce but, Mr. Chairman, if I may continue, Mr. Cafik wanted to know the situation, as he termed it, surrounding the chairs. May I explain the situation?

Mr. Cafik: Now that your legal counsel has spoken, I will ask this question in order to elicit this information from you. Were those

chairs in the briefing room at the time you prepared this estimate?

Mr. Veliotis: They were not in the briefing room at the time I prepared that estimate.

Mr. Cafik: All right, that is fine. You prepared the estimate on June 20, 1966, is that correct?

Mr. Veliotis: The estimate on X-81, was submitted on August 15, 1966.

Mr. Cafik: Do you have the document in front of you, Mr. Veliotis? Why is it dated June 20, 1966?

Mr. Veliotis: It was forwarded to me on June 20, 1966 and it was submitted to the PNO on August 15, 1966.

Mr. Cafik: Where do you see that date?

Mr. Veliotis: Above the right bottom, if I may say so.

The Chairman: Where he signed it, Mr. Cafik.

Mr. Cafik: August 17, is that the date you are looking at?

Mr. Veliotis: No, this is August 15, 1966. Sorry, lower left, I said right. This is the date I submitted the estimate.

Mr. Cafik: All right, fine. Now, I would like to jump from this non-contract to another non-contract X427 for just a moment. You indicate that on August 15, 1966 there were no briefing room chairs in that room. On

• 1035

X427, which also calls for the removal of the briefing room chairs was signed on October 26 and submitted by yourselves, I presume, judging in the same manner, on November 14, and you were asked to do it for $4,172. Now, the chairs were gone earlier, were they present at the time this X-427 contract was drawn?

Mr. Veliotis: No, they were not present in October at Davie Shipbuilding. The chairs were in Montreal. They were not at Davie Shipbuilding.

Mr. Cafik: Were they on board the ship?

Mr. Veliotis: No, they were not on board the ship nor in the premises of Davie Shipbuilding. They were in Montreal.

Mr. Cafik: All right. At the time of the preparation of X81 they were out of the ship and at the time of the preparation of X-427 they were out of the ship. Is that correct?

Mr. Veliotis: This is correct, sir.

Mr. Cafik: All right. This one calls for a job to be done that was not there and this one calls for it. I presume in the case of X-427 that the job description is inaccurate and, in fact, according to X-427 you did not remove any chairs. Is that correct?

Mr. Veliotis: Oh, no, sir.

Mr. Cafik: They were not there when you prepared this.

Mr. Veliotis: The first part of your question that the job description is inaccurate is correct because there were not 52 chairs, there were 64 chairs. The second part that we did not do the work is not correct. I will explain to you now, sir.

Mr. Cafik: I did not ask the question whether you did the work.

Mr. Veliotis: Mr. Chairman, may I be given an opportunity to explain instead of being subjected to questioning without being given an opportunity to explain?

The Chairman: We would not want that to be the case, Mr. Veliotis, you proceed.

Mr. Lowery: If I may say so, Mr. Cafik, in respect of this matter in my judgment you really have to hear the story because it is quite complex. Things are done out of phase, out of time, and it is rather difficult to understand otherwise.

I would ask the Committee to bear in mind that while it may sound verbal, and the specifications are inadequate, this job was done under special circumstances where Captain Lynch had over 100 men present; there were frequent discussions; there was total knowledge of what was to be done, maybe not formal knowledge, but he had over 100 men in the shipyard to see that we did what we had undertaken to do. So what appears to be careless and not formal may, in fact, have been not formal, but I do believe that it was much better understood than appears at the moment. With regard to the briefing chairs which received a great deal of publicity, I think the story ought to be told consecutively.

The Chairman: All right, carry on.

Mr. Veliotis: When Davie Shipbuilding submitted the bid for the modification and the refit of HMCS *Bonaventure* it was intended that all electronic work, that is the tuning, testing, et cetera, of the electronic equipment on board would be done in a special work cage provided by Davie Shipbuilding and located in one of Davie Shipbuilding's stores. In other words, what I am trying to say is that when we put our bid in we had allowed to do all the testing and tuning of the equipment in a special place that we have at Davie Shipbuilding. On the arrival of the *Bonaventure* at Davie Shipbuilding on April 25, 1966, discussions were held between the PNO staff, *Bonaventure* staff and Davie Shipbuilding staff with respect to the advisability of finding an additional suitable location actually on board the *Bonaventure* to perform work on some of the special electronic equipment for the testing and tuning. It was brought forward during the discussions that if testing and tuning of the particular equipment could be done on board the *Bonaventure* it would reduce the hazards of handling such equipment in and out of the vessel during the refit period.

Mutual agreement was reached on the use of the briefing room as an electronic testing space as it became obvious that this compartment would be the ideal place to perform the work since it offered many advantages, including the following: close proximity to the island where radio, radar and other electronic instruments are located; clear of

• 1040

heavy traffic areas; relatively remote from where the major repairs were taking place with respect to welding, and therefore, minimum interference from stray electric current; suitable size and because of its location relatively quiet.

In view of the advantages offered by the temporary conversion of the briefing room to an electronic tuning and testing laboratory Davie Shipbuilding cleared the briefing room of all mobile equipment including the chairs and transported them to our layout stores. As soon as the chairs were removed from the briefing room this compartment became a worked-in area; and in accordance with the general requirements of the specification it was necessary to provide protection to decks, surfaces and fixed equipment. It was approximately mid-May, 1966 when the briefing room chairs were removed, together with all other loose equipment in the briefing room.

On June 29, 1966, Davie received DDP Form 779, Serial No. X-81, which included removal and replacement of briefing room chairs. As PNO was at this time conducting a survey on board, marking furniture items with A, B, C and S in accordance with his letter dated June 2, Davie Shipbuilding brought to its attention the items of the chairs now at our stores, asking that they also be marked with a designated code. PNO advised Davie Shipbuilding not to include this item in its estimates as he expected Davie Shipbuilding would be asked at a later date to repair the chairs, and the handling of the chairs would be covered at that time.

Davie Shipbuilding submitted its estimate on August 15, 1966 on Form 779, Serial No. X-81 for $2,600, which figure did not include removal and replacement of the chairs.

On September 16, 1966, DDP Form 779, Serial No. X-337 was issued, which included on page 7 a requirement that briefing room chairs be re-upholstered and repaired by Davie Shipbuilding. This is the second time the briefing room chairs have appeared. Estimating on the requirement of DDP Form 779, Serial No. X-337 was deferred by Davie Shipbuilding while awaiting the decision of PNO as to his intentions regarding approval and expenditures of additional funds on *Bonaventure*. As a matter of fact, we were advised by PNO that in all probability DDP Form 779 X-337 would be cancelled, and if the chairs had to be re-upholstered and repaired this would be done by NSD Montreal. PNO, on or about the end of September, confirmed that arrangements had been made

• 1045

through NSD Montreal to re-upholster the chairs, and the chairs were therefore shipped to Montreal via DND Transport. Since the chairs were forwarded to Montreal and the work done by Davie Shipbuilding for removing the chairs from the briefing room, protecting the decks, surfaces and fixed equipment and re-installing the chairs in the briefing room was not covered by AWR, this matter was discussed with PNO. On October

6, 1966, Form 779 Serial No. X-427 was issued to cover subject work. Davie Shipbuilding submitted its estimate on October 14, 1966 and same was approved on October 26, 1966.

On February 8, 1967 on Form 779 Serial No. X-784 was received. In examining the guide and specification attached to subject form it was observed that several items were duplicated, in particular 9 desks, 2 chairs, a bookshelf, 1 chart table and, in addition, it requested that the briefing room chairs be repaired and re-upholstered by Davie Shipbuilding. Since four of the five aforementioned items were already estimated under X-81, and the briefing room chairs were being re-upholstered by NSD, this matter was brought to the attention of PNO and, by agreement, was excluded from the Davie Shipbuilding submission, covering all other items on DDP Form 779, Serial No. X-784.

As a matter of interest, the briefing room chairs appear on four DDP Form 779s, namely X-81, X-337, X-427 and X-784, but, as explained, Davie Shipbuilding only included the price once on Form 779 Serial No. X-427.

The Chairman: Thank you, Mr. Veliotis. This has been in great detail and the Committee will not be able to study it until we have read the evidence. We will have further questions on it. It may seem that we are asking for a lot of detail, but we are trying to establish a principle in the operation of these contracts. The amount may be small, but this Committee is not concerned whether it is $4, $400 or $4 million. We are trying to establish a principle relative to the kind of operation that went on.

Mr. Cafik, I will take a question and then I want to discuss the audit.

Mr. Cafik: I have a number of very short questions.

First of all, this is the first time anyone has brought to the attention of this Committee that the briefing room was, in fact, used as a testing base. Can you give me dates? You said these chairs were removed in May 1966?

Mr. Veliotis: About the end of May, 1966.

Mr. Cafik: At what time, roughly, did you begin to use the briefing room as a testing base?

Mr. Veliotis: We started using the briefing room as a testing laboratory shortly after—I would say perhaps 15 or 20 days. That is a good guess.

Mr. Cafik: My next question is for Captain Lynch. In his previous testimony I believe Captain Lynch indicated that he visited this briefing room at the time of X-81, and found not only the briefing room chairs but also all kinds of other chairs and furniture stored in there. That appears to have been at the same time that it was being used as a testing base.

Capt. Lynch: Mr. Chairman, I think my testimony is being confused with someone else's. I do not recall making such a statement.

• 1050

The Chairman: It was Mr. Palmer, I think, who gave that testimony. Mr. Palmer, would you please come forward?

Mr. Cafik: In any event, someone from the Department gave evidence that it was used as a storage room for furniture. This does not tie in with its being used as a testing base.

The Chairman: Mr. Palmer, did you hear the question, or would you like to have it repeated?

Mr. I. J. L. Palmer (Project Officer, Shipbuilding & Heavy Equipment Branch, Department of Supply and Services: Mr. Chairman, perhaps I may explain. Much information was passed orally before transmission on paper. I was alone in Lauzon. The Principal Naval Overseer had a staff of about 27 officers and Davie Shipbuilding had 35 trades. So in the parlance of ship repairing I gave it a "lick and a promise". However, when I first heard about the briefing room I went there, and not only were the briefing room chairs in there but also loose furniture. I do not know who removed that furniture, but I asked, when this matter of X-81 came up, and I was informed I cannot remember whether by DSL or DND that X-81 referred to the loose furniture.

Relative to the second instance, later on, after all had been removed, I do know—when the briefing room was used as an electronic laboratory or a workshop, I cannot say—that that continued for a considerable period of time later on.

Mr. Cafik: Mr. Palmer, to me it seems unusual that in all the testimony we have

heard over many months no one has ever mentioned that that briefing room was used for that purpose.

Mr. Palmer: Mr. Cafik, I was never asked.

Mr. Cafik: That is true; but we get a lot of information that we do not ask for. I am just saying that it is surprising.

I have one further question about the decking in that briefing room. Perhaps you could clarify this, Mr. Veliotis. When you used this as a testing ground for electronic equipment did you put a subfloor in? Am I correct in that? Did you do something—

Mr. Veliotis: No, Mr. Cafik, that is not correct.

Mr. Cafik: What happened about the floor? I noted something, but I am not sure what.

Mr. Veliotis: I will explain it to you. In the general specifications there is a requirement that applies as soon as a space becomes a worked-in area. Assume that this room is the briefing room. As soon as you tell me to remove the tables and the chairs from this conference room the general requirement of the specifications automatically applies: that is, protect floor and all surfaces and all equipment that is not to be moved with protective equipment. Usually we put plywood on the floors and cardboard on the walls all around so that the paint will not be scratched and the walls will be covered. Mr. Chairman, perhaps it might be of help to you if somebody from the Department of National Defence would volunteer to tell you how many briefing rooms there were on the *Bonaventure* when it arrived at Davie Shipbuilding—one or two.

Mr. Cafik: We have already heard that this morning.

Mr. Veliotis: We are talking about two briefing rooms. One was converted to something else and we are talking about this particular briefing room. I do not want there to be a misunderstanding now.

Mr. Cafix: We are aware of that. The reason we are concentrating on this is that they are both described in exactly the same way, so we presume they are the same room; and evidence we have received prior to this has indicated that that was so.

Mr. Veliotis: Mr. Chairman, perhaps my observation was out of order, but what I tried to say is which briefing room was visited by Mr. Palmer. This is what I said. I do not know which briefing room...

Mr. Cafik: You are talking about Mr. Palmer's comment?

Mr. Veliotis: Yes.

The Chairman: In order to get the briefing room question straightened out how would you designate the one that we visited and held our meeting in?

Mr. Palmer: The one with the terraced deck.

The Chairman: The one with the terraced deck is the one we visited. The tiered deck.

Mr. Cafik: Mr. Veliotis, according to what you have indicated, then, is the removal of the chairs all that X427 called for?

Mr. Veliotis: Mr. Chairman, as I explained X-427, DDP Form 779, calls for the removal and the replacement of the chairs and automatically calls for putting plywood on the floors and protecting the surfaces and immovable equipment. It calls on a piece of paper to do certain work, but also automatically calls in the general specifications because this is an extension to the contract, and the conditions of the contract and the specifications also apply. This is the point I was trying to make at the outset.

Mr. Cafik: Mr. Veliotis, would it be important that that floor be relatively solid when you used it as a testing room?

Mr. Veliotis: No, sir. The floor was solid but as soon as you remove something the specifications require that the tiling be protected and the walls be protected, but not that they be solid. If you are asking me if we had to do the floor because we had to convert the room into an electronic laboratory, the answer is no, Mr. Cafik.

The Chairman: At this point we will have to adjourn. At our next meeting, Mr. Veliotis, relative to the moving of 64 chairs, you say now—not 52—for $4,173, the Committee will want a breakdown of how you arrived at that cost. We felt that was a very exorbitant cost and we want an explanation at the next meeting—a detailed explanation of why you

charged the Crown that much money. At this point I want to call on Mr. Hunter about the audit.

Mr. Cafik: I have one last point that I would like him to check into, too. It seems to me highly unusual to protect that floor when in fact the floor was replaced after. The whole floor was retiled according to the evidence that we have had.

Mr. Veliotis: This is true, Mr. Chairman, but at the time the chairs were removed there was no mention at all, no indication or information passed to us in writing, verbally, orally, or by any other means that the floor would be replaced. This came much, much later, and in accordance with the specifica-

• 1055

tions I had to apply protection to all surfaces in that specified area.

With respect to what you ask me, that I give you the details of how I arrived at that estimate, I will be happy to oblige to the extent I can and if there is any information that I term as industrial intelligence, I am prepared to give it to you in camera.

The Chairman: Mr. Hunter, would you mind coming forward. Mr. Hunter is the Deputy Minister of the Department of Supply and Services. Mr. Hunter, Mr. Winch had a question earlier in our meeting but he had to leave to attend another meeting. His question was: have you the audit report and is it ready for the Committee? Could you table it? I think this is what he wanted to know.

Mr. G. W. Hunter (Deputy Minister, Department of Supply and Services): Mr. Chairman, I have the audit report. As I mentioned, we received the first audit report on May 5. It had an apparent contradiction in it in that the certificate of the over-all cost of the Davie portion of the audit stated the cost to be so and so and the total price to be so and so, but the covering note from the Director of the Audit Services Division mentioned that there was certain information regarding some accounts that he did not have. I should say the Audit Services people sent their people back in an attempt to clarify this. Yesterday morning at 9.30 a.m. I received an amended cost certificate which incorporated the qualification in the actual audit report that had been in the covering letter. I telephoned the company yesterday morning and Mr. Veliotis was on his way to Ottawa, so it was approximately six o'clock last night when I asked him for permission to present the report and the figures in it. He was waiting for his lawyer to arrive and quite properly, I think, asked for some time to discuss it with his lawyer. So that at the moment I am waiting to hear from the company whether they are agreeable to our reporting the total cost of the job, which is in the certificate, the sales tax, the profit, and naturally the total contract price.

The Chairman: Mr. Lowery, would you have any objection to this being tabled with the Committee?

Mr. Lowery: What is it that you are proposing to table?

Mr. Veliotis: Mr. Chairman, if I may, have the discretion.

The Chairman: I am sorry. I thought it was Mr. Lowery.

Mr. Veliotis: What I said to Mr. Hunter is that this audit was performed under the Defence Production Act. I referred to him, in writing this time, at the outset, the relevant article 35 where no information with respect to individual business that has been obtained by virtue of the Act shall be disclosed without the consent of the person carrying on the business and so forth.

The Chairman: Mr. Veliotis, what act is that?

Mr. Veliotis: That is Chapter 62, an Act respecting the Department of Defence Production, short title, Defence Production Act.

The Chairman: Thank you.

Mr. Veliotis: I asked Mr. Hunter to afford me the opportunity, since this is information proprietary, private, confidential, to discuss it with my masters, my board of directors and my legal adviser, but I promised Mr. Hunter that I would give him an answer by tomorrow morning.

The Chairman: Thank you.

Mr. Lowery: We have not seen the auditor's report and it is difficult to say.

The Chairman: Yes. Mr. Hunter, of course your report is available to the Auditor General; that is just regular routine.

Gentlemen, I think we will close at this point and we will meet Thursday morning at 9.30 a.m. in room 308. I hope that at our next meeting, Mr.Veliotis, now that we have taken a lot of time on details, we will get down to the real issue here and make as good progress as we can. The meeting is adjourned.

The Queen's Printer, Ottawa, 1969

HOUSE OF COMMONS

First Session—Twenty-eighth Parliament

1968-69

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: Mr. A. D. HALES

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 37

THURSDAY, MAY 15, 1969

Public Accounts, Volumes I, II and III (1966 and 1967)
Reports of the Auditor General to the House of Commons (1966 and 1967)

WITNESSES:

(*See Minutes of Proceedings*)

20359—1

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. A. D. Hales
Vice-Chairman: Mr. T. Lefebvre
and Messrs.

Boulanger,	Guilbault,	McCutcheon,
Cafik,	[1] Harding,	Noble,
Crouse,	[2] Laflamme,	Rodrigue,
Cullen,	Leblanc (*Laurier*),	Tétrault,
Flemming,	Major,	Thomas (*Maisonneuve*),
Guay (*Lévis*),	Mazankowski,	Winch—(20).

(Quorum 11)

Edouard Thomas,
Clerk of the Committee.

Pursuant to Standing Order 65(4)(*b*),

[1] Mr. Harding replaced Mr. Burton on May 13, 1969.

[2] Mr. Laflamme replaced Mr. Noël on May 15, 1969.

MINUTES OF PROCEEDINGS

THURSDAY, May 15, 1969.
(40)

The Standing Committee on Public Accounts met this day at 9.40 a.m., the Chairman, Mr. A. D. Hales, presiding.

Members present: Messrs. Cafik, Crouse, Cullen, Flemming, Guay (*Lévis*), Hales, Harding, Lefebvre, Major, Mazankowski, Noble, Winch (11).

Also present: Mr. Laflamme.

Witnesses: Mr. Richard Lowery, President and Mr. Takis Veliotis, Vice-President and General Manager, Davie Shipbuilding Ltd.; Mr. G. W. Hunter, Deputy Minister, Department of Supply and Services; Capts. T. W. Maxwell and G. R. Monteith, Department of National Defence.

The Committee questioned the witnesses concerning contracts X-81 and X-427.

Following the witnesses' concurrence in the tabling of the information, the Committee agreed to accept the Auditor's Certificate dated May 14, 1969, as an appendix to this day's proceedings (*See Appendix K*).

At 11.06 a.m., the Committee adjourned to 3.30 p.m. this day.

AFTERNOON SITTING
(41)

The Standing Committee on Public Accounts met again this day at 3.42 p.m., the Chairman, Mr. A. D. Hales, presiding.

Members present: Messrs. Boulanger, Cafik, Crouse, Guay (*Lévis*), Hales, Laflamme, Noble, Thomas (*Maisonneuve*), Winch (9).

Also present: Mr. Bigg.

Witnesses: As for the morning sitting and Mr. A. M. Henderson, Auditor General of Canada; Capt. J. A. M. Lynch, Department of National Defence; Messrs. G. H. Cheney and L. E. St. Laurent, Department of Supply and Services.

The Committee questioned the witnesses concerning contracts X-427, X-782 and X-1237.

The Committee agreed to accept the following as appendices to this day's proceedings:

(*a*) Department of Supply and Services letter addressed to the Director General, Audit Services Branch—dated April 9, 1969 (*See Appendix L*);

20359—1½

(b) BRCN 100 (64) (*See Appendix M*);

(c) Davie Shipbuilding aide-mémoire ref. Spec. No. H-397 DDP Form 779 Serial No. 782—Cabin Furniture (*See Appendix N*);

(d) Davie Shipbluilding note re Office Furniture—Form DDP 779 Serial No. X-784 (*See Appendix O*).

At 6.13 p.m., the Committee adjourned to the call of the Chair.

Edouard Thomas
Clerk of the Committee.

EVIDENCE

(Recorded by electronic apparatus)

Thursday, May 15, 1969

• 0938

The Chairman: Gentlemen, please come to order.

At the last meeting there was a discussion regarding the classification of certain documents. I ask Captain Monteith, from the Department of National Defence, if he would come forward and make a statement regarding the declassification so that we would have it on the record. Captain Monteith, will you tell the Committee what has been declassified, so that there will be no problems in this regard?

Captain R. G. Monteith (Director of Maritime Maintenance, Department of National Defence): A message has been sent to the contractor formally stating that the documentation and specifications relating to the improvement side of the *Bonaventure* 1966 refit has been declassified. I believe the Company has acknowledged that they had received this information.

The Chairman: Thank you, Captain Monteith.

Gentlemen, when we closed the last meeting I suggested to Mr. Veliotis that the Committee would like to know how your Company arrived at the price of $4,173 to move 52

• 0940

chairs from the briefing room and we, as a Committee, want all invoices, or particulars or any information that you could give the Committee that might explain how you arrived at that price. Now, Mr. Cafik has some questions. Shall we proceed, Mr. Cafik, on this first or...

Mr. Cafik: Well, Mr. Chairman...

The Chairman: Just a minute. Mr. Lowery?

Mr. R. Lowery (President, Davie Shipbuilding Limited): Mr. Chairman, on our question of privilege, I wonder if I could make a general statement at this time.

The Chairman: Yes.

Mr. Lowery: After our appearance at this Committee meeting on Tuesday, Mr. Veliotis and I heard one member of the Committee, in a radio interview, say that he was disappointed with the evidence we had given, that we appeared to give it with reluctance, that we dealt with technicalities, and that we had not been of much help to the Committee.

The time taken in giving our replies was motivated by our desire that the Committee should have the full relevant facts. We respectfully point out that much of the formal evidence which we gave at the last meeting had never been presented before this Committee. We believe that is very relevant. With respect to one of the technicalities, we have been vindicated, since after weeks or months of meetings, the classification of the *Bonaventure* has only been removed since we raised the question on Tuesday. If the radio comments which we heard represent the views of this Committee, we are most disappointed. We had hoped, and we still hope, to be of assistance to the Committee in this far from simple matter.

The Chairman: Thank you, Mr. Lowery. I can only say that I have no control over Committee members, once they leave this room. I think that as the meeting and the investigation continues, you will be able to convince all the members of this Committee that they have received the evidence which they require and that any announcements which are made will be satisfactory both to you and to the Committee.

Mr. Lowery: On another matter of information, Mr. Chairman, may I also say that yesterday we saw the auditors' report, and under the Defence Production Act, we have given Mr. Hunter permission to present it in full to this Committee today.

The Chairman: Thank you. Mr. Cafik.

Mr. Cafik: They were actually referring to comments which I made on the radio in respect of last week's Committee. I think my comments were made in good faith. Perhaps, like all comments, they are subject to misinterpretation. I indicated that I was disappointed with last week's meeting, and indeed,

I was disappointed. I do not mind saying so, here or any other place. I was disappointed in the way and the direction in which the meeting went. I am not laying any blame, on Davie Shipbuilding, or myself, or other members of this Committee. I think that we did get into a highly technical area last week, and that it deteriorated and detracts from the evidence which came forward. As far as I was concerned, the result was a disappointing ending. I hope that this particular meeting will not get into that area and that we will be able to bring forward all the pertinent facts, so that we can judge this matter on the basis of the facts as they are.

• 0945

The Chairman: Thank you. I think we will consider that matter closed. Mr. Winch?

Mr. Winch: In view of what was just said, can I ask when Mr. Hunter will be supplying us with the auditors' report?

The Chairman: Yes, Mr. Winch. Mr. Hunter will be here before the meeting is adjourned. He had some other matter which he must attend to first, but he will be here before the meeting is concluded. Now, if we do not finish this morning, I would like the Committee to be prepared to sit this afternoon, after Orders of the Day. I hope that this will meet with the witnesses' approval.

Mr. Lowery: Certainly.

The Chairman: All right. Mr. Cafik.

Mr. Cafik: Mr. Chairman, I have quickly prepared a series of questions, very roughly, on each one of these contracts. Some of them are related. I hope that they can be answered briefly, but they may not be. I do not know. We certainly want the facts to come out. I am going to backtrack for just a moment to make sure that I understand the facts which were brought out in the last meeting. From here on I will refer to things like X-81 or X-427, and do not think it is necessary for us to get into arguments about whether or not they are contracts. We all understand that argument, and the position which you and others have taken in this regard.

Now in connection with X-81, Mr. Veliotis, I gather that the reference to the briefing room chairs which is on the bottom of the job description attached to X-81, was removed from this particular job description verbally by somebody in DDP. Is that correct, Mr. Veliotis?

Mr. T. Veliotis (Purchasing Agent, Davie Shipbuilding Limited): No, it is not correct, Mr. Chairman. They were not removed, they are still here. I can see them in front of me, in this piece of paper which Mr. Cafik referred to. They were not included in our estimates at the last meeting of this Committee. I clearly stated that they were not included in our estimates, in accordance with instructions received from DND.

Mr. Cafik: There seems to be a real difficulty in language or something here. You said "no" and what you have really answered is "yes". I said that they were withdrawn "verbally". I do not mean rubbed out of the contract, X-81, so that you cannot see it there but, in fact, that that job was not quoted on and performed. That is what I meant.

Mr. Veliotis: If that is what you meant, Mr. Cafik, then it was not estimated and included in our price submitted in X-81.

Mr. Cafik: Mr. Veliotis, I understand from what you said at the last meeting that there were also some other items in the same category.

Mr. Veliotis: That is correct, sir.

Mr. Cafik: Yes, and would you name all of those items for me?

Mr. Veliotis: I named them at the last meeting but I will repeat them. I said that there were two chairs, one bookshelf, nine desks, one chart table which appeared on the guide and specification of X-81. We quoted, we estimated on those items. The reference I made, Mr. Chairman, was that when I later referred to DDP form 779, serial number X-78, those items were again included. The desk, the chair, the chart table and the bookshelf were not estimated on serial number 784.

Mr. Cafik: Mr. Veliotis, do you have the job description which was originally attached to this X-81?

Mr. Veliotis: I do, Mr. Chairman.

Mr. Cafik: Could you indicate which items that are listed here are the ones to which you are referring? Do you have them marked up there so that I could quickly pen them out in my sheet?

Mr. Veliotis: The items to which I referred that were not included in our submission on DDP form 79 serial number X-81 are the last items: briefing room, frame 112½,...

Mr. Cafik: Yes, I have that item.

Mr. Veliotis: Then, Mr. Chairman, I said that the items under the heading of cabins...

An hon. Member: Just go slowly now.

Mr. Veliotis: The offices and stores, were included on X-81. They were not included on DDP form 779, serial number 784.

• 0950

Mr. Cafik: Could you please give us the page for the job description of that?

Mr. Veliotis: I understand that it is 784, Mr. Chairman.

Mr. Cafik: Yes.

Mr. Veliotis: It will take me some time, Mr. Chairman to trace them but I can submit it in writing with the pages for you.

Mr. Cafik: Mr. Veliotis, I think that this is fairly pertinent, and perhaps I may be able to help you with this. On page 4 of the job description on X-784, you notice Captain C, cabin FS818402, deck starboard. This is the second item. Is that what you are referring to?

Mr. Veliotis: On page No. 4?

Mr. Cafik: Yes.

Mr. Veliotis: Are we reading from the same document, Mr. Chairman?

The Chairman: Yes.

Mr. Cafik: I do not know whether you are or not, but it is the job description attached to X784. It is the second item down. The page numbers may be different. I think this happened once before when we were doing this.

Mr. Veliotis: Yes, it reads, "Captain's Sea Cabin F.S.81-84 02 Deck Starboard".

Mr. Cafik: That is one of the items you are referring to. Is that correct?

Mr. Veliotis: I will have to make sure, Mr. Cafik.

Mr. Lefebvre: There is a difference in these documents, Mr. Chairman. The one I have is the same as Mr. Cafik's but the member next to me has a different page and description altogether.

An hon. Member: It is No. 784.

Mr. Lowery: We were looking at No. 782.

Mr. Veliotis: This is correct.

Mr. Cafik: That is the same item?

Mr. Veliotis: Yes.

Mr. Cafik: I will not go through them all, I just want to establish the principle that we were looking at the same thing and coming to the same conclusions.

Returning to X81, Mr. Veliotis—and I do not think we need to relate them to X784 because I know what is in there in any event and I have already dealt with the relationship—would you tell me again what other items are duplicated? You have run through them once and I would like you to deal with them slowly. We have the briefing room chairs and the captain's sea cabin. What else was there?

Mr. Veliotis: The briefing room chairs, as I said, were not estimated under X81. The only duplications are the photographic office, one bookshelf; wardroom mess office ...

Mr. Cafik: Very well, I have that. Just a moment, please. Did you say wardroom mess office?

Mr. Veliotis: Yes, sir. Two desks; air stores office; aircraft control room, desk; message centre, desks, chairs; radio, desks; camera darkroom, cabinet; planned maintenance, desks, chart table.

Mr. Cafik: Is it correct to say, Mr. Veliotis, that all the items listed under offices and stores are not properly included in this job description?

• 0955

Mr. Veliotis: No, this is not entirely correct, Mr. Cafik. I have a list of duplications here which I believe I should have produced earlier. I can now tell you exactly what it is. The duplications are—and I have to correct what I previously stated ...

The Chairman: Just a minute.

Mr. Cafik: Are you saying that what you have just indicated to us is not correct? Do you want to make a correction on this?

Mr. Veliotis: If I may, I would like to make a correction or a clarification. I have in front of me a list of the items that are duplicated—it shows the page number, and so on—which will clarify the matter very easily.

The Chairman: Mr. Veliotis, in order to have some continuity in the questioning we will have to stay with this document that was

furnished to us by DDP as a requisition sheet of work to be done. I would like to stay on this sheet and keep the questioning on it. Mr. Cafik asked if those items were withdrawn and the work was not performed.

Mr. Cafik: That is correct. As far as X81 is concerned, I want to know which ones remain.

The Chairman: All right. If you have this sheet in front of you, Mr. Veliotis, will you tell Mr. Cafik by referring to it what items remain or what work has been done.

Mr. Veliotis: I stated this, Mr. Chairman. I did all the work on that sheet except the briefing room chairs. If the question that I was asked by Mr. Cafik was what other items were duplicated with X784, I am now ready to state the items on X81 and the reference page on X784.

Mr. Cafik: Mr. Veliotis, I think we would like to get that information, but before giving it to us—and I really had this in mind for another line of questioning later and I will carry on with it in a moment—and without relating it to other documentation could you tell us if you have any corrections to make to those items on X81 that were not performed under X81. Do you understand what I mean?

Mr. Veliotis: I understand, and I said the work that has not been performed on X81 was the item "A26 in no. Seating arrangements" and "A20 in no. Writing trays", or the guidance specification for this particular item. I think I made that clear, Mr. Chairman.

Mr. Cafik: All right. I am not saying whether you stated it correctly or not. The important thing to me is whether I understand it correctly or not. To get this straight, you are saying with respect to X81 and the job description that is written out here that in fact you performed the functions described here with the exception of the briefing room chairs.

Mr. Veliotis: I have said, Mr....

Mr. Cafik: I mean under X81. I realize there are duplications somewhere else and where they are listed, perhaps in 784, you did not perform them under that contract but rather under this one.

Mr. Veliotis: I understand that, Mr. Cafik, and I will repeat what I said. We performed the work in accordance with the guidance specification attached to DDP Form 779, serial number X81, and in accordance with the instructions, explanations, and so on, that we received from PNO.

Mr. Cafik: I am not questioning that. I realize that background explanation applies to everything you say.

Mr. Veliotis: Thank you, Mr. Cafik.

Mr. Cafik: But, Mr. Veliotis, I want to know if on every item listed here you in fact performed the work under the conditions you previously outlined, if you performed the work under X81 with the exception of those chairs and writing tables which were referred to as being in the briefing room.

Mr. Veliotis: This is correct and, for the sake of clarity, if you ask if I performed all the work that is on this piece of paper that is attached to X81 I must state that I performed all the work as described and as explained to me. You see, Mr. Chairman, if I answer yes to Mr. Cafik's question, the next question I assume he will ask is, "Did you remove two boat lockers?"

• 1000

The Chairman: Mr. Veliotis, I want to get this straight. We are not going to waste time this morning and I want your answers to be just as short and as simple as they can be. Mr. Cafik is asking straightforward questions and I do not want to renew and repeat all this detail. Please get down to the nuts and bolts of this issue.

Mr. Cafik: I think we would really move a great step forward, Mr. Veliotis, when you answer a question one way and I come back and say something, if you would then say, "Just a minute, Mr. Cafik, I said this but I really meant that". You have that right at all times. I think we would progress much more quickly and with a lot happier atmosphere if we were to have some kind of mutual trust to try to get to the truth of the matter. That is all I am looking for. I am not looking for anything else. I am not trying to catch you in your own words, or anything of that type.

Mr. Veliotis: I am all the way with you, Mr. Cafik, and then the answer to your question is, yes.

Mr. Cafik: Very good. I realize that the job description is not adequate, it may be short or it describes too much or too little in lots of cases. We already understand that. I want to

know, did you, under terms of X-81 repair these furnishings, this equipment and so on or did you simply remove it under X-81?

Mr. Veliotis: Under X-81 we removed and replaced.

Mr. Cafik: By replacement you mean removed and put back in but you did not replace the furniture in the sense that you rebuilt it or bought new stuff?

Mr. Veliotis: This is a very good question, Mr. Cafik. When I said replacing, it is replacing the same item again.

Mr. Cafik: Yes. So you took it out and put it back in and there were no repairs to any of that furniture.

Mr. Veliotis: No, not to my knowledge, there were no repairs on this one at all, Mr. Cafik.

Mr. Cafik: Thank you. Are there any other items—we know there is one that has been removed from X-81—were there any other rooms not referred to in X-81 where you actually did the work by verbal arrangement with DDP, under X-81?

Mr. Veliotis: I do not understand the question, Mr. Cafik.

Mr. Cafik: Did you do any work over and above what we have just described?

Mr. Veliotis: On X-81?

Mr. Cafik: Yes.

Mr. Veliotis: We did the work of removing the furniture and bringing it back.

Mr. Cafik: But no other rooms? In other words there were no other mess decks and things like this that you worked on?

Mr. Veliotis: Not that I know offhand, unless I have records that show that. Offhand, the answer is, no.

Mr. Cafik: All right. If you will excuse me because I am running through a lot of these questions ahead of myself. Was there any inspection of this work?

Mr. Veliotis: Yes, this work was inspected.

Mr. Cafik: They inspected that it was in fact removed and put back in, is that right?

Mr. Veliotis: The work was inspected and accepted by the PNO staff of DND. All the work performed on the carrier was inspected and accepted, at the time that the work was done, by inspectors of the PNO staff, by members of the staff of the ship, and finally it was accepted in accordance with the contract specifications, interpretations, and so forth.

Mr. Cafik: Was the work on X-81 performed before or after X-81 was a completed document signed by both parties?

Mr. Veliotis: To my best knowledge it was performed after X-81 was signed by PNO. It could have been the case though that any of the items, one or more, could have been removed prior to that, if they were in the way.

Mr. Cafik: All right.

Mr. Veliotis: There is that possibility; I do not say that this is what happened.

Mr. Cafik: Right. This is the reason I asked this question because I gather that in one of the other "X" numbers the work was performed before the documents were prepared.

Mr. Veliotis: That is correct.

Mr. Cafik: I gather then that there was no set policy by Davie Shipbuilding to refrain from doing any of the work until an "X" number had been allocated and the work arising sheet prepared and agreed to by both parties?

Mr. Veliotis: Yes, there is a set policy which we try to keep not to do any work unless we get a work order. However, on a job of the magnitude of the *Bonaventure* when you are under the heat of meeting certain datelines, if something has to be removed it has to be removed and is removed, perhaps, ahead of time. If we had waited for all

• 1005

the work to be described properly, to be described in such a manner that would leave no doubt in anyone's mind; that would not need reference to any other documents; that would not need any verbal explanations; that would need no inspections, the ship would still be at Davie Shipbuilding.

Mr. Cafik: No, I do not think the argument is whether you had to wait for an adequate job description because I think it is quite obvious that these job descriptions were not adequate in any of these furniture contracts in any event, or furniture "X" numbers, but whether you required even an inadequate

one. I gather you, in some cases, perhaps in many cases, you did a job before you had the "X" number approved.

Mr. Veliotis: In certain cases we did that, Mr. Cafik.

Mr. Cafik: All right. You would say in the case of X-81 that the job description was, with the exception of those briefing room chairs, an adequate one then. It really did, in fact, describe the job to be done.

Mr. Veliotis: I did not say it was inadequate. I said that the specification was a guide and specification which had to be read in accordance with the drawings, in accordance with the instructions we received from PNO whether verbal or written; in accordance with the general specifications pertaining to the job as a whole and in accordance with our inspection.

Mr. Cafik: Mr. Veliotis, I think, to get to the real question, here again I am asking you, perhaps, to agree with me that it appears the X-81 job description, in fact, describes the job to be done quite accurately with the exception of one thing?

Mr. Veliotis: You can say that, Mr. Cafik.

Mr. Cafik: Can I say that, Mr. Veliotis?

Mr. Veliotis: You can say that, yes, quite accurately.

Mr. Cafik: I think on X-81 that is enough.

The Chairman: At this point I will accept some questions on X-81 if there are any. I have one or two myself. Mr. Lefebvre?

Mr. Lefebvre: Mr. Chairman, I do not know if it is exactly on X-81, but it has something to do with the furniture repairs in general.

The Chairman: Maybe it will come up under the next one, rather than get confused. Mr. Winch.

Mr. Winch: Could I ask whether or not your estimate of price was put in on the original X-81 and when you found that you did not have to move certain chairs was there any change in price?

Mr. Veliotis: That is a very good question, Mr. Chairman. I said that we did not include it in the price. The answer is that there was a change in the price because we did not include it in the price.

Mr. Winch: You did not include it in the price?

Mr. Veliotis: Yes. So if I had submitted a price with the chairs, it would have been higher than that.

The Chairman: I do not suppose you would have any documentation, Mr. Veliotis, where you estimated this job as per the description and then another document where you made a re-estimate with the final figure?

Mr. Veliotis: No, Mr. Chairman, I do not have such documentation. To answer this question I must explain how estimates were prepared by Davie Shipbuilding for the purpose of DDP form 779 of the type that we are considering right now. When such a form was received from PNO the Davie Shipbuilding supervisory staff of the various trades involved went on board the ship. I would like to bring to your attention the notation on all the 779 forms of DDP which says "Request for Estimate". I am reading from X-81, but this is on every form of DDP 779.

> Request for Estimate.
>
> You are requested to inspect the work specified above and to furnish an estimate of cost and time required.

To do that we had to send our staff. .

• 1010

Mr. Winch: This will clarify it for me a great deal. When you received this order and you made the inspection, did you make the inspection on the basis of including the removal of the chairs? Or, had you been told, before your inspection and before being asked for a cost, that they had been removed?

Mr. Veliotis: Mr. Winch, this is a very good question, again. I said the last time that the chairs had already been removed, by the end of May they were out of there.

So Davie Shipbuilding supervisory staff of the various trades went on board the ship to inspect the work. They examined the work to be performed; obtained whatever explanations they required from PNO staff; determined how such work would be performed, taking into account the location, the conditions appertaining to the work and then determined their individual estimate of manpower and material requirements for completing the work as specified, explained, inspected and surveyed. These manpower and material requirements were then critically

discussed, consolidated within Davie, and then I decided, in the light of the foregoing, what would be the estimate to be inserted on DDP form 779. These estimates are not prepared nor submitted to me on a special Davie Shipbuilding form and, moreover, they are often communicated to me verbally during roundtable discussions. We therefore do not have any record, Mr. Chairman, in answer to your question.

The Chairman: That is fine.

Then I take it, Mr. Veliotis, that you were provided with a requisition sheet on June 20 by DDP asking you to move these briefing room chairs.

Mr. Veliotis: I am not sure, Mr. Chairman, that I understand correctly.

The Chairman: You were given this requisition sheet on June 20 to prepare an estimate?

Mr. Veliotis: Which form are we on now, Mr. Chairman.

The Chairman: X-81.

Mr. Veliotis: Oh, thank you, Mr. Chairman.

The Chairman: The answer is yes?

Mr. Veliotis: The answer is yes.

The Chairman: All right, that is all. Then the assumption is that DDP gave you a list asking you to move chairs that were not even on the ship, they were up in Montreal.

Mr. Veliotis: DDP did not give me that, it was DND that gave me that. I stand corrected if it is not so, but to the best of my knowledge it was DND that gave me that. That is in answer to the first part of your question, Mr. Chairman. In answer to the second part of your question, the chairs were not in Montreal on June 20 when the list was submitted to me, they were not in Montreal on August 15 when I submitted my estimate to DDP and DND. The chairs, as I said, went to Montreal about the end of September. If you want to know where the chairs were at that time, they were at our lay-apart stores in Davie Shipbuilding.

Mr. Cafik: This of course was the line of questioning on 427, where I wanted to get into this chair problem.

Mr. Chairman, who was it who gave us evidence that as of roughly June 20, June 6 I think, they were in Montreal? Do you or the clerk know who gave evidence to that effect?

The Chairman: Either Mr. Wallace or Captain Maxwell, or both. I guess it was Captain Maxwell, of the Department of National Defence.

Mr. Cafik, do you want to refer to that questioning or will I proceed?

Captain Maxwell, by whom was the sheet that we have in front of us, X-81, prepared?

Captain T. W. Maxwell, (Maritime Systems, Engineering Section, Department of National Defence): X-81 DDP.779 originally, I believe, is prepared by the Principal Naval Overseer's office.

The Chairman: That would be Captain Lynch who prepared it?

Capt. Maxwell: Or his staff.

The Chairman: And they would attach to that the requisition sheet at the same time?

• 1015

Capt. Maxwell: I think we have been calling that, Mr. Chairman, a job description.

The Chairman: A job description, all right. Then the job description, which included the briefing room chairs, was given to the Shipbuilding Company, asking them to move them when the chairs were already off the ship?

Capt. Maxwell: This appears to be the case, sir, yes.

The Chairman: Have you any explanation why that would be done? Why would not that have been removed and a complete list of the work that you really wanted done submitted?

Capt. Maxwell: Well, I was not there, Mr. Chairman, I have no explanation. But there is evidence that the Company knew and therefore did not in fact bid on the removal of the chairs.

The Chairman: Then I guess the Committee will have to assume that an incorrect job description prepared by the PNO office—Is it right that the PNO office would prepare this?

Capt. Maxwell: Yes, that is right.

The Chairman: An incorrect job description was prepared and handed to the Davie Shipbuilding people asking them to do work that had already been done and was not necessary to do.

Capt. Maxwell: There has been an error, sir, apparently. It is quite correct that the written job description contains a task apparently already done, but the Company was aware of this and I presume that there was verbal discussion attached to this.

The Chairman: The Committee must also assume that no written agreement or document was made out and given to the ship company to inform them in fact that these chairs were not to be included in the price.

Capt. Maxwell: Perhaps I could ask Captain Lynch to answer that, sir.

The Chairman: It was a verbal order and not a written order? Which was it?

Captain J. A. Lynch (Acting Director General, Programmes, Department of National Defence): I believe in my first testimony, Mr. Chairman, that I described the inadequacies of some of the specifications. I have learned since that the specifications which I gave were of much better order than I have testified in your hearings. Now I am sorry, could I have the question again?

The Chairman: Did your Department of which you were responsible as the Principal Naval Overseer provide the Davie Shipbuilding Company with a work order sheet that was not complete in that you had asked them to remove chairs which in effect had already been removed?

Capt. Lynch: That is a correct statement. I should like to see a qualification on my reply, but the answer is yes.

The Chairman: All right.

Mr. Cafik: There is one other point which we pursued to some extent at the last meeting. But the thing that comes to mind—not in respect of Davie Shipbuilding but the Department of Defence Production, the Naval Overseer's staff or himself—is that it seems incredible to believe or to understand how this would come about. The job that we are talking about is described in X-81 on June 20. It was removed from there because the job apparently was already done, and then in October 6 the job is called for again, and this particular time it is a valid call for a job again already done. It is hard to reconcile this. If the job had to be done, obviously it did have to be done, and it obviously was done at the time of drawing the X-81 on June 20, why was it not left on there?

The Chairman: Is it to Captain Lynch that you are addressing your question?

Mr. Cafik: Yes.

• 1020

Capt. Lynch: Mr. Chairman, if I could describe what is commonly known as a PERT chart or a critical path diagram—if you took all the jobs that related to each other in the *Bonaventure* and put the times together in a sequence which appears logical—that is doing step A before B and B before C—one would arrive at a sum total of time I should think of the order of three or four years. Now at the time that these documents were raised the contract was to be terminated in 367 days—that is not working days but calendar days—therefore it was necessary in the interest of economy and efficiency and the taxpayer's money to do D before C on some occasions, and that is why I took those decisions.

Mr. Winch: I want a clarification, Captain Lynch, because I want to understand this. You have not yet made it clear to me. I may be rather dense, but could you explain to me, not whether C comes before B and so on, but how in your operation chairs could be removed—it must have been under some order—and then later a work order sheet and specifications are given to Davie and they find that the chairs have been removed. Then two or three months later there is another order which includes the removal of the chairs. That is what I cannot get through my head, Captain Lynch.

Mr. Cafik: It is the second order for this that is performed. The first one was not necessary because the job was already done.

Mr. Winch: This is what I cannot get through my head.

Mr. Cafik: It does not add up at all.

Capt. Lynch: Mr. Chairman, it is not a case of then it was discovered that the chairs were removed. We had a tripartite team working on this job and at the time we knew very well what the situation was. It was the ship and the job that came first and not the paper work. The chairs were removed from the briefing room, Mr. Veliotis has testified, in order to turn the briefing room into an electronic repair facility.

The Chairman: Yes, he has.

Capt. Lynch: The chairs were for some reason or other put into X-81. For some reason or other, which was good enough for me at the time, they were not accounted for in X-81, although I committed the error of allowing X-81's appendix to stand as it is. But then with regard to the X number that was raised to move the chairs to Montreal, this was necessary to complete the sequence of events.

The Chairman: Captain Lynch, your paper work has not been, as you say it, good enough and it certainly has not been good enough for the Committee. The question I would like to ask is this. Why did you or your officials not issue a work order and call for tenders to have the chairs moved in the first place to Montreal where they went, and get them out of the way. One work order, one description, instead of having them appear twice later on?

Capt. Lynch: The reason why we did not raise the work order to move them to Montreal in—what month are we talking about, June?

The Chairman: Yes.

Capt. Lynch: The reason was that we had not yet taken a decision to move them to Montreal. There was another X form 337 which included $500,000 worth of work. I believe—I cannot testify to this exactly right now—that this work order called for Davie Shipbuilding to reupholster these chairs.

The Chairman: Captain Lynch, may I ask you this question? Who decided that the chairs should be moved out of the briefing room? Whose decision?

Capt. Lynch: I should think that the decision was arrived at in conference and that I took the responsibility.

The Chairman: And you did not issue a work order, or call for tenders to have them moved?

Capt. Lynch: Not at that time, no, sir. This is my reconstruction.

Mr. Cafik: There is one other point that I cannot understand, with the recent testimony of Captain Lynch. As he said on June 20, they had not decided where these chairs should have gone. I believe that Captain Maxwell indicated that they were in Montreal. Am I wrong, Captain?

Capt. Maxwell: With all due respect, Mr. Cafik, I believe you are. You perhaps got this evidence from Mr. Cross of the Auditor General's Department who gave lengthy testimony on that. I do not see how I could have told you they were in Montreal in June. The doc-

• 1025

uments show that they went there in September. I do not remember giving you this evidence, Mr. Cafik.

Mr. Cafik: So you maintain that they did not arrive in Montreal until September?

Capt. Maxwell: The documents indicate that they were taken in hand in Montreal in September.

Mr. Cafik: We have not seen those documents. Was there a document or some kind of work order issued to transport them, or is there a shipping bill? How were they shipped from Quebec to Montreal? Is there any documentary evidence as to date?

Mr. Veliotis: I have stated, Mr. Chairman, that they were shipped to Montreal by DND transport. We were told to load them on a DND transport and ship them to Montreal, or get them out of the yard. Government furnished equipment was coming into the yard by DND transport, that is these big trucks that DND have which are their own.

Mr. Cafik: Would there be any sort of documents?

Mr. Veliotis: From our part? Not be from our part, because they were in the naval stores which were controlled by the naval overseer staff. If there are such documents, they will not be in my records, Mr. Chairman, they will be in DND's records.

Mr. Cafik: Well then the question is to DND. Do they have any record as to the transportation?

Capt. Maxwell: It is my understanding that we gave Mr. Cross all the records of this transaction. It is also my understanding that he made copies and gave them to you and a number of other members of the Committee.

The Chairman: I might clarify this.

Mr. Cafik: I am not aware of that, Mr. Chairman. I have no such document.

The Chairman: This is from Mr. Cross of the Auditor General's Department who says:

I have photostats of selected documents (Appendix 1) that show the chairs were in this facility for repair on October 6, 1966 to June 1967.

And the Appendix attached reads in part:

September 27, 1966—Document No. NSDM 539-66/67

Naval Supply Depot Montreal asked the Naval Repair Facility Montreal for an estimate of the cost of refurbishing the chairs.

October 6, 1966-Stores issue 243-06472

The chairs were transferred from the Supply Depot to the Repair Facility "to estimate as required", presumably to permit the Facility to prepare the estimate.

and it goes on.

Mr. Cafik: That is fine, Mr. Chairman. Now further on X-427. There has been a lot of talk about this electronic lab or testing room that you turned the briefing room into. You said at the last meeting, Mr. Veliotis, that it was necessary to put some kind of protective covering on the floor. Would this be plywood sheeting or something?

Mr. Veliotis: Mr. Chairman, at the last meeting I described in some detail the protective coverings that we had to put in accordance with the specifications. As soon as you remove something from a space, it becomes a worked-in area. Even if the space is not going to be used at all, it becomes a worked-in area and you have to protect the floors and all the surfaces and the equipment that you are not going to move. It could have been plywood, but I cannot tell you right now if it was plywood, thick cardboard, or something. It was something to protect the floor, but I cannot tell you if it was plywood or cardboard. In all probability it would be thin plywood sheets. That is what we use, mostly.

Mr. Cafik: Thin plywood sheeting?

Mr. Veliotis: Yes.

Mr. Cafik: And I presume that being reused by yourselves there would not be a charge for that material.

Mr. Veliotis: It could have been used ones that are reused. But there would be a charge for the material, for the masking tape, for the cardboard and so on. You cover the walls with cardboard and masking tape, and when you take it away you do not cut it up nicely so you can use it again. It could have been reused or thrown away as scrap.

Mr. Cafik: Are you telling us, Mr. Veliotis, that you not only had to cover the floor, in all probability with plywood, but you had to cover the walls?

Mr. Veliotis: All the surfaces. I have stated that, Mr. Cafik. I said that we had to cover all the surfaces. I can repeat, if you wish, exactly what I said.

Mr. Cafik: Oh, no. I think I can get what I want if you just give me specific answers.

Mr. Veliotis: The specific answer, Mr. Cafik, is "yes". It was necessary to provide protection to decks, surfaces and fixed equipment. I cannot tell you right now whether it was in the form of plywood or cardboard.

• 1030

The Chairman: Are you on X-427 now?

Mr. Cafik: Yes, I am.

The Chairman: All right.

Mr. Cafik: I want to understand. For instance, if there were lighting fixtures in there, would you have to put cardboard all around them and make sure that nothing bothered them?

Mr. Veliotis: I do not think we would have to put cardboard around lighting fixtures. If in that part of the ship we used the power of the ship for lighting, then we would not cover them. If they were in the way and could be damaged by traffic and so on, yes. But if they were lighting fixtures that could be used, as I said, we would not cover them, and we would use temporary lighting.

Mr. Cafik: When you say cover all the surfaces—this is not a great major point, but it gives an understanding of how the price got to over $4,000 and I think it is quite significant—you covered all the walls with cardboard and you covered the ceiling, I suppose.

Mr. Veliotis: Not the ceiling; we did not cover the ceiling.

Mr. Cafik: You did not.

Mr. Veliotis: No, I do not believe we covered the ceiling. It would not be necessary to cover the ceiling in this particular case because the ceilings are not likely to be damaged. What is likely to be damaged is the framework and the walls, If you have no cardboard on the walls, or paper with masking tape all around, when a worker leans on

the wall with dirty coveralls the painter has to repaint. This is the reason behind the general requirements of the RCN that as soon as a space becomes a worked-in area, all surfaces, floors and equipment must be protected.

Mr. Cafik: Would you have ended up with a flat floor, after you had removed the chairs, where you could just lay stuff, or were there things attached to the floor that you had to remove?

Mr. Veliotis: I cannot tell you, Mr. Cafik, because, as a matter of fact you are asking me now to reconstruct in my mind things that happened two and a half or three years ago and I will have to go back to that time in history; I will have to set the clock back. I can give you an answer but perhaps it might not satisfy you entirely. I will say that the floor was a pretty steady floor, and a covering of a sort would have done the job. But I cannot tell you because I would have to go in two moments back to that time.

The Chairman: Mr. Cafik, would you prefer to let Mr. Veliotis tell us how they arrived at this price to remove these chairs, or would you like to do it by . . .

Mr. Cafik: I would like to find out if he knows how those chairs were fixed to the floor.

Mr. Veliotis: If I know how the chairs were fixed to the floor?

Mr. Cafik: Would you tell us how the chairs were fixed.

Mr. Veliotis: When you say "fixed to the floor", this is a technical matter and I will have to be specific. "Fixed" means something that you cannot move. If you mean arrangements so that the. . .

Mr. Cafik: I mean how they sat on the floor. What held them in place.

Mr. Veliotis: What held them in place—I think there would be different ways. In this particular case I believe there were sockets which were part of the floor or the structure that is the floor in which you insert the chairs. The chairs themselves are not fixed permanently. They are not bolted down. There are devices that will allow the chairs to be there and be relatively steady while the ship is pitching and rolling and moving around.

The Chairman: All right, Mr. Veliotis. There were sockets and they were not bolted. That is what we wanted to know.

Mr. Veliotis: I have tried, Mr. Chairman. . .

The Chairman: That is fine.

Mr. Cafik: I am satisfied that you know how they were there, at least. That is more than we got out of most other people.

If this briefing room had not been arranged to be used for a work area, I presume that you would not have been required under the general terms of specification, to put in any kind of protective covering over the floor or walls. Is that correct?

Mr. Veliotis: Mr. Chairman, I will have to ask Mr. Cafik to repeat. "Work area" or "worked area"?

• 1035

Mr. Cafik: Work area.

Mr. Veliotis: There is a difference between work area and what I stated—worked area. "Worked area" is an area where work is being performed. "Work area" is a shop where you do the work. There is a difference. I have to be technical, here Mr. Cafik, because it is an entirely different thing. When you say "work area", it is the area where we do the work. "Worked-in area" is the area where work has been performed or is to be performed, and the general specifications apply.

Mr. Cafik: I am not going to get involved in the definition of work or worked or whatever else you might use. I am asking you a very simple question. In the case of this briefing room it was going to be used as a testing shop or something, temporarily. Now if it were not going to be used for that purpose or for any other similar purpose, then I presume it would not have been required for you to put down any kind of protective covering over the floor or walls.

Mr. Veliotis: That presumption is not correct because as soon as the chairs are removed the area automatically becomes a worked in area—a worked, with "ed", area. As soon as the chairs are removed the general specifications apply that the floor, the walls and the fixed equipment have to be protected.

Mr. Cafik: All right. I will get into another area where I can really understand what you are talking about. Say you had to take some

stuff out of a mess or a cabin, for instance. It could be a medicine cabinet or anything—it does not matter. I presume then that as soon as somebody had to go and take it out of there, the general specifications required that you had to cover all the walls and floor. Is that correct?

Mr. Veliotis: Mr. Cafik, what you say is relatively correct. If you are going to take out of a room a hat, I will not consider it as a worked-in area because by taking the hat out of the room, there is no possibility or probability of damage to the walls. There will be no damage if there is just an item to take out. But if I have to remove all the equipment—and it was all the movable equipment in the case of that briefing room—then it becomes a worked-in area. So what you say is relatively correct, depending on the amount of work. This is a question of judgment and interpretation of the specifications. PNO could have insisted and said to us, "If you move one hat out of this room, according to the specifications it is a worked-in area; cover it all before you go out and remove it." But common sense was used.

Mr. Cafik: So somewhere in the contract, I presume, these specifications are laid down, that you are required to do this.

Mr. Veliotis: The general requirements of the specification require that all worked-in areas be protected sufficiently—floors, equipment, etc.

Mr. Cafik: So the evidence you gave at the last meeting—in fact I read it this way but I may be wrong—that it was required to put protective covering on the floor and walls because it was going to be used as a testing area is not really the reason for it. It had to be done in any event. Is that correct?

Mr. Veliotis: First of all, your question...

The Chairman: Let us cut this short. We are taking too long on details here.

Mr. Veliotis: I will cut this short, Mr. Chairman, but I am referring to a statement I made and I believe it would be for the benefit of everybody concerned to quote what I said.

> As soon as the chairs were removed from the briefing room, this compartment became a worked-in area; and in accordance with the general requirements of the specification it was necessary to provide protection to deck surfaces and fixed equipment.

This is what I said.

Mr. Cafik: All right.

Mr. Major: Mr. Chairman, may I ask a question?

The Chairman: Yes, Mr. Major.

Mr. Major: Going back to a statement that Captain Lynch made a minute ago, I would like to get some information on this. Maybe that was brought up before. When Captain Lynch mentioned the critical path method used, did he mean that this was the method used in refitting this ship?

Capt. Lynch: Mr. Chairman, I regret the statement. I did not have the facilities to use such a method. I used the term as an illustration of how one might do the job. I personally arrived the day the ship did and only had visiting time to prepare for the job, so that I did not use any critical path method other than mental, which is what managers do all the time if they do not do it on paper.

Mr. Major: Then you did not use that method. And did the contractor use that method to refit that ship?

Mr. Veliotis: Is that question for me, Mr. Chairman?

The Chairman: Yes.

Mr. Veliotis: I believe that if you refer to our proposal to the government for the refit and improvement of HMCS *Bonaventure*

• 1040

dated January 31, 1966, you will note that we have given our schedule to the government; our method was a bar-graph method or Gantt method, as it is known.

The Chairman: Does that answer your question, Mr. Major?

Mr. Major: Yes, that is fine for now. That is all I want.

Mr. Veliotis: If you wish details...

Mr. Major: We can elaborate on that later.

The Chairman: We will come to that later, Mr. Veliotis. Mr. Crouse.

Mr. Crouse: Mr. Veliotis, as the owner of three deep-sea fishing trawlers on the east coast for 20 years, I find some of your testimony very fascinating. You told us at the

last meeting that you had examined the electronic equipment on board the *Bonaventure* and that you had determined to do that work ashore in your shops. Is this correct?

Mr. Veliotis: I said in the last meeting, Mr. Chairman, that when we submitted our proposal for the modification, refit and improvement of the HMCS *Bonaventure*, it was intended that all electronic work, such as tuning and testing, would be done in the special work cage located on the first floor of the marine stores at our shipyard. This is exactly what I said.

Mr. Crouse: That is my understanding, Mr. Veliotis. However, when you examined the ship, you discovered that there was so much electronic equipment on board that it was not feasible to remove it; then you changed the briefing room into an electrical shop. Is this correct?

Mr. Veliotis: This is not absolutely correct. What I said with respect to this was that when the *Bonaventure* arrived at Davie shipyards on April 25, 1960, discussions were held between PNO, *Bonaventure* and Davie shipyards with respect to the advisability of finding an additional, suitable location on board the *Bonaventure;* this location would be used to perform some of the special electronic work of testing and tuning of the more fragile type of equipment.

The Chairman: That is a sufficient answer to the question, Mr. Veliotis. Mr. Crouse.

Mr. Crouse: Therefore, it became necessary to cover the briefing room, as you have already explained to one of the Committee members; it became necessary for you to take electronic equipment from your shop and place it on board the *Bonaventure* in order to carry out the refitting and repair work on this equipment. Is this correct?

Mr. Veliotis: There are two questions involved. I will have to answer the first question. The first part of your question asks if it became necessary to cover the briefing room with protective...

The Chairman: Mr. Veliotis, never mind that. He wanted to know if you had to put the excess electronic equipment in the briefing room that we as a Committee saw on the *Bonaventure.*

Mr. Cafik: On a point of order. I think it is important that he answer that first part of the question; Mr. Crouse is stating one thing that is opposite to the information given by Mr. Veliotis. I think it is important to clarify that point, if you do not mind my saying so.

The Chairman: That is quite all right. I understand that the electronic equipment according to the standards...

Mr. Cafik: The implication is that using that room for testing purposes, required the surfacing of walls and floors with protective equipment. I do not think that is what Mr. Veliotis told me. I think that he wishes to say that this is not true. I would like to give him that chance.

• 1045

Mr. Veliotis: May I proceed, Mr. Chairman?

The Chairman: Yes, proceed.

Mr. Veliotis: Mr. Cafik is absolutely right. A comes before B. A in this particular case is the removal of the chairs. As soon as the chairs are removed, the briefing room becomes the worked-in area; it must be protected. Mr. Cafik was correct when he made that point because this is what I have been saying all this time. We had to carry electronic equipment to the briefing room. Now, do you mean electronic equipment from the ship or electronic equipment from the shipyard?

Mr. Crouse: Mr. Veliotis, you are playing with words. We are talking about refitting very finely tuned electronic equipment, remember. You told us that you made the briefing room into a work area and therefore you had to do some of the repairs in that briefing room. Is this not correct?

Mr. Veliotis: This is not correct, Mr. Chairman. We found out when the *Bonaventure* arrived that we needed an additional electronic laboratory, not repairs. I was talking about testing and tuning. You may say that testing, tuning and repairs are the same thing; testing and tuning, however, are not repairs. Furthermore, I explained in my last testimony here why the briefing room presented so many advantages. We did not do that work. This work was subcontracted to Sperry. We did not do this tuning and testing. Our shipyard does not have such facilities, nor do other shipyards in Canada as far as I know, have facilities to tune and test the delicate and highly complex electronic equipment of the *Bonaventure.* We only provided

the space for Sperry Gyroscope; they were the main subcontractors for that work; I did not do any work of testing and tuning myself.

Mr. Crouse: The point I am trying to make, Mr. Chairman, is that it would appear that this briefing room was set aside as a place for testing and tuning by Sperry, at a cost to the Canadian taxpayer. You have already told us, this morning, that the cost of sheeting and altering the room was an additional charge made on the taxpayer, however, when you examined the ship you computed the price of this work ashore. What I would like to know is, on what basis did you make a charge for altering the briefing room? Obviously you would have to put a lot of sound and silencing equipment in that room, if you were going to do proper testing with finely tuned electronic equipment.

Mr. Veliotis: I have already mentioned, Mr. Chairman, the reasons for the choosing of the briefing room; I will repeat them. It was obvious that the briefing room was the ideal place for many reasons; first of all, it is situated near the island; when I say "the island," I mean the island where the operations room, the bridge, radio, radar and other electronic instruments are located. It is clear of heavy traffic areas and relatively remote from where major repairs take place, such as welding; therefore, there is minimum interference from stray electric currents; the room is also a suitable size and because of its location is relatively quiet.

I never said that we had to instal soundproofing protection or sheeting in the briefing room. We did not charge the Crown for protecting the walls because it became an electronic laboratory. As I stated before, A comes before B; as soon as the order was given to me by the naval overseer, to move the chairs, the area automatically became a worked-in area; therefore, it needed protection in accordance with the specifications. This is my answer.

Mr. Crouse: I have one or two other questions, Mr. Chairman. When you were making your estimates on this furniture repair work, what was the basis for your computation of costs?

Mr. Veliotis: What furniture repair work, sir? Which form are you referring to, sir.

Mr. Crouse: We are referring here to form X-81 which was DDP 779, which covered certain repairs. However, the question is a general one. What I am asking, Mr. Veliotis, is when you were making the estimates on the furniture, were you competing with any other yard for this work?

Mr. Veliotis: I have to make a correction, Mr. Chairman; under X-81 about which I was questioned by Mr. Cafik, there were not any repairs.

The Chairman: I will correct that, Mr. Crouse; X-81 was for removal of furniture. But I think that your question refers to some of the other contracts which dealt with the refitting and repairing of furniture. I would allow that question here, because it is a general one. The question was: did you, Mr. Veliotis, compete with other firms who were asked to tender on the repair of the furniture? This question should really be directed to DDP, not to Mr. Veliotis. However, to his knowledge was any other company competing on these contracts?

Mr. Veliotis: The direct answer is, no. In accordance with the contract there was no competition at all and if you want an explanation, Mr. Chairman, I have it here. I have the contract, the terms of reference of the contract, and how any work arising was negotiated.

Mr. Crouse: I have one other question on that point, Mr. Chairman. Since the estimates on the bids, Mr. Veliotis, were not competitive, how did the PNO or the Department of National Defence know they were getting a fair and—a much quoted word these days—just price?

Mr. Veliotis: Mr. Chairman, I believe at the outset when I first came here, I made a statement, which I may say was possibly lengthy but it was necessary, that I am here to testify on behalf of Davie Shipbuilding. If you are asking me a question with a yes or no answer, I cannot give it to you. I cannot say, yes, I cannot say, no. If you want an opinion, then it would be an opinion. You are asking me to give an opinion on the performance of a government department and, Mr. Chairman, unless I am instructed by you to give such opinions, I do not believe I am prepared to give them.

The Chairman: That is right. That question should be directed to the DDP and we will direct it to them, Mr. Crouse, later on. Mr. Noble and then back to Mr. Cafik.

Mr. Noble: Mr. Chairman, I would like to ask Mr. Veliotis if any protection was used on the floors and walls and any other parts of the ship where work was being performed?

Mr. Veliotis: As soon as an area became a working area the directions of the specifications applied. Therefore, the answer to the question is yes.

Mr. Noble: Could you tell us in what other parts of the ship you gave this protection to the walls and the floors?

Mr. Veliotis: I can tell you that we protected all the parts where work was performed.

The Chairman: There would be several areas then?

Mr. Veliotis: Several areas, and I cannot tell you the square footage. It would be 20,000 or 30,000. I cannot tell you.

Mr. Noble: Could you tell us how many rooms were used that you treated in this way?

Mr. Veliotis: Off the cuff; a guess? I cannot make a guess but I can search the records and I can search the drawings and tell you. If that is of great importance I can search the records and come back and tell you.

Mr. Noble: That is fine, thank you.

Mr. Cafik: I think I only have possibly one other question on this X-427. We are moving toward the end of this morning's session and we may have to come back this afternoon. I have learned a great deal about both these contracts, I think, here this morning or these "X" numbers. Please do not jump us on that. I still consider it as a contract.

Mr. Veliotis: I still consider, Mr. Chairman, that it is not a contract.

Mr. Cafik: It is all right, we do not need an argument. You are too big a man to fight with. However, on X-427 I gather from information put forward that the job description contained therein is in fact pretty accurate. It calls for the removal of 52 chairs. I gather that really there were a few more than that in terms of numbers of chairs. I think it was approximately 60, was it not?

The Chairman: Mr. Cafik, I think it would be wise to read into the record the job description.

• 1055

Mr. Cafik: All right. The job description is:

1. Disconnect 52 in number chairs from deck and transport to Naval Overseeing Store for survey.

Is that a correct description, Mr. Veliotis?

Mr. Veliotis: No, it is not a correct description.

Mr. Cafik: Would you correct it where it is wrong?

Mr. Veliotis: You would like me then in other words to revise the specifications?

Mr. Cafik: I beg your pardon?

Mr. Veliotis: If you want me to correct it, that means I will have to revise the specifications.

Mr. Cafik: May I put a more specific question and I think you can give an answer to it? Is the 52 in number a correct figure?

Mr. Veliotis: It is not correct, Mr. Cafik.

Mr. Cafik: What is the correct figure?

Mr. Veliotis: The correct figure is 32 sets of chairs, which makes 64 chairs.

Mr. Cafik: Right.

Mr. Veliotis: This is what I received back, and this is what I shipped to Montreal. So this is not correct. And furthermore, this DDP 779 X-427 does not cover all the requirements: (a) the number of the chairs was not correct, (b) all the other loose equipment that was stacked in that room had to be removed, and when we inspected the room and we prepared our estimates this was taken into consideration.

Mr. Cafik: I do not recall you having said that there was other stuff stacked in that room.

Mr. Veliotis: Would you like me to repeat what I said, sir?

Mr. Cafik: It seems to me you talked about a briefing table and couple of other auxiliary items.

Mr. Veliotis: I said it was approximately mid-May, 1966, when the briefing room chairs were removed together with all other loose equipment in the briefing room.

Mr. Cafik: Yes.

Mr. Veliotis: This is what I said. So if your question is whether or not the description of the form DDP 779, serial number X-427 is relatively accurate, what is relative? I will say relative is relative.

Mr. Cafik: What percentage of the work that you actually had to perform does it describe? Would you be able to give it again?

Mr. Veliotis: The answer, Mr. Chairman, is that it does not describe all the work but infers and implies other work too. This is understood in the contract.

Mr. Cafik: Yes, but I am not talking about that because that implication is involved in all other "X" numbers, is it not? I am talking about the specifics that are not covered in the generalities of the contract, the specific items, and you mention the change from 52 to, I think you said, 36 sets.

Mr. Veliotis: I did not say 36, Mr. Chairman; I said 32 sets which makes 64 chairs.

Mr. Cafik: Right.

Mr. Veliotis: And I also said all other loose equipment, and there was a stack of equipment that I cannot enumerate now.

Mr. Winch: Mr. Chairman, please, this should be most clear. Only a few moments ago you told us that when you went there in May the chairs and all loose equipment had been removed.

Mr. Veliotis: Correct, Mr. Winch.

Mr. Winch: Judging by what has been discussed by Mr. Cafik, there was no loose equipment to be removed.

Mr. Veliotis: No, it was removed. I said that it was removed by the end of May.

Mr. Winch: Yes, but not by you.

Mr. Veliotis: No, it was removed by us at the end of May, Mr. Winch.

Mr. Winch: Pardon?

Mr. Veliotis: The chairs and all other loose equipment were removed on May 25.

Mr. Winch: But not by you.

Mr. Veliotis: By our yard, by the workers.

Mr. Winch: Including the chairs?

Mr. Cafik: I have enough on that specific question. I gather that the work for X-427 was performed prior to the drawing of X-427 and to its signature by both parties.

Mr. Veliotis: Part of the work. The answer is part of the work.

Mr. Cafik: What part was not done, Mr. Veliotis? Could you tell me?

Mr. Veliotis: The part of putting the chairs back, taking the cardboard out of the walls, and taking the protective covers from the floor.

Mr. Cafik: All right, fair enough. How did you ever arrive at a price after you had done part of the job as you have described?

Mr. Veliotis: It was not very easy, Mr. Chairman, to prepare an estimate for the work as envisaged on DDP 779, serial number X-427. When it was raised I would like to

• 1100

mention again the seating arrangements and the loose equipment had already been removed and the briefing room duly protected in accordance with the specifications relating to the working area. We should not forget that DDP form 779, serial number X-427 not only called for removing the briefing room chairs and the loose equipment but also replacing the briefing room chairs.

Although I do not specifically recall at this time the actual estimating procedures followed for this particular work, I am reasonably sure that in this case the supervisory trades that were involved in this matter prepared their manpower and material requirements by adding the estimated manpower and material required for the moving of the chairs and protecting the room to their estimate of the manpower and material requirements involved in removing the protecting materials and replacing the chairs. When I say "replace' I mean they were the repaired chairs or the same chairs.

However, to answer your question, Mr. Chairman, I would have to reconstruct in my mind the state and conditions at two moments in time, namely: firstly, when the chairs were removed; and secondly, when the estimate was prepared for the following: the briefing room itself—this is what I have to reconstruct in my mind—the seating arrangements; the equipment securing these chairs to the deck; and most important, the doors, the passage ways through which the seating arrangements could be moved to get them out of the enclosed spaces of the ship, together with the obstacles to be met or removed.

I would also have to reconstruct in my mind, Mr. Chairman, what means were devised or facilities used to unload this thing from the ship to the jetty, which unloading possibly involved grading, slinging, craning and probably many other things, and how they were finally carried out to our stores. In other words, Mr. Chairman, I cannot give you an answer because you will have to put the clock back to that stage of the *Bonaventure*.

The Chairman: Mr. Veliotis and Mr. Cafik, we are going to have to put the clock back in a few minutes if we do not adjourn. There is another committee coming in here. We will resume this afternoon on the basis, Mr. Veliotis, that we will want to know further details on the cost to the Crown of $4,173 to move 64 chairs. I do not think you have proven to the Committee yet why this is a reasonable charge. We will take it up later and you will have to prove further why you charged this much to move these chairs. We will come to that point this afternoon.

Just before adjourning I would like to have the permission of the Committee to table the auditor's certificate which has been circulated to each of the members.

Some hon. Members: Agreed.

Mr. Winch: Do I also understand that we are going to get more than the certificate? Should I ask Mr. Hunter, or do we just get the certificate?

The Chairman: Mr. Hunter, maybe you would like to answer that.

Mr. G. W. Hunter (Deputy Minister of Supply, Department of Supply and Services): Mr. Chairman, when we made the request for this audit we asked for three things. We asked for the over-all cost of the Davie Shipbuilding portion. We asked for any information they could give us on the cost of the furniture, and we asked for the audit of the major subcontracts. To date we have received only the over-all portion, which I tabled this morning, of the Davie portion of the shipbuilding audit. This is the only information from the company that I have authority to table, which, as I mentioned the other day, we must have in order to give the Committee information.

Mr. Winch: I understood from statements made here that the company has given their consent and authority for the release of the audit. Is that not correct?

Mr. Lowery: I said that we had given permission for the auditor's certificate to be tabled in full, and that is it.

Mr. Cafik: Mr. Chairman, one further question on this. I gather the whole object of this

• 1105

exercise is to determine what percentage of profit was made on this over-all job. What is the permissible limit of profit according to the Act?

Mr. Hunter: Mr. Chairman, there is no specified permissible limit but the practice has been on firm price contracts that a profit of 10 per cent is considered fair and reasonable. This profit happens to be less than that.

Mr. Cafik: Yes, this is another one of those amazing coincidences, that the profit works out to 10 per cent of the fixed job within $4,000.

Mr. Lowery: Mr. Chairman, I would like to take exception to the way several times the term "coincidence" has been used in some extremely surprised fashion.

Mr. Cafik: Right.

Mr. Lowery: You have not mentioned the coincidence that Canadian Vickers price in the original bid was within 2 per cent of ours. There is nothing magic in this. Canadian Vickers' evaluated price for this ship was within 2 per cent of Davie Shipbuilding Limited's price: there is another coincidence. All my life I am running into coincidences such as that. Quite often I lose jobs for less than 2 per cent. You may consider it coincidental: I do not.

Mr. Cafik: I do and it is certainly a great credit, I would say, to yourselves to work it out that closely.

Mr. Lowery: We did not work out the profit.

The Chairman: Gentlemen, the meeting is adjourned.

AFTERNOON SITTING

Thursday May 15

• 1542

The Chairman: Gentlemen, may we proceed? Before starting the questioning, I would like to have the Committee's permission to table, as an Appendix, the letter written to Mr. Cheney—who was the Director

General of the Audit Services Branch—by the Department of Defence Production instructing them to make the audit. We have the permission from the Department to table it. Is this agreed?

Some hon. Members: Agreed.

The Chairman: Mr. Lowery, I think that you wish to make a short statement.

Mr. Lowery: Thank you, Mr. Chairman, and members of the Committee. This morning I saw the transcript of part of my evidence in which I find that I stated that I had given Mr. Gordon Hunter permission to table the entire auditor's report. I did not have the paper before me at the time I spoke. I should have been more careful. What I intended to say, and what I now say, is that we gave Mr. Gordon Hunter permission to table, in full, the Auditor's Certificate dated May 14, 1969.

Mr. Winch: May I ask why you object to this Committee having the entire auditor's report?

Mr. Lowery: No comment. Sir, you may ask but the fact of the matter is that we do not wish to have any more of our business made public than is necessary. Also, this contract was conducted under the Defence Production Act. Item 35 states:

> No information with respect to an individual business that has been obtained under or by virtue of this Act shall be disclosed without the consent of the person carrying on that business except,
>
> (a) to a government department, or any person authorized by a government department, requiring such information for the purpose of the discharge of the functions of that department, or
>
> (b) for the purposes of any prosecution for an offence under this Act, or, with the consent of the Minister, for the purposes of any civil suit or other proceeding at law.

Sir, since there is nothing being said before this Committee either now or at any time in the past which indicates in any way that Davie Shipbuilding Limited did not perform

• 1545

in accordance with the contract, a statement of our costs and our profit under the contract is all that I feel inclined to agree to being tabled.

The Chairman: Mr. Cafik.

Mr. Cafik: I would not think that this is the time to discuss the contents of that particular audit statement, but if that is your inclination, I have a few questions. I could certainly defer them until after we finish these other questions.

The Chairman: I would rather proceed with what we were doing, and if necessary, take a special meeting on the audit report. We were dealing this morning with the X-427 contract in the amount of $4,173. to move 64 chairs from the briefing room to shore, and eventually to bring them back and to refasten them in their proper places.

Mr. Cafik: I was about to raise a question on that, Mr. Chairman. I believe, if I recall Mr. Veliotis correctly, the last question which was raised—excluding those comments about the auditing report—was in regard to your statement where you indicated that, with the time lapse, it was difficult to recall back whatever number of years and months it may be to this particular X-427 and be able to know all the details. That is very understandable. I gather that this job—that is described on X-427, inaccurate as it is, but as understood with the verbal arrangements—was performed prior to X-427 being drawn.

Mr. Veliotis: Mr. Chairman, I believe I stated many times this morning that part of the job was performed prior to the issuance of the form DDP - 779, Serial X-427.

Mr. Cafik: That is correct.

Mr. Veliotis: Mr. Chairman, at the conclusion of this morning's meeting you said that you would like me, on behalf of Davie Shipbuilding, to furnish you with more details of how we made the estimate. I attempted to do that this morning, and I gave all the explanations that I could possibly give on this subject. Furthermore, Mr. Chairman, if I can be of any assistance perhaps I can give you an additional explanation. In this particular job, half of the work was done when the AWR was raised. That is form X-427. I spoke with ten or fifteen of our people—who are in charge of several departments and performers of the different trades—and they knew their estimation of man hours to do that part of the work which was already completed. They gave me the estimation that they required to complete the work at a later date. This is why we put that figure on the Serial X-427. I have no other explanations, Mr. Chairman.

The Chairman: Mr. Veliotis, we are at the position where the information which you have given to the Committee so far—I think I am fair in saying this—has not been sufficient to warrant your charges. Mr. Cafik will proceed along this line, to see if we can come to some conclusion.

Mr. Cafik: Mr. Chairman, in all fairness to myself, and so that we do not upset the witnesses, may I say that I am not here to prove that the charge is not correct. That has nothing to do with any of the questions which I am asking today. I am trying to determine what work was done under each one of these serial numbers which begin with an X. Having determined that, we might look into the fairness or the reasonableness of those particular charges. It would be unfair of anyone to draw any conclusions, until we know that what you are saying was actually being done under the job. Previously, we knew what the DDP said was to be done. We knew what the job descriptions were, and we concluded—and I think rightfully so—on the basis of that information that the charges appear to be very unreasonable. Now we must hear your side of the story. That is the purpose of your presence before this Committee, That is what

• 1550

I want to find out. To proceed again, Mr. Veliotis, you have repeatedly indicated that, you personally talked to people and that you had a certain amount of the work being done before this was drawn. Also, a certain amount had to be done after. It is difficult to go back three years. I think that point has been made. The question which I have is this. If part of this work was done before the drawing of X-427, and bearing in mind all the other concurrent work, did you have any records or time-accounting of how much it cost or how much time you spent or how many people spent time on doing that portion of X-427, prior to it being raised?

Mr. Veliotis: As a separate record at that time I did not have the chair, Mr. Chairman.

Mr. Cafik: Is it fair to conclude, Mr. Veliotis,—when X-427 was drawn and the figure of $4,173 was determined as the price of performing the work—that your people determined that figure by trying to remember back to what was done a few months before.

Mr. Veliotis: A few months before, yes. This is relatively correct. The statement you are making Mr. Cafik is relatively fair. You must realize that the people who are doing the estimates are experienced. They have been working with the company for a long time and their estimates are good. I believe the report that was tabled this morning—I have not seen it—shows that the over-all profit on this work was something under 9 per cent on the sales value, and I have no hesitation in saying that their estimate was fair and reasonable.

Mr. Cafik: You must agree though that we as a Committee, and we are trying to look at this thing objectively, have to decide whether that $4,173 was a reasonable price. I am not trying to determine that now, I am trying to get the facts that will lead us to some kind of valid conclusion in this regard. Part of that price was determined by your people trying to remember the details and the amount of labour involved in performing work that they had done. No records were kept of work done a few months prior.

Mr. Veliotis: This is what happened; this is the practice; this is correct, Mr. Cafik.

Mr. Cafik: That principle, I presume, would also apply in other jobs. I have the impression, I may be wrong, that not just in the furniture side but in a number of work arisings there was, in fact, work being done either totally or partially prior to the "X" number being drawn.

Mr. Veliotis: I said this morning that in some cases it has been done.

Mr. Cafik: Yes, so in other words, this is not necessarily an isolated incident?

Mr. Veliotis: It is not an isolated incident. In some cases work was performed and the AWR form was signed a few days later. This is correct, but now what conclusions you want to draw from that is not for me to say.

Mr. Cafik: Yes, that would be up to the Committee. I must say by way of comment that everybody has emphasized the complexity of the whole job, the multiplicity of things happening at the same time and in this particular case I find it difficult to understand how this job and what was done appears to have been remembered fairly accurately by your particular group, or we have presumed that, while in the PNO office and other places where these things were all coming together, people do not seem to remember much about it.

Mr. Veliotis: Was that a question directed to me, Mr. Cafik?

Mr. Cafik: No, it is just a comment that I am making.

Mr. Veliotis: But not for me because this again will be an expression of opinion and I am not here to express opinions.

Mr. Cafik: Yes, I am not asking for your opinion, Mr. Velotis, on that.

A lot of the questions I have on X-782 I will skip over, because I think one can deduce the answers from those you gave on previous contracts.

The Chairman: Mr. Cafik, can you come to some conclusion on the amount of money in X-427 before you move to another one, or do you wish to tie in with this?

• 1555

Mr. Cafik: No, the only conclusion I could reach at the moment, and it is a tentative one, is that it seems to me it is difficult if not impossible for this Committee to arrive at any kind of real firm knowledgeable decision on whether we paid the right or the wrong amount for a given job. The paper work is such that we just cannot arrive at that kind of conclusion.

Second, in regard to that particular conclusion, I think it is difficult as well because we do not know the exact work that was being done. The only thing we do know is the methods, and I think we know this for a certainty, the methods of determining that price. I am not talking about Davie Shipbuilding, again I am talking about our approval of that price. I think they should be subject to a great deal of criticism.

Mr. Laflamme: Mr. Chairman, at this point I want to raise something on this matter. When you asked Mr. Cafik to comment or to reach any conclusion, I believe that Mr. Cafik is speaking on his own behalf, and not on the behalf of the members of the Committee.

Mr. Cafik: Yes, I think that that is understood.

The Chairman: That is fair and if there are any other observations I am ready to accept them.

Mr. Crouse: Mr. Chairman, I have been trying to follow the detail provided to us and I think all members of the Committee will agree that it is very confusing. The only assumption we can make from the evidence before us is that the chairs were transported from the ship by DND trucks. They were repaired and then returned to the ship, and this work cost the Canadian taxpayers $4,173. Have I that point correct

The Chairman: Mr. Crouse, there is no amount in here for repairing. This document deals with moving the chairs from the briefing room to the shore, and bringing them back to the briefing room.

Mr. Crouse: The wording then, Mr. Chairman, is a little bit confusing; it says, "on completion of repairs or renewals". In other words, the Canadian taxpayers then have paid $4,173 for the removal and the return of these chairs from the briefing room.

The Chairman: There were 64 in number.

Mr. Crouse: There were 64 in number. This is an alteration which I believe Mr. Veliotis made. He straightened us out on that point and said that the number was not 52 but 64. We can only conclude on behalf of the taxpayers that they paid $4,173 for moving these chairs around. Is this the correct assumption?

The Chairman: Moving them from the briefing room to the shore and after they were repaired to put them back in their places and put them into their sockets so that they would be firmly fastened.

Mr. Crouse: I wonder if I could not ask, Captain Lynch, does he not believe, as Principal Naval Overseer, that this is an exorbitant amount? He approved it, he must hace some idea on this matter. Is that a fair question, Mr. Chairman?

The Chairman: That is a fair question. Captain Lynch, you signed the document.

Capt. Lynch: I cannot agree that it was an exorbitant amount. I was cognizant of certain details at the time. I cannot reconstruct them all now. I can reconstruct that it was in the terms of reference of the DDP Resident Production Officer to make contractual arrangements based upon an estimate. I was satisfied at the time that he never made contractual arrangements based on estimates that were—what were the words that were used—excessive or...

Mr. Crouse: Exorbitant, Mr. Chairman, is the word I used as a matter of opinion.

Capt. Lynch: I would not have agreed with you on the date that I signed the paper; therefore, I cannot agree with you today.

The Chairman: Captain Lynch you are saying that you think this is a reasonable charge, $4,173, to move 64 chairs in the way it has been described to us?

• 1600

Capt. Lynch: Yes, sir, I am saying that it is a reasonable price to have paid for the work that was performed on the specification as interpreted at the time by me or my staff.

The Chairman: I do not think you would expect the taxpayers of Canada to agree with your statement.

Capt. Lynch: The taxpayers of Canada had better fire me if they do not agree with the way I do my job.

Mr. Crouse: I think that is a very admirable suggestion, Mr. Chairman and I hope it is taken. I think the suggestion Captain Lynch just made is a most admirable one. I think his testimony here this morning certified that he was incompetent in drawing up these specifications and I would concur with his suggestion that he be dismissed. I think his actions have justified that type of action.

The Chairman: To be fair about this to the Committee, we must remember what Mr. Veliotis explained to us this morning and we, as members of the Committee, saw first-hand the room where the chairs were, how they had to be moved, and that the door was wide enough and there was no problem getting them through the door. We were told about narrow passageways and we saw ourselves that the passageway was quite wide enough to move the chairs. We did agree—and we have been told at different times, not by Mr. Veliotis, that they had to be taken in three flights that they were taken one flight up a ladder and through a hole in the deck, and there was reason to say that there would be some difficulty getting them through there. We were also told that they had to go to the side of the ship and be lowered by slings or derricks, and all this had to be repeated for this particular work.

All of this cost $4,173.00 and if anyone on the Committee thinks that the taxpayer got a bargain, or thinks that this work was done at a reasonable cost, I would be glad to hear from him.

Mr. Boulanger: Mr. Chairman.

The Chairman: Mr. Boulanger.

Mr. Boulanger: There is one thing we must not lose track of: when the contract was awarded to Davie Shipbuilding, which is a responsible firm, there is no doubt that in the beginning that firm got the contract because of the hourly rate, which at the time was $3.95. Having been in the furniture business long before I was an MP, may I say that if we are going to come to a conclusion on every little move they made during the contract, I am sure we will come up with a mistake here or there, or exaggerations on one article, or a better bargain on the next article. There is one principle to keep in mind before coming to the conclusion you seem to be suggesting and that is the original price which was $3.95 an hour, compared to, say, $5 or so from competitors.

Therefore, while I might agree to a certain extent that as a businessman I would never have paid that price, I am not ready to draw the conclusion you suggest.

This was played by ear by our civil servants, they all admitted that. It was played by ear.

The Chairman: You mean verbal.

Mr. Boulanger: Yes, verbal. It was played by ear. Sometimes in business we ask for a quantity price: "What will you charge me to fix all this furniture?", and they say $3,000, and I accept it. It is difficult right now for the company to answer all the questions. I want the members to be extremely careful not to jump to a conclusion right away on one specific item, because there are more. If there are 20 similar things I might be inclined to think differently as I did at the very beginning of these meetings.

Right now I do not think we are ready. If you were to call for a personal opinion from each of us, all right, but as a Committee I do not think we have heard sufficient to be able to draw a conclusion right now.

The Chairman: Mr. Boulanger, we are dealing with this specific case.

• 1605

Mr. Boulanger: Yes, I know.

The Chairman: After we have come to a conclusion on this, then the Committee will have to decide whether they wish to look into

more of these examples or not. But we are dealing with this one in particular, and you will have an opportunity later on to investigate others if you wish.

Mr. Boulanger: If I understand you, you want us to draw a conclusion.

The Chairman: I simply asked if any member of the Committee felt that the taxpayers got value for their money with the price on this specific job, they were at liberty to give the reasons why. Mr. Cafik.

Mr. Cafik: I indicated in the beginning that I did not think that we could draw a conclusion as to whether we got value for money at this time. I do not think that really is the object of having Davie Shipbuilding in front of us. I think when they are here we ought to take advantage of finding out exactly what they did. When we know what they have done, then we may or may not be able to draw conclusions from it. I do not know. But I do not think we can make decisions in that regard at the moment. We ought to proceed to get the background information from the Davie Shipbuilding point of view before we can draw any conclusions.

The Chairman: Are you satisfied that we have enough background information on this specific case?

Mr. Cafik: With respect to the chairs?

The Chairman: Yes.

Mr. Cafik: No, I am not entirely sure that we have all the background that we should have, but there is one point that was brought out here I think incorrectly: at least on the basis of evidence put forward this morning, the implication right now is that all that was done was the removal of those chairs and the putting back of them. But Mr. Veliotis did indicate, and I have not got enough background to know exactly what he is talking about here, that there was other furniture in that place, there were other things moved as well, and that this job description that we are referring to is, in fact, not accurate. I do not know all the details of it and I think Mr. Veliotis did indicate that he might give us something in writing in that regard. Am I stating you correctly there?

Mr. Veliotis: I did not speak of furniture. I spoke of loose equipment.

Mr. Cafik: Yes, that is what I mean.

Mr. Veliotis: I do not believe I said I would give you in writing what loose equipment was in there. No, I do not believe I said that, Mr. Cafik.

Mr. Cafik: Do you know whether it was a significant amount or not?

Mr. Veliotis: It was an amount. How significant it was, all depends on what "significant" is. The room was stacked with equipment. The ship was going for a refit, the briefing room was not in use, the squadron was not there. Usually what happens in a ship is that all kinds of equipment is put in there.

Mr. Cafik: But how, Mr. Chairman, can we draw any kind of valid conclusion as to the work being done and what was paid if we do not know what was in the room and what was taken out?

Mr. Winch: That is the very point, Mr. Chairman.

Mr. Cafik: I just do not know how we can do it. We can certainly conclude, as I have already said, that the paper work is wrong, and that according to the normal standards of judgment this is not an accurate description of the job being done.

Mr. Boulanger: Mr. Chairman, I have a further question that may help Mr. Cafik. First, I want to give an example to demonstrate how, in the case of furniture, that may be misleading. I remember once having delivered a living room table, which was bought by the customer for the price of $110. The transportation of that table cost us $71. This table was an antique which needed special packing, transport insurance guarantees, and so on. There are so many other things that have to be taken into account or other questions to be put on this subject that may bring about a misleading price structure that I am not ready to come to any conclusion yet. If it is not necessary to do it, I would prefer not to have to draw any conclusion right now. I had a few questions...

The Chairman: Mr. Boulanger, the Davie people and the Department of Defence Production have given us all the background and the facts that are related to the moving of these chairs. Mr. Laflamme.

• 1610

Mr. Laflamme: Mr. Chairman, on your request, if we were in a position to reach any

conclusion on this, may I simply say that I share Mr. Cafik's views on the fact that we are not in a position to reach any conclusion or to complain against anyone on this because, first, a document was prepared by the Davie Shipbuilding on the work to be performed, and we all know that part of that work had been done at the time that the paper was prepared, and marked on this is 1,040 manhours at a cost of $3.95 an hour, plus materials $60.

The Chairman: That is right.

Mr. Laflamme: Was this being done or not? We have here a witness, Captain Lynch, who has given evidence, who has seen the work to be done, and who has checked everything and approved it. Unless the Committee has proof that the figures are not correct, I am just asking myself—and I am asking you, Mr. Chairman—how the members of the Committee can reach any conclusion and blame anyone without knowing the whole facts, or being in a position to contest them.

The Chairman: Mr. Laflamme, if you think you do not have all the facts you can ask questions to satisfy your mind that you have all of them.

Mr. Laflamme: I personally received explanations on behalf of the witnesses present, and I may say that unless there are documents, on something to indicate that these figures are not correct, I am not in a position to blame anyone here.

Mr. Winch: Mr. Chairman ,to comment on the question you put a little while ago, I would like to say that on the surface this price, and others, are to me absolutely extraordinary, amazing and inexplicable.

Mr. Boulanger: You mean the hour price or the job price?

Mr. Winch: The job price. That, Mr. Chairman, is my impression. But, Mr. Chairman, I want to say that we, as a Committee and a subcommittee have now spent not weeks but months on this matter—and I can only speak for myself—and we are still going around in circles. After the weeks and months of interrogation and looking over documents I do not believe that something is now suddenly going to turn up to throw any light on it.

The impression that is left with me now—and I feel it is the important one—is that there has been completely, aptly and clearly demonstrated the most peculiar and amazing situation of the Department of National Defence and the Department of Defence Production—either one or the other—producing worksheets and specifications, including amendments to contracts, that do not mean a confounded thing; that do not say what they mean; that include things that are not done, and do not include things that are done. To me, that is the first thing that is completely clear.

The second point is completely clear to me, although it is inexplicable, is the evidence we have received from the officials of the Davie shipyard. Quite honestly I cannot conceive of a shipyard, which I presume to be at least one of the major shipyards of Canada, handling a multi-million dollar contract and doing things with incomplete and incorrect specifications; failing to do work that is in it, or doing work that is not in it; and operating—I do not know how many times—on 1,702 additional contracts on an oval basis.

For a major business to operate such a contract—original and additional—on an oval basis on pricing, inspection and payment, and considering what has been produced by the DDP, which I am certain Captain Lynch had to go by, and the acceptance by Davie Shipbuilding Limited—I am sorry, to me it just does not make sense.

Quite honestly, I repeat, much as I regret it, that I doubt that we are going to get any further, after all this time, in trying to pinpoint a dollar, or a hundred dollars or a thousand dollars.

If it were possible by questioning to bring it to a head I would be the first on the Committee to praise the man who did it, or the one who gave the answers.

The Chairman: Mr. Guay, and then I will come back to you, Mr. Boulanger. All right, Mr. Boulanger.

Mr. Boulanger: Mr. Winch, you said that you found the price high, or expensive. Do you consider a price of $3.95 an hour for such work high?

• 1615

Mr. Winch: Mr. Chairman, that is only part of it.

Mr. Cafik: Mr. Chairman, on a point of order.

The Chairman: Mr. Cafik?

Mr. Cafik: We are destroying this Committee, I think, by what we have been doing in the last half hour. We have called these gentlemen from Davie Shipbuilding to try to shed some light on what was done under these particular contracts. Let us find out what they have to say.

If we have to argue among ourselves, either here or in the steering committee, let us do so in private. Or why not out in the middle of Bay Street? Let us get this evidence and the job done.

The Chairman: All right, Mr. Guay.

Mr. Guay (Lévis): I will be very brief, Mr. Chairman. We are all here to try to find out the truth. When I look at form 427, as Mr. Laflamme did, I think that we have to ask ourselves two questions, and I ask them to Mr. Veliotis of Davie Shipbuilding Limited. First, was the work, as described, carried out by the Company? Secondly, were the figures that were presented by the Company approved by DDP or by other government officers, and were those prices discussible with the Company? Then, we will find out who is to be blamed or who should not be blamed. Mr. Chairman, these are the very clear and precise questions that I am asking myself. Was the work done? Was the price accepted and fixed by DDP? Then, we will be able to draw conclusions.

The Chairman: Mr. Guay, I must inform you that these questions have already been answered. If the Davie Shipbuilding people would like to answer the first part of that question, all right, but the second part has been answered three or four times already. I think we have had enough discussion on X-427 and should proceed to another contract form.

Mr. Cafik: Yes. I have just two or three questions, and I can think I can be finished—

The Chairman: On what?

Mr. Cafik: On 782, please.

Mr. Winch: You are a wonderful man if you are able to clarify it.

Mr. Cafik: No; I am quite sure I...

The Chairman: Order.

Mr. Boulanger: No; wait a moment. I have one further question before we do go on to the next form. What were the number of hours?

The Chairman: The number of hours, Mr. Boulanger, was 1,040 at $3.95 an hour.

Mr. Boulanger: All right; that is it. That is the answer to my question: 1,040 hours at $3.95 were done by your people and were checked by your people who were responsible for keeping the time. That is as we do it in business. Do you follow what I am trying to say? It was 1,040 hours at $3.95 according to your superintendent who supervised the time-keeping; and on your books it was shown exactly as 1,040 hours, and it was checked by your responsible people?

Mr. Veliotis: Mr. Chairman, I have been asked three questions, two by Mr. Guay and one by Mr. Boulanger.

Mr. Boulanger: They are both on the same line. You did not answer. That is why I am asking it.

The Chairman: All right; he will answer these queries.

Mr. Veliotis: Mr. Guay asked me whether the work has been done. The answer is yes, the work was done. The second question was

• 1620

whether our price was approved by officers of the Department of Defence Production. The answer there again is yes. These are my answers to the questions that were asked by Mr. Guay.

Mr. Boulanger: I have a third question.

The Chairman: Just a minute, Mr. Boulanger, let him finish.

Mr. Boulanger: Yes. You are now coming to my question.

Mr. Veliotis: You asked the question, Mr. Boulanger, if 1,040 hours were charged to the job. My answer is that those are the hours we estimated it would take to do the job. It was not a cost plus job where we were paid for the work that we did, it was a firm price job. We were taking the risk of making or losing money, and therefore my answer is that the 1,040 hours is our estimate at $2.95.

Mr. Boulanger: You are now stating officially that it was a firm price job?

Mr. Veliotis: Yes, sir.

The Chairman: That is correct, Mr. Boulanger, it was a firm price job but no other company tendered or competed for it from a price standpoint. It was agreed upon by the two departments and the company that this is the price they would be paid. May I just finish, Mr. Lowery. You asked about the hours. There were 64 chairs and it took 1,040 hours, which is an average of 16 hours to move each chair. I would like that to be on the record.

Mr. Boulanger: I have a supplementary when you are finished.

Mr. Veliotis: Mr. Chairman, I do not know if I should use the expression "object", but you said there were 64 chairs and you came up with an average of how many hours, sir?

The Chairman: Sixteen hours each.

Mr. Veliotis: Sixteen hours. At this moment, Mr. Chairman, perhaps I may advise you, if I may use that expression again, that it may be very dangerous to use an average unless you use the weighted average.

To illustrate what I mean, Mr. Chairman, I will give you a very simple example. Suppose there are ten girls, nine of which are virgins and one is pregnant. If we use the average...

An hon. Member: Come on, now.

Mr. Veliotis: May I finish, Mr. Chairman?

The Chairman: Yes, go ahead.

Mr. Veliotis: If we use the average, then I will say that on the average the nine virgin girls are about 10 per cent pregnant and the girl who is about to have a baby is 90 per cent virgin.

Mr. Winch: I have heard that before, and the mere fact that you would give that kind of a supercilious answer leads me to believe there is something in this damn business that we should find out.

The Chairman: Mr. Veliotis, in answer to the matter of the weighted average, I am speaking in terms that a taxpayer would understand, an average of 16 hours to move each chair.

Mr. Veliotis: Mr. Chairman, I mentioned the weighted average because there was other work to be done. You took the total and the description of the chairs. Perhaps I did not make myself very clear to Mr. Winch, but when I referred to the average I said you have to use the weighted average. What did we do here? We took the number of chairs and divided them by the man-hours. But there was other work; there were other considerations; there were other pieces of loose equipment; there was the protection of the floor. We cannot just take an average on one item and not consider the other items, sir. Will you not agree that my argument is correct?

• 1625

Mr. Winch: No. It falls completely to the ground because nine of them were virgins, despite the way you worked it out.

Mr. Boulanger: I did not finish, Mr. Chairman, I had one more question. Your timekeeper is the person who is responsible for putting on paper the hours your men worked. Do you mean to tell me that you have a dossier signed by your timekeeper which will show that your men worked 1,040 hours?

Mr. Veliotis: We have the dossier from the responsible timekeeper, or whatever you call him, the superintendent, and so on, which will show the total man-hours charged to the total job by groups but not by subaccounts, as in this particular case. I cannot tell you exactly, accurately, what the cost of the job was.

The Chairman: All right. Mr. Winch.

Mr. Winch: Your men do not make work sheets out.

Mr. Veliotis: They do make out work sheets and the work sheets were audited, and the job is charged with the hours worked on the job.

The Chairman: Mr. Lowery.

Mr. Lowery: Mr. Chairman, I know that I am an involved party, so the credence which the Committee gives to what I have to say will be tempered by that fact. I have been involved in shipbuilding and ship repair for 35 years or more in England, the Far East, Singapore, Australia and Canada and I can tell you, Mr. Winch, that a great deal of the work done by the world's most efficient shipyards on jobs such as the *Bonaventure* are in fact done in the way you have heard today.

Mr. Winch: By verbal agreement.

Mr. Lowery: Verbal agreement supported by other matters. It depends upon the circumstances and the conditions under which

the contract and the work is being done. You can go back in our records ten years and you will find absolutely meticulous estimates of work done ten years ago, because this is the sort of work which responds to this type of estimating. A large job, a very complex job like the *Bonaventure* is not of this character and it depends largely for its success on the understanding, whether it is written, verbal or however it is understood, between the people doing the job and those overseeing it.

One other little thing, Mr. Chairman, before I finish is that you have quite properly stated that these additional items of work were not done on a competitive basis. This is not only true, but so far as I know it is the only way to do the job; it is the way it is done in the United States Navy and it is the way it is done all over the world. It is not something special to the *Bonaventure* contract. If a giant aircraft carrier were to come into a shipyard and work arises from it, can one possibly imagine workers from some other shipyard coming in and working? So, the technique used all over the world is either that you attempt—and sometimes it is not possible to make the costing—to do the extra work on a cost plus basis or on a negotiated price basis, and this is the technique that was used on the *Bonaventure*. If I may say so, with respect to determining whether the price was fair or not, the real problem, gentlemen, is that no one has been able to re-create the situation which existed, and unless you can re-create the situation it must be very difficult to come to a judgment. However, I think there is a very, very great and important principle about the judgment which the members of the Committee must bear in mind. That is, that all contracts depend for their execution upon the ability of both parties to make binding agreements and to be responsible for carrying them out. This is the foundation of all business. The fact of the matter, gentlemen, is that we have a contract which sets out how this will be done. We have fulfilled the terms of that contract completely. If two or three years later any organization, anybody, on a post mortem basis, is going to make judgments that some of the agreements arrived at were improper, then the whole business arrangement falls to the ground. At this minute we have two DDH's to build, and for all I know I have men seriously negotiating with accredited members of the Department of Defence Production about changes and extras and one thing I know, is whatever the arrangements we make we will have to stand by them. If, however, the judgment of the gentlemen who are making the agreements with us can be rejudged three years from now and changed, then I suggest that it will affect the entire contractual and purchasing techniques or operations of the Canadian government, by throwing Canadian business into a turmoil.

The Chairman: Mr. Lowery, I appreciate your remarks. The Committee, I think, is interested in knowing what protection the taxpayer has. It would appear that the Principal Naval Overseer, who is acting on behalf of the department and the taxpayer, along with the audit department would be the two areas we would look to for some protection of moneys being well spent. You would agree to that?

Mr. Lowery: No, I do not know that I can agree to that. I think it is an over-simplification. The protection area is the same protection as my directors have with me; their judgment and their confidence in my ability. In this situation whoever we are dealing with the protection the Canadian taxpayer has is his servants and how they...

The Chairman: In this particular case, I just want to follow one point here. There are 1040 hours charged by your company. I imagine that the Principal Naval Officer would okay those hours?

Mr. Lowery: Right.

The Chairman: Second, the audit department would come in and maybe check those hours. I would like to ask a question of Mr. C. H. Cheney who is Director General of the Audit Service Branch, if he could throw some...if you could come forward Mr. Cheney and perhaps throw some light on the audit section and how deep your department would go in looking at vouchers or time sheets or any other information that would prove that total of 1040 hours is correct?

Mr. Lowery: Before Mr. Cheney gives his reply, just so that I can make my point perfectly clear, the fact of the matter is that we say "Here is a job that we will do and the cost will be so many dollars, so many man-hours at this amount". The price is agreed upon, it is an extension to the contract and it is not a question of auditing. There is no question of what it cost. The agreement is that we will be paid this much because this is the agreement.

The Chairman: Then, Mr. Lowery who decides whether 1040 hours is a fair and just number of man-hours for this job?

Mr. Lowery: You must ask that question of the people to whom we submit the form.

Mr. Cafik: Have we not already in previous testimony received evidence to this effect? I believe Captain Lynch is the person who originally signed it and I believe that underneath Captain Lynch there were other people who were specifically responsible for determining whether that price was agreeable to the Department of Defence Production.

The Chairman: All right, we will accept it.

Mr. Cafik: Whether they used the proper basis for arriving at that decision is perhaps open to further questioning.

The Chairman: All right, we will accept that. Now, Mr. Cheny, from the audit end, is there any light you could throw on this?

Mr. C. H. Cheney (Director General of the Audit Service Branch, Department of Supply and Services): Probably very little, Mr. Chairman, actually we only entered this picture in the last month. There was no audit as the work progressed, there was no audit at the time of the job. Our audit has taken place in the last few weeks. You are talking about a figure of 1,000 hours. This, of course, is an

• 1635

estimate. It has nothing to do with the costs that were actually incurred. The costs that were incurred, if the accounts were in sufficient details, perhaps could be determined.

The Chairman: Well now, you say there was no auditor on the job while the ship was being refitted?

Mr. Cheney: No.

The Chairman: All these documents are processed and paid for, they must have been audited before they were paid for.

Mr. Cheney: This would be an audit in the sense of accounts payable audit. I presume the accounts would be checked somewhere within the departments responsible and finally there would be a check by the comptroller of the Treasury Office to see that it conformed with the contract.

The Chairman: All right, Mr. Henderson have you anything that you would like to say on the audit end?

Mr. A. M. Henderson (Auditor General of Canada): Mr. Chairman, I believe in the instruction sent to Mr. Cheney that he was asked to report on some of these furniture contracts in which the members were interested. Is that correct?

Mr. Cheney: Yes.

Mr. Henderson: Were you able to do that in your report without disclosing any of the results? Were you able to identify them or to look into them or did the cost breakdown not permit it?

Mr. Cheney: The cost breakdowns did permit it, but it is only recently that we were able to identify the specific accounts. It will be possible to report but certainly these accounts may not include everything. We have no assurance that this is . . .

Mr. Cafik: Could I ask a supplementary?

The Chairman: Mr. Henderson, and then Mr. Cafik.

Mr. Henderson: There was a paragraph in the letter—I do not have the letter here—which was tabled in the Committee with your approval, Mr. Cheney, in which it was stated:

> It would also be appreciated if, in your audit report, you would segregate costs covering repair to office and cabin furniture covered by Additional Work Arising Form DDP 779 No's X782 and X784.

Did you segregate those costs?

Mr. Cheney: Yes, we will. We have not reported on them as yet. We just managed to segregate them.

Mr. Henderson: Oh, this will be the subject of a further report.

Mr. Cheney: It will have to be a separate report, yes, and there will be separate reports on the subcontractors that are mentioned.

Mr. Henderson: The subcontractors, which I just realized you have not seen. I think it is important for the members to know, Mr. Chairman, but I do not know how a subsequent report on two specific items is going actually to be of very much more help to the Committee. Frankly, I think, as borne out by this testimony and by what Mr. Lowery was saying, gentlemen, this is a firm price contract, and in this firm price contract there are some 1501 individual estimates which form, do they not Mr. Cheney, the 1 to 26 amendments to this?

Mr. Cheney: That is right.

Mr. Henderson: Would you possibly have attempted to summarize the 1500 work orders into the 26 amendments as you looked at the total job? Did your work extend that far?

Mr. Cheney: We did not actually summarize them but I think...

Mr. Henderson: Or reconcile them?

Mr. Cheney: ... perhaps it could be done.

Mr. Henderson: We have a situation where the members of the Committee in the course of their subcommittee work went over these 1,000 or 1,500 estimates and they saw these estimates placed by the ship builder on the forms. It is a firm price contract and from the shipbuilder's standpoint, he regards these as his amendments to the main contract, 1 to 26. So unless your work has carried you into an individual study of the two contracts that are mentioned here in the letter, for example, your audit is not really able to be of very much help to the members. Would that be a correct statement?

Mr. Cheney: As I understand it, if we are not permitted to disclose information beyond the totals which we have on our certificate, then we have information, but it is not going to be of much value because we cannot disclose it.

Mr. Henderson: That is an interesting point Mr. Chairman. If he does make a subsequent

• 1640

report, presumably Davie Shipbuilding Ltd. could refuse to agree to its disclosure, in the same way they have to the basic report, for the reason that this is all a firm contract amended with 26 separate amendments, which in turn, are the sum of 1500 work orders which you have seen in the course of your work.

Mr. Winch: Then look at the extraordinary situation that faces this Committee which is trying to accept responsibility and do its job when we have Mr. Cheney say that he has information but he is not in a position to disclose it, no matter what the information is.

Mr. Cafik: I wonder if I could say something on what we are again referring to as contracts.

Mr. Henderson: That might be my fault, Mr. Cafik. I was led into that. I called them estimates. They are the basis of 26 contract amendments.

Mr. Cafik: I think the exact words used here were that they were firm price jobs. Was that not stated?

The Chairman: I think that is right.

Mr. Cafik: I would like to pursue that for just a moment. There is something in particular I would like to find out, if I can. These were firm price jobs in which the price was fixed and determined and written into the form, whatever it is—DDP-779. The price is accurately stated, I presume. Is that also subject to interpretation in the same way as the job description, or is that fixed?

Mr. Lowery: That is fixed.

Mr. Cafik: All right.

Mr. Lowery: With regard to the auditors too, what happens is each one of these items as it is approved is added to whatever the total of the contract price is at that time and the amount owing to Davie Shipbuilding is built up by adding each of these to the others. And with regard to auditors, sir, the presence of auditors in the shipyard checking the hours and relating the men to the operation, requires a great number of people and it is normally only done on cost reimbursement contracts. But where there is a firm price contract, where an agreement has been made, it is not normal to do other than what was done on this contract.

Mr. Cafik: Yes, I understand that. The point I am trying to get at is that these job descriptions are described, the amounts of money are determined and this is added to our over-all contracts, according to the way in which you have described it. Of course we are left in the position that we know the amount to be paid but the forms themselves do not accurately describe the work to be done. That is our real dilemma as members of the Committee. It has plagued us right from the very beginning. I say this because in the beginning we were given not only copies of DDP-779 but also backup materials and we judged everything on the basis of that. We found out every day a little bit more light was being shed on this and then we find that we were misled, I think, in the beginning. I am not saying this was intentional but we certainly had the wrong basic information.

You were talking, Mr. Lowery, of doing work in England and other areas and I am wondering if the kind of procedure used here is typical of all shipbuilding. I am thinking of a specific procedure whereby work orders are given to you or given to firms that bid on these things, they determine fixed prices, and the job description that is attached indicating what is to be done does not accurately or, as a matter of fact, may state wrong things to be done and leave out major things that should be done. Is that standard?

Mr. Lowery: The term "standard" does not apply to me but it is certainly very common—absolutely, no question about that whatsoever—particularly when the parties are arriving at a price for what is being done. The essential thing is that the person who has to do the task knows what he has to do and the person who is going to pay the bill is going to jolly well see that he does it, and this is quite common.

Mr. Noble: On a supplementary, Mr. Chairman?

Mr. Cafik: I have just another point to get across if I can. Please allow me to collect my thoughts. I am sorry, but I have had a bit too much of this today and in the last few months.

The Chairman: We will take a supplementary from Mr. Noble and you can come back.

• 1645

Mr. Noble: Mr. Chairman, I would like to ask Mr. Lowery if Davie shipyard treats government contracts on a different basis than would be the case in dealing with private enterprise?

Mr. Lowery: I do not understand the question.

Mr. Noble: Perhaps we could put it this way: Does private enterprise give your company a contract on a verbal basis without having it outlined on paper and signatures attached.

Mr. Lowery: I have received and undertaken an order to build a ship worth many millions of dollars as the result of a half-hour telephone conversation.

Mr. Noble: But no contract signed.

Mr. Lowery: I beg your pardon, sir.

Mr. Noble: And no contract is signed?

Mr. Lowery: A contract is signed afterwards. But I start the work. He says, "Okay, Dick, that is it—go on," and the reason behind this is that he knows us and our reputation and I know him.

Mr. Noble: You do not start the work until you get the contract signed though.

Mr. Lowery: Oh yes, but we do.

The Chairman: Mr. Lowery, I think you would agree with the Committee that in handling the taxpayers' money you cannot operate on that basis.

Mr. Lowery: Yes, sir. And Mr. Chairman, I do understand the problem of this Committee. I do not really think I am here to defend Davie Shipbuilding. I do not really think I am here to defend DND or DDP. One of the reasons that Mr. Veliotis was so careful yesterday to read what he had to say was because we had seen the thing. All I can tell you, sir—I was not personally responsible for the job but I was down there many times—is that the control was much more actual than appears evident, in my opinion.

Mr. Crouse: The reply that you, Mr. Lowery, just gave about building a ship after a half-hour's telephone conversation I think you will agree is an amazing statement on your behalf. It implies that there was no prior discussion on the size of the ship, it implies that there was no prior discussion on the horsepower of the engine, on the electrical system, on the type of batteries to go in, whether electronic equipment was included or would be on a rental basis. Do you want this Committee to believe the reply that you just gave. Are you stating that as factual?

Mr. Lowery: My comment does not require any of those things. My comment requires that I know what the man wants. He talks to me about another ship that I understand. The point I was making is that it is not in writing. He said how much would a ship like that one cost, improving this or that and with so and so and this is the way we understand it. We write a contract afterwards and we write specifications.

The point I was trying to make, Mr. Crouse, is that we also have a great number more situations where we make meticulous estimates, meticulous specifications, where we do not start the job, not only until the contract is signed but until we get some money.

The point I was really wanting to make, and maybe I did not make it, is the fact that circumstances differ.

Mr. Crouse: Mr. Lowery, is it not true that once you sign that contract for the ship which you agreed to build on a verbal agreement you put down "and the builder shall supply" and you then list everything in detail.

Mr. Lowery: In detail.

Mr. Crouse: Suppose an owner said to you that he has a connection with a certain engine company and he will buy the engine, the propellor, the key and the nut, you make certain that written into the contract are the items that the builder will supply and the items that the owner will supply.

Mr. Lowery: If that happens, but you must realize, sir, that we do shipbuilding in the amount of $35 or $40 million per year, I have no personal memory of an owner ever telling me that he had an association with someone else to go in, but if he had then he would tell me during the conversation.

Mr. Crouse: I realize that but if there was anything that the owner was to supply it would be listed as a supplement...

Mr. Lowery: It would be listed, yes.

Mr. Crouse: ...and on the bottom of that contract you would have words that go something like this: notwithstanding any of the foregoing the builder agrees to launch this ship, test it, give it sea trials and turn it over to the owners in accordance with Lloyds specifications and...

Mr. Lowery: Correct.

Mr. Crouse: ...in compliance with steamship regulations of Canada, or words to that effect. Is that not correct?

Mr. Lowery: Absolutely.

Mr. Crouse: This is what the Committee is trying to determine, Mr. Lowery, at the present time. All we are asking you to do, sir, is to certify that the same procedure is followed when you are doing government work, and this is where we in the Committee have been led astray.

Mr. Lowery: No, sir.

Mr. Crouse: Not by you, sir, not by you. Do not misunderstand. I feel that you have acted in fairness and in honesty before this Committee and in your work for the government. This is my own opinion.

Mr. Lowery: Thank you, sir.

Mr. Crouse: But I do feel that we have been let down by our public officials who have not written explicit and valid contracts, which you can follow. After assessing the evidence given to us, I feel that the problem does not rest with Davie Shipbuilding. In my opinion, you have not been given proper working orders, or directions that you can follow, and which we in turn can assess and analyse.

Mr. Lowery: Yes, the more complete the information is which we receive, the happier we are. The impression I was trying to create is that quite often we do work as the result of verbal instructions; it depends upon circumstances. Normally in shipbuilding we have everything in great detail, but for ship repairs and ship over-hauls there is very often little paper evidence in our yard for what is done.

The Chairman: Mr. Bigg, you may ask a short question and then we will return to Mr. Cafik.

Mr. Bigg: The Statute of Frauds is not useless.

The Chairman: The which, Mr. Bigg?

Mr. Bigg: The Statute of Frauds; it is well-known to anyone who is involved in business. Not in this particular case, but on the whole, this Committee is touchy about the whole question of contracts of the government at present, because of the $6½ million fire. We are at a dead end on that; written into a contract, as I understand it, is the fact that the company involved has no responsibility due to the fact that there was something in writing which said that where a fire occurred, the government took its own risk. Had the contract read otherwise, there may have been a fairly strong argument for recovering parts of those damages.

This Committee is not on a witch-hunt. We certainly did not intend to hunt for the armed forces or for any department in the government; we only came to seek information. I have not made up my mind about it yet, because of the lack of written information.

We must at least make sure that contracts in future are clearly understood by laymen,

like myself. We must know exactly what the taxpayer has been paying through the officers of the Crown, and the DND; when servicemen—efficient servicemen such as Captain Lynch and many others who we have in Eastern Command, and we are very proud of them—are on the job, they must also understand by distinct references, what legal bounds are specified by the contract, and what they are expected to do to protect our interests.

Mr. Lowery: Thank you, Mr. Bigg. I cannot comment on the $6 million fire except to say, that we do have government contracts which state that we are responsible for the insurance; we have others that specifically say we are not; however, we do not make the decision.

Mr. Bigg: Yes, but a verbal contract does not protect as . .

Mr. Lowery: No, I am talking about a written contract.

Mr. Bigg: The law in its wisdom has said that where important contracts are made, it is advisable to have a slip of paper on a separate form.

Mr. Lowery: Absolutely.

The Chairman: All right. You have changed the subject a little Mr. Cafik; we are on this business of a ship being repaired and opened up in the shipyard; the Committee on past occasions has given a lot of thought to what we could recommend on this subject.

Mr. Henderson is sitting here, itching to talk about this. I am going to call on him to put a question to this ship company, and to see also why our recommendation would not work.

Mr. Henderson: Mr. Chairman, this will take a few minutes, but while we have the benefit of the presence of Mr. Lowery and Mr. Veliotis from the industry, I would like to describe to them, with your permission, the recommendation that you and this Committee have made; the recommendation is still outstanding in your follow-up report in connection with the cost of repairing ships after they had been opened up.

• 1655

In the 1966-67 report to the House of Commons, Mr. Lowery, the Committee reported on discussions it had had with the Deputy Minister of Transport about a case where a ship repair had commenced operations under a contract which involved some $43,000. The work actually performed on the contract, however, amounted to over $130,000 before the ship was returned to service. Departmental officials described the problems they face in cases where ships go into drydock, but the nature of the work that is done is not known by them of course, until the ship is opened up; that is certainly borne out here, in the case of the *Bonaventure*.

In its report to the House of Commons, the Committee referred to the possibility that a shipyard could, in fact, deliberately bid low for the repairs specified, in order to get the ship into its yard; then the shipyard could recoup any loss sustained, by including excessive profits and charges for the carrying out of the additional work that is required after the ship is opened up.

The members of the Committee stated that everything possible should be done to assure the Canadian taxpayer that the tender system in the case of ship repairs was working to ensure that the cost of these repairs was not excessive. It considered ways and means whereby this continuing problem might be overcome. This is almost parallel with the *Bonaventure*; that is what prompts me to tell you about this.

As a result, this Committee has made the recommendation outstanding before the House that in addition to all other methods which the Department might be able to employ in controlling the cost of extras—that is, we do not rule out any other methods they may have—that ship repair contracts be drawn up so that when extras are involved, they should be undertaken on a cost-plus or a modified cost-plus basis, with the profit limited to the percentage of profit realized on the original contract price; it must also include a proviso which states that no loss be suffered on the extras. The whole contract would be subject to cost audit by government auditors.

What we are interested in knowing is whether or not this recommendation strikes you as being a feasible one. Does it have some merit? Is it a better way to handle it than the way which you have tried on the *Bonaventure*?

Mr. Lowery: There are many situations of work arising where it is not possible to separate the cost, because you must add something onto something else. You may think

that you have to do something with a six-foot pipe, when you have to do it with a ten-foot pipe. There are many situations where one can not only estimate, and separate the cost of a change. If someone wishes to have a new deckhouse on a ship, remote from anything else, and if it is a separate job, then it can be done. However, if, for example, the deckhouse in the original contract was 20 feet long, and the change was to make it 25 feet long, it is impossible to calculate how much that extra five feet costs.

The normal way, as far as I know, has been to realize that more work must be done; also, in order to restrict the shipbuilder from charging exorbitant amounts, a charge-out rate is arrived at and the owner and the ship repairer, both assumed to be skillful, negotiate the number of hours involved. This, I believe, is the most widely used system.

The Chairman: Mr. Cafik.

Mr. Henderson: Thank you very much, Mr. Lowery.

Mr. Cafik: Mr. Lowery, I am going to use this X-782 as an example; you do not have to...

Mr. Lowery: If you are going to discuss it in detail...

Mr. Cafik: No, it is the general principle that I wish to establish.

There is a job description and a price; the job description, I think, will be borne out as inadequate if the job is to be done. Not only is the verbiage that is used on the form DDP 779 inadequate, but there is an attachment of detail involved with this. It was on the basis of that detail that we, on a preliminary basis,

• 1700

decided that it was something into which we should look further; it looked absurd in terms of prices.

If the form X-782 and other similar forms only had a general comment on all the items which were verbally agreed to; even if it was a rubber-stamp saying that there were other things that were not included in this, or in the event of duplications or whatever the case would be, then one would regard this at first glance, in an entirely different light.

An hon. Member: Agreed.

Mr. Cafik: This form by its physical appearance could not be looked upon by anyone who is not a shipbuilder without his coming to the conclusion that Davie Shipbuilding was being paid X number of dollars for the performance of the work described therein. As a matter of fact, just so you will understand our position, up until very recently in this Committee the evidence given always drew us to that conclusion. And now, of course, our dilemma is that the job description is inadequate, and the only light that we can shed on it is that which you will give us about what you actually, in fact, did—what was included and what was not included. I want to continue with that...

Mr. Lowery: And if we can remember.

Mr. Cafik: Yes, and if you can remember. Of course, wisdom after the event is of very little value. In terms of these "X" numbers, it would seem to me Davie Shipbuilding would have been wise to have at least typed in here that there were verbal agreements over and above that which was mentioned. I think actually Defence Production should have done that as well and that would have helped a great deal, and I certainly suggest you do that in the future where such arrangements are involved.

Mr. Lowery: In view of the fact that we now find after 100 years of business that 3 years from now we might be questioned on what they are doing at the shipyard this afternoon, we will take this into account.

Mr. Cafik: Yes. I do not want to be critical but I think that one has always got to bear in mind that the public have the right to have a look at government expenditures. I think it is advisable that all documentation be written up in such a manner that the public can determine whether it is reasonable or not.

Mr. Lowery: Yes, sir. Again, in the light of the fact that these were contractual agreements I am sure Mr. Veliotis did not know he was going to be here today. The matter was understood by the people of Davie at the time and it would have taken manpower to do it. Nevertheless, I have noted your comments, sir.

Mr. Cafik: On these firm-price jobs, we have no basis from which to judge whether they are reasonable or not, obviously, at present. And we have no reason either to presume that they were good or bad except in the light of what you tell us. I would like to proceed if I can to find out on X-782 what you, in fact, actually did. On the job description that is

attached to it, what is listed on the job description that you did not do and in general terms what did you do that is not listed in that job description?

Mr. Veliotis: Mr. Cafik, you said a few minutes ago that you will have to get as much background information from Davie as you can to be able to formulate an opinion. Therefore, you will have to get some background information on that DDP form 779, serial No. X-782.

Mr. Cafik: Mr. Veliotis, is this new information you are giving us, or something which has already been given?

Mr. Veliotis: It is new information, sir, which I think will throw some light on the situation.

Mr. Cafik: Go ahead.

Mr. Veliotis: The *Bonaventure* arrived at Davie Shipbuilding on April 25. This was established. On May 17 I received the first supplementary lists for the refit. I believe you have had explained what the first supplementary list is. Am I to assume that, sir?

Mr. Cafik: Yes.

Mr. Veliotis: In the first supplementary list there was an item of work to be performed. This is Item No. H-188. I also presume that

• 1705

you have the first supplementary list.

Mr. Cafik: Is that the one for roughly one half a million dollars for furniture repairs.

Mr. Veliotis: I would not know, sir, how much it is for but when I read the detailed description of the work required and I tell you what happened with this document, you will appreciate the point I am trying to make.

Mr. Cafik: What is the number again, Mr. Veliotis?

Mr. Veliotis: The number is maintenance and repair specification, Item No. H-188.

Mr. Cafik: Thank you. Go ahead.

Mr. Veliotis: I will read this document, sir, so I can give you the background information. The document has a reference to a report of a survey of furniture with some numbers and the date of September 30, 1965; and the notation, sir:

(Copy of Survey Report held on board).

meaning on board the *Bonaventure*. In the big block which says:

12. Detailed Description of Work Required

1. To remove and replace approx. 25 per cent of Cabin Furniture (excluding berths) as listed in reference (a). Actual repairs to be done by DND (Naval Supply Depot).

This is a big item and if somebody tells me to remove 25 per cent of the cabin furniture, what do I take, 25 per cent of the coat hooks? Do you get my point?

Mr. Cafik: Yes. Mr. Veliotis, I do not want to interrupt you if you have some pertinent information, but was this H-188 not a cancelled contract?

Mr. Veliotis: It was cancelled, but I have to use this document to give you the background information, and I think you will appreciate it.

Mr. Cafik: Carry on.

Mr. Veliotis: You will realize now when you read this one that when we received this document we considered it to be too vague and not sufficiently specific for Davie Shipbuilding to prepare an estimate, let alone to submit a price. You have here businessmen, you have a shipowner with you who is a member of Parliament and it is obvious that 25 per cent and 70 per cent and 40 per cent and 50 per cent of this and that is not sufficient to submit a price.

We brought that to the PNO's attention and we had several lengthy discussions with him and our staffs. Our endeavour was to try to ascertain the detail, the extent, and the involvement of what work was required by this detailed description of work requirements. It was explained to PNO, and when I say PNO, sir, I wish to make this clear that I mean the PNO staff and not personally Captain Lynch, that it was practically impossible for us to make a responsible estimate with the minimum and vague information given to us on this Item.

After certain discussions we had with the PNO, himself personally, and his taff, on June 2, 1966, I received a letter from PNO, a written communication, in which was indicated a method he intended to use in order to improve the specification requirements associated with this Item No. H-188.

The Chairman: Mr. Veliotis, whom did you receive the letter from?

Mr. Veliotis: The letter I received was from the Principal Naval Overseer, Quebec Area, No. 6600-CVL 22, dated June 2, 1966, and addressed to Davie Shipbuilding Ltd. to my attention. It bears the signature of LCDR R. W. A. Roberts for J. A. M Lynch, Captain, RCN, PNO Quebec, with copy to Mr. I. J. L. Palmer, Department of Defence Production at our plant, and the Commanding Officer of the *HMCS Bonaventure*.

The Chairman: Thank you.

Mr. Cafik: May we have a copy of that in our minutes?

• 1710

Mr. Veliotis: If I may finish with this, sir, I will leave the document with you.

I consider this letter very, very important, because in this letter he indicated a new method he intended to use in order to enable us to prepare an estimate on Item No. H-188. It states:

Davie Shipbuilding Ltd.,
Lauzon, P.Q.
Attention: Mr. T. Veliotis
Vice President & General Manager.

Dear Sirs,

FIRST SUPPLEMENTARY ITEM H-188

Further to the above specification and related furniture survey by NSD Halifax it should be noted that categories A, B, C, and S as used in the survey have the following meaning:

A-for replacement on major repair to surfaces or frames; to thoroughly clean and refinish.

B—for medium repair to surfaces or frames; to thoroughly clean and refinish

C—clean and refinish

S—Survey as uneconomical for repair.

The change noted in the survey from "present Category" to "Refit Category" allows for deterioration from Summer 1965 (when the survey was made) to arrival of the ship in Lauzon.

3. It is the intention of PNO to consider all items marked "A" and "S" in the survey for removal from the ship for replacement or repair by NSD. All items marked "B" and "C" will be repaired on board by Davie Shipbuilding.

4. It is the intention of PNO to act now in accordance with the NOTE at the end of specification H-188. We will mark each item of the furniture in the ship in accordance with the categories in para. 1 above, keeping approximately to the percentages in spec. H-188. (ie. in the messdecks approx. 70 per cent of the furniture will be marked "A" or "S" for removal and return to NSD). Furniture marked "B" or "C" will be for your estimate for repair in situ. Your estimate must, of course, also include cost of removal and replacement of items marked "A" and "S".

5. It is anticipated that marking of furniture in accordance with the above plan will be complete in about one week.

This letter, Mr. Chairman, I will leave with your clerk when I am finished. We at Davie Shipbuilding Limited, Mr. Chairman, agreed that any method that would clarify the situation and allow us better to understand and evaluate the work involved would be of great help, and further requested the PNO to transfer all markings to the appropriate arrangement drawings. In other words, we said to PNO, "You will go on board and with a lipstick or grease pencil you are going to mark on the furniture "A", "B", "C", "S". Somebody may rub it off, so would you please transfer the markings to the arrangement drawings." The arrangement drawings have all the furniture, equipment, etc. However, PNO soon realized that this task was beyond his staff's capability owing to the general wear and tear throughout the spaces involved. He therefore instructed Davie Shipbuilding Limited to treat all cabins and spaces designated on the marked-up drawings as category "B" and so to treat all furnishings, fittings, etc. However, by the time the action was taken and we had the marked up drawings, the first supplementary was approved, amendment No. 1 to the contract dated July 12, 1966, and item H-188, on which to that date DSL—that is Davie Shipbuilding Limited—had submitted no estimate, was officially cancelled.

This is the background story of how we started with the furniture. We have a specification which gives us approximate percentages; then we have PNO who realizes that this specification is not in sufficient detail. I may say that this specification comes from the dockyard, I believe. Am I correct?

Capt. Lynch: That is right.

Mr. Veliotis: From the dockyard. We complained and said we cannot give you an esti-

• 1715

mate; he decides on a method; we agree on a method with him that they will go and mark the furniture, transfer the markings to the drawings and we further say that this task is sort of impossible now and let us decide to treat spaces as categories "A", "B" or "C" or "S"—well, not "S" because we could not remove the space.

On September 16, 1966, we received from PNO Form 779, serial No. 337, requesting our estimate for the now revised H-188—and when I say, sir, the now revised H-188, this is H-188 as revised on the marked-up drawings, taking the cabins as blocks and marking them appropriately.

Mr. Cafik: Do you have document 337?

Mr. Veliotis: Yes, I have it, sir.

The Chairman: Up to this time this document 337 could never be produced. Is that right, Mr. Cafik?

Mr. Cafik: I have a feeling—at least I never thought, to my knowledge. It may have been available; I did not see it. It also is a cancelled one, is it not?

Capt. Lowery: Yes.

Mr. Veliotis: I do not have the document here, Mr. Chairman, but I have a photostat copy of the document.

Mr. Cafik: All I have here—and perhaps this is all that exists and there is a bit cut out of the corner—is a document which I presume is X-377. Is that correct?

Mr. Veliotis: No, X-337.

Mr. Cafik: Oh, I am sorry—X-377. And is it just a single page document?

Mr. Veliotis: This one I have right here, sir, is a single page, and it says:

> As a result of survey, your estimate is requested on work as per attached lists (FURNITURE)
>
> (1) Mess decks and living spaces
>
> (2) Cabins & Offices

and...

Mr. Cafik: Pardon me. Do you mind my interrupting to ask for information which you may not normally bring out? If not, I shall forget it. Is there an attached list for X-337?

Mr. Veliotis: There was an attached list. I do not have it with me.

Mr. Cafik: There is one available, I presume. Is there? You cannot find the list. Okay, carry on.

Mr. Veliotis: I think we have one ourselves. I do not have it with me. If it will be of any help to you I will be...

Mr. Cafik: I do not want to put you to work if we do not need it. I will check it out after we have finished.

Mr. Veliotis: In this document we submitted a price to the tune of $550,499 and this was returned to us on February 7, 1967, with I believe the handwritten notation from PNO:

> Cancelled. Superseded by X-782 and X-784.
>
> J. A. M. Lynch, PNO
>
> 7 Feb 67
>
> P.O.Q.C. 2628 of 8-2-67 refers.

I am not sure if it is Captain Lynch's handwriting but perhaps he can help me here.

Mr. Cafik: I do not think we need to go that far. Mr. Veliotis, did the job description that was attached, which we do not have before us but which you think you have in your Company on X-337, describe in detail the work that was to be done under that form X-337?

Mr. Veliotis: The work description, Mr. Cafik, that you will find under X-782 and X-784, plus the mess decks and living spaces work description, also has the mark-up drawings on which they were used, and the mark-up drawings were plastered on the wall.

Mr. Cafik: Mr. Veliotis, am I reading you correctly in that in effect the X-337 job descriptions are the same job descriptions that are under X-782 and X-784? Do the two of them combined make up the job description?

Mr. Veliotis: They make part of it.

Mr. Cafik: Part of it.

Mr. Veliotis: Or to put it in a different way so that you can understand it, perhaps, the job descriptions of X-782 and X-784 are extracts from the guidance job description of X-337. Do we understand each other now?

Mr. Cafik: Yes, we do. I want to pursue that for a moment, though. On X-337 there

• 1720

are two items that are spoken of—the mess decks and living spaces, and the cabins and offices. I gather that through the combination of X-782 and X-784, in fact, it was in those two areas that you worked. That is correct, is it not?

Mr. Veliotis: No, you are not correct, sir.

Mr. Cafik: All right, you correct me.

Mr. Veliotis: I worked in the cabin and offices but I did not work on mess decks and living spaces—or if I did, I worked on certain ones which you might so call—and I have a list to give you on what I worked.

Mr. Cafik: Are you saying that that portion of X-337 that was ultimately cancelled, that portion which is described as cabins and offices then constitutes X-782 and X-784?

Mr. Veliotis: About, yes. Yes, you can say that.

Mr. Cafik: All right.

Mr. Veliotis: I say they are extracts.

Mr. Cafik: Well now, I have the impression from testimony that you have given that the cabins—and I may be wrong there—were all refinished as a result of X-782 and X-784?

Mr. Veliotis: X-782 deals with cabins, and X-784 deals with cabins and offices. What was effected under this one was done as category "B". I may state here we could have done the work without this attachment only with the marked up drawings. If you have visited the ship you will realize that on form X-782, which deals with cabins, there are three distinct blocks of cabins—the 2-Sierra or the 2-S on the 2-deck, on the 4-deck the Quebec cabins, and on the 4-deck the Sierra cabins again. When we have the marked up drawings, we have three distinct blocks of work areas. These are what we included. Furthermore, we took cabins out of what is described here as office spaces and estimated them on X-782.

Mr. Cafik: To get right down to the specific question—if you have enough information at your disposal to answer it—X-782 and X-784 constitute the furnishing of all cabins aboard the ship, is that correct?

Mr. Veliotis: No, it is not correct. If you wish, sir, I can specify the cabins and can give you exactly what they constitute.

Mr. Cafik: Well, perhaps I could elicit the information better this way. How many cabins were repaired in X-782? I am sure you have that.

Mr. Veliotis: Yes I have that, sir. The actual total number of cabins included in our estimate X-782 was 93.

Mr. Cafik: 93 cabins.

Mr. Veliotis: I can give you the explanations if you wish.

Mr. Cafik: No, I do not think—I will pursue that in a moment. I want to resolve this numbers game.

In the next one, X-784, how many cabins were included, please.

Mr. Veliotis: There were four cabins and 41 various offices.

Mr. Cafik: There were four cabins . . .

Mr. Veliotis: . . .and 41 various offices. Here, I may make the distinction that on X-782 we had three specific groups of cabins, while on X-784 they were scattered all over —from stem to stern and from 9-deck to O-deck.

Mr. Cafik: Right. I gather, too, that the areas are the sort of 4-Sierra and something else Quebec. Each one of those signifies an area aboard the ship, is that correct?

Mr. Veliotis: The 2 signifies deck and the S signifies an area—either the Sierra or the S area on deck No. 2.

Mr. Cafik: Would the 4-Q would signify a separate area—4-Q?

Mr. Veliotis: The 4-Q signifies No. 4 deck—Q-area or Quebec area.

Mr. Cafik: Right. And 4-S and 2-S are two different areas?

Mr. Veliotis: The 4-S signifies 4-deck Sierra area, and 2-S, as I said at the outset, signifies 2-deck Sierra area.

Mr. Cafik: Right. Now you indicated here, Mr. Veliotis, that the original job description for X-337 was inadequate, or at one stage—I do not want to misquote you—the job description was inadequate. Consequently, you had to send it back in order to get further detail. Is that correct?

• 1725

Mr. Veliotis: I said that it was vague and, with the minimal information supplied to us, it was impossible to prepare an estimate, let alone submit a price.

Mr. Cafik: Right. Now, Mr. Veliotis, did they give you any more detail and effective description of what was to be done in writing?

Mr. Veliotis: Yes, they gave me the marked up drawings.

Mr. Cafik: Other than the marked up drawings, did they give you any written documentation?

Mr. Veliotis: The drawing, sir, is a document.

Mr. Cafik: Yes, but . . .

Mr. Veliotis: I build a ship, an item. I can fabricate a chair, a table, or anything else from a drawing. I do not need anything else. The information is on the drawing.

Mr. Cafik: I am not arguing about that. I have been in the engineering long enough to know the value of a drawing. What I want to know is: is there any accompanying written document? I am not saying that the prints were inadequate, I want to know if there was anything other than the prints.

Mr. Veliotis: The letter from PNO of June 2, 1966, indicated what method was to be used. In our discussions with PNO we agreed that the method was acceptable, but intimated that we wished the markings to be transferred onto the mark up drawings. The use of marked up drawings is a very standard practise.

Mr. Cafik: Oh no, I am not criticizing, arguing about that.

Mr. Veliotis: If I send to a ship-owner a drawing upon which he does not like the arrangement of the cabins, he will mark up the drawing, send it back to me. This, for me, is instruction enough and he can hold me to it.

Mr. Cafik: Mr. Veliotis, I do not want to be rude here, but you do not need to sell to me, or to anybody on the Committee, the value of drawings. I think that all I want to know is: was there anything other than drawings? I am not saying that there should not have been.

Mr. Veliotis: The written communication in this case, sir, was the transmittal to me, to my staff, of the marked up drawings.

Mr. Cafik: O.K. On X782 where it reads: "Your estimate is requested on work IAW the attached specification", do they refer to drawings when referring to "specification" in that case?

Mr. Veliotis: Specification may refer to drawings, models, anything else you want.

Mr. Cafik: Well, now, the specifications that we have been led to believe were the only ones describing this work up until this moment—that is why it is valuable to have you here—were those specifications that number pages 1 to 14 which we have attached to X-782; and you are giving evidence that there were really additional specifications.

Mr. Veliotis: Mr. Cafik, I do not want to go again to A, but I defined the PNO's authority at the outset, stating that he was the interpreter of the specifications. If you open these at page 26-A you will see that specifications are not only the written specifications, but also the drawings, the models, the patterns, and any other information supplied by the Crown.

Mr. Cafik: Mr. Veliotis, I am taking anything that you say in light of those comments which you have made numerous times here. These I understand, and would judge them only in relationship to that background; but I do not think that I am being unfair by asking whether there were any other attached specifications—written, printed, or drawn on forms of any kind—outlining the work that was to be performed under X-782.

Mr. Veliotis: I do not believe you are unfair, that was the first part of the question. In answer to the second part, the marked-up drawings were, to be technical, transmitted to us. They were not attached to the specification. As a matter of fact, they were plastered on the wall of the wardroom which was our headquarters. They were part and parcel of the specifications in our understanding with PNO. Those consisted of one drawing containing coloured details of which cabins—Sierra-2, Sierra-4, and Quebec-4—were to occupy which areas, instructions as to what we had to do, and another drawing showing the scattered areas.

Mr. Cafik: All right. Now, I gather that in the method of arriving at job descriptions for

this, somebody—you on DDP—decided that they could not go around with crayon and mark all the furniture and cabins that needed work, and came to the conclusion that this should be done on an area by area basis.

Mr. Veliotis: Sir, may I make a little correction? By cabin, and the cabins to area, we

• 1730

related to area. The PNO decided that we would treat the space of the cabin, as such, the contents of the space as category "B". We grouped the areas ourselves. As you will hear from me later, we took cabins out of X-784 and estimated them on X-482 because the areas were such that they were convenient to us. That again was done in agreement with the PNO.

Mr. Cafik: So PNO, in fact, did not ask you to do it on an area by area basis, but they indicated what was to be done in each cabin?

Mr. Veliotis: In each cabin. When we submitted our estimates ourselves we grouped them into areas. This is why you find 93 cabins, which are in three areas, as I said before, Sierra-2, Sierra-4, and Quebec. The rest, 45 spaces, 41 offices and 4 cabins, are scattered all over the ship, so then we treat them as separate items.

Mr. Cafik: In these cabins within each area, was the same general job description applicable to all of them as was in cabin 4S-9 where you were to do a complete refinish of that whole cabin?

Mr. Veliotis: Type B.

Mr. Cafik: Yes.

Mr. Veliotis: Type B means medium repairs to surfaces or frames and to thoroughly clean and refinish.

Mr. Cafik: Yes.

Mr. Veliotis: Would you like me to take a cabin as an example and tell you what might be involved in finishing a cabin as a type B?

Mr. Cafik: No, not at the moment. I think I have a fair idea of what is involved there. On cabin 4S-9, for instance, as described here, the category B that you refer to refers to only 4 items within that cabin on this job description as opposed to the cabin itself. Now, had somebody put the B beside the number 4S-9 it would have eliminated one hell of a lot of trouble in this Committee.

Mr. Lowery: Yes, sir, you understand that since it was decided that everything in a cabin had to be treated as B the individual condition of each piece of furniture did not matter. We had to scrape it down to bare metal, fix it up, and go through the entire refinishing process, and this simplified the whole situation from our point of view too.

Mr. Cafik: So, in effect, what PNO had instructed you to do in the verbal arrangements, and I gather they were verbal, was to do that B type of refinish in all the cabins that are listed on this X-782?

Mr. Veliotis: Our understanding was not only verbal, it was also in writing because I said we had the marked-up drawings. Also, we were told where the cabin, for instance 4S-1, has a B, the B applies to the cabin. In my opinion, and maybe I am making an assumption, they had derived two laws from the survey made in 1965. I may stand to be corrected by PNO or somebody else from RCN, but what apparently happened is that somebody made a survey in 1965. A team perhaps went on board and made a survey. The survey was passed to PNO. This is why he says in his letter:

> ...from "present Category" to "Refit Category" allows for deterioration from Summer 1965 (when the survey was made)...

Perhaps PNO can explain it, but our instructions were to treat the cabin as B.

Mr. Cafik: I just want to get one little point because it is a very important one. Up until this very minute, I had been under the impression that such instructions to treat the entire cabin as B was, in fact, confined to verbal instructions. Could you give us some...

Mr. Veliotis: No, sir. If I gave you that impression, sir, I regret it, but I said it was not from verbal but from written, from the drawing, also from the specifications where you see B applies to all the cabins. It was explained to us that B applies to the cabin as a whole. So if I gave you that impression, I am sorry, sir.

Mr. Cafik: Mr. Veliotis, surely if they explained to you that what here applies to a wooden secretary, in fact, ought to apply to the whole cabin, then surely such explanation is a verbal explanation.

• 1735

Mr. Veliotis: It is a verbal explanation additional to the marked-up drawing.

Mr. Cafik: Yes, I do not want to pursue this any further, I do not think it is that important right now, but I gather the marked-up drawings showed you where the cabins were.

Mr. Veliotis: We say a marked-up drawing shows you the cabins that have the sign "B". As a matter of fact it did not have a sign, it had a colour, because all the cabins were going to be treated as B.

The Chairman: May I ask a question here, Mr. Cafik? Would this lead us to believe that you went into each cabin and you followed instruction B and did the whole lot of furniture whether it needed it or not, and we were charged to refit all the furniture in the cabin whether it needed it or not?

Mr. Veliotis: The first answer is we went to every cabin. We did all the furniture. What you mean by needed or not, I do not know, but we completed all the furniture to the PNO's satisfaction and it was inspected as such and approved. Almost all the items, because there may be a coat hook that was not refinished, were finished as category B.

The Chairman: Then we would take from that you had the authority from PNO to charge for refitting and doing over the furniture in all the cabins regardless of what condition that furniture was in?

Mr. Veliotis: You say regardless of what condition the furniture was in, when I say the ship it was in pretty bad condition. All of it needed repairs. It had not had any major repairs for the last 8 or 10 years perhaps.

Mr. Cafik: Mr. Veliotis, I have one other question. In the general B category, would that refinishing of all surfaces apply only to the furnishings within that cabin, or would it apply also to the walls and things of that nature?

Mr. Veliotis: If the walls were arborite then it would apply to the arborite. If the arborite was cracked, maybe part of it would be replaced. It would apply to the fixtures of the cabin, the metal doors of the cabin, and the frames of the cabin. However, as I said a little earlier, Mr. Cafik, if I could give you a description of the work that was involved in doing a cabin, perhaps we could get on the same wavelength.

Mr. Cafik: Go ahead, I do not think we are really off it at the moment, but if you care to put us on I do not mind.

Mr. Veliotis: Thank you, sir. Let us take a typical single-berth cabin and see what is in that single-berth cabin. In a single-berth cabin you have a berth settee with drawers under it. In most cases it is metal. You have a set of lockers over the settee, a secretary, and a chair. In many cases if it is a straight chair it was not in the cabin and it was sent out to DND for repairs. You have a full-weight wardrobe, of wood or metal, a medicine cabinet, a book rack and/or shelves, and miscellaneous hardware such as towel rails, soap dish, hat and coat hooks.

Taking this single cabin as an example, over and above the known defects that there were in the specifications, and in my opinion, and this is only my opinion, they were stated from that survey of 1965, the following is a list of requirements necessary to complete all the work in the space to comply with category B requirements for the cabin as a whole.

Perhaps at this point, Mr. Chairman, I would like to refer you to the specification BRCN 1100 which deals with repainting of metal furniture, repainting of wooden furniture, and revarnishing of wooden furniture. It is a lengthy document which tells you how you have to do it, how many coats you have to apply, how you have to sand it, what kind of sand paper you have to use and so on. If I mention it to you perhaps you can get a copy.

Mr. Cafik: Mr. Veliotis, who prepared that specification?

• 1740

Mr. Veliotis: This is what we call a supplementary specification.

Mr. Cafik: Does it originate with your firm or does it originate with DDP?

Mr. Veliotis: No, sir. This is a BRCN 1100. This is a Royal Canadian Navy specification for painting and treating the ships. It is a document that the Department of National Defence can give you and which is applicable to all painting. BRCN means "Books of Reference, Canadian Navy". I will not read you this one because if I read...

Mr. Laflamme: Could we have this document circulated?

The Chairman: Yes, we could have it filed as an appendix or circulated.

Mr. Lowery: Gentlemen, if you have not read it, when you do read it you will find you do not just go in with a piece of paint and a roller.

Mr. Veliotis: Would you like me to read it for you, Mr. Cafik.

The Chairman: No. We will circulate it to members of the Committee.

Mr. Veliotis: When you read it, Mr. Cafik, you will realize what the RCN means by refinishing of furniture and you will see how when they write specifications—you know, a book of references—they are very precise on that.

Mr. Cafik: Mr. Veliotis, concerning this specification which is about to be circulated, are you talking about complete refinishing, are you talking about medium repairs?

Mr. Veliotis: I am talking about refinishing. I have not talked about repairs yet.

Mr. Cafik: All right, thank you. I gather from what you say, there is no such category as medium refinishing. It is either all or...

Mr. Veliotis: No, it would not say category, if it did not say medium refinishing. Category B reads "medium repairs to surfaces or frames; to thoroughly clean and refinish". This BRCN 1100 refers to the refinish only.

Mr. Cafik: I am not arguing about that. I know what it says there.

Mr. Veliotis: I am not either, Mr. Cafik I am trying to be helpful.

Mr. Cafik: I asked the question and I received the answer. That is quite enough.

Mr. Veliotis: Thank you, sir. After you have read this piece of paper, which I hope will satisfy you with details of specifications, the degree of quality of repairs must be reflected in the finished product. Whilst there is a firm requirement to thoroughly refinish all the items, surface repairs must be to a standard which will result in a high standard refinish. I will take some of the requirements with the surface repairs.

Mr. Laflamme: Mr. Chairman. At this point I would like to know from Mr. Veliotis if he is reading from any of the other specifications that have just been tabled. To help the Committee, all those documents could be tabled right now and consequently, we would avoid the reading of all the specifications.

Mr. Veliotis: I am not reading from specifications, Mr. Chairman. I am reading from my knowledge of the work, and I am trying, as I said, to explain to Mr. Cafik. What Mr. Cafik wants to know, I understand, are the work requirements actually involved.

Mr. Cafik: Yes. Well, I think I can get that knowledge without quite so much detail.

Mr. Veliotis: I believe that detail in this particular case is necessary.

The Chairman: Mr. Veliotis, you have tabled the descriptions as to what is required in refinishing furnishings. That will be sufficient for the Committee. If we want to get down to brass tacks, take one piece of equipment, the medicine cabinet, and tell us what had to be done to fix it.

Mr. Veliotis: I will tell you what had to be done to the medicine cabinet if you will allow me to complete my description of the work. If I am not allowed to complete...

The Chairman: We do not need that. We have it in the documents.

Mr. Veliotis: In that particular case, if I cannot explain, sir, I cannot answer. I have to explain, sir.

Mr. Cafik: Mr. Chairman, I agree with you that we would like to get an explanation of the medicine cabinet. I have one last question on this refinishing that he was interrupted on, and which you really raised yourself earlier. With this categorization of B, meaning, to thoroughly refinish.

There are no categories of refinishing. You do it or you forget it. I gather that the job description, the B categorization, applies to the entire cabin. I think that has been adequately established. Now, that means if you

• 1745

go into cabin—whatever it might be—you in fact go through the entire refinishing process regardless of the condition within the cabin.

The Chairman: Is that right, Mr. Veliotis?

Mr. Veliotis: No, it is not right.

Mr. Bigg: You bring it up to standard. Is that correct?

Mr. Veliotis: No, sir, because...

The Chairman: Do not go...

Mr. Veliotis: I am not going to any length Mr. Chairman. I am trying to be helpful. We are talking about refinishing, but category B also refers to medium repairs to surfaces or frames. Mr. Cafik is correct when he talks about refinishing. I also want to talk of the work involved in the repair of the surfaces or frames. You said to me that you do not need that explanation?

Mr. Cafik: We have gone into this thing—we have had only three meetings so far—and we keep getting into this problem that causes everybody trouble. You think we are cutting you off, and I do not think we really are; and we think you are trying to snow us, and I do not think you really are. So let us get on the same wavelength.

Mr. Veliotis: We are now, if that is the remark, but I have been told not to explain any more.

Mr. Cafik: I think you are misunderstanding, really. Mr. Veliotis, may I pursue again a specific question, and give all the explanation needed, but make it short if you can? We are talking about refinishing of surfaces. There is another category that says repair to surfaces. Does it mean if there is a hole burnt in a table, you fix the hole?

Mr. Veliotis: What I am trying to say again is that A comes before B. You have to repair the surface before you refinish the surface. This is what I would like to deal with—surface repairs. May I deal with the surface repairs if the Chairman allows me to continue?

The Chairman: If you make it brief, I will allow it.

Mr. Veliotis: I can make it brief and say that the surface had to be repaired.

The Chairman: Go ahead but make it brief. Proceed.

Mr. Veliotis: Surface repairs may include one part or all of the following:

1. Straightening and/or fairing of dents of buckled surfaces on metal furniture, cabin doors and door frames.

2. Holes caused by damage or by previous fitments must be plugged and repaired by rivets and/or welds which later must be ground flush.

3. Radius corner trim, desk top trim, deck moulding trim, etc., generally cannot be readily repaired in place and in most cases it is necessary to remove, repair or renew and replace.

Mr. Cafik: Excuse me, Mr. Veliotis. Just a point. Who wrote that? Is that a departmental specification?

Mr. Veliotis: This is part of my mental specification, and I said at the outset, Mr. Cafik, that surface repairs may include one part or all of the following.

Mr. Cafik: Maybe I did not understand you there. What are you reading from? Is that something that...

Mr. Veliotis: My notes, Mr. Cafik.

Mr. Cafik: Is it not a departmental specification?

Mr. Veliotis: No. These are my notes, based on my experience as a shipyard manager, to enable me to give you the explanations. My notes are put down in a sequence and I am trying to give you all the information you require.

The Chairman: Mr. Veliotis, have these...

Mr. Cafik: Why does he not table that information then, and, presume for the moment, that I not ask any more questions on refinishing. I will content myself with reading the document.

Mr. Veliotis: It will not take long to read the document, Mr. Cafik.

The Chairman: What do you say, Mr. Cafik?

Mr. Cafik: I say table it in all due respect.

Mr. Lowery: We strongly recommend that all members of the Committee read it.

The Chairman: Has this document been checked and looked over by your legal counsel?

Mr. Veliotis: No, it has not been checked, nor looked over by my legal counsel. I have no objection to tabling this document. It is an aide memoire with respect to the work that had to be done to the cabin furnishings and I am willing to table it. I am willing to discuss it with you. I am willing to...

The Chairman: No objection, no objection. It is tabled. We will consider it tabled.

Mr. Veliotis: I have another little document . . .

Mr. Cafik: Why not give us all your bag of tricks, and we will just retire and read them.

Mr. Lowery: We really felt it was essential to do some homework in order to try and help.

Mr. Cafik: I agree and you have done it.

Mr. Veliotis: Mr. Cafik, see, this is only one page. This now refers to the general comments made for the furniture. They also apply to the cabin plus other remarks I had.

• 1750

This applies to the office furniture. It will have to be read in conjunction with the other. In your spare time you can read it.

The Chairman: We will read that also.

Mr. Cafik: The operative question I want now concerns those specifications, some of which we have heard, the rest of which we will read, in connection with the medium repairs to surfaces, and the cleaning and refinishing of same. Where repairs are required, obviously they are made in that cabin. If they are not required, I presume there are no repairs.

Mr. Veliotis: No. You are assuming here, because all the repairs are not specifically stated.

Mr. Cafik: No. I am not saying that.

Mr. Veliotis: If there is a hole in a desk top, it has to be done.

Mr. Cafik: Right. But you fixed all the things that needed fixing, and you obviously cannot fix something that does not need fixing. You refinish everything regardless of its condition. Is that correct?

Mr. Veliotis: Relatively correct, yes.

Mr. Cafik: Then I would presume that the degree of wear and tear in specific cabins would vary from cabin to cabin. In other words, it would cost you more money to do the job in one cabin versus another cabin.

Mr. Veliotis: This is correct, sir.

Mr. Cafik: Is that correct?

Mr. Veliotis: That is very correct, sir.

Mr. Cafik: Did your men, prior to preparing this estimate, visit all the cabins in order to arrive at your over-all price of $145,000.08, or did you average it out by saying x number of cabins times an average...

Mr. Veliotis: I was called supercilious when I spoke about the average. We did not average them out. If we ever had averaged, we would have had a weighted average. The answer in this particular case is that our men—and when I say our men, I am speaking about the supervisory staff of the trades involved such as joiners, painters, tinsmiths, welders, steelplate workers, and the like—went to each one of the cabins and estimated, I believe, the number of men needed to do the work in 24 weeks. This was on a period manpower load incurred. Each one of the cabins, each one of the area, was visited because a responsible estimate could not have been made by going to first one cabin which needed 100 per cent repairs and then to another cabin that needed no repairs at all.

Mr. Cafik: That is fair enough. I accept that a hundred per cent. You went to all the cabins. Now, did you take anyone from the Department of Defence Production with you in order to give you any detailed explanation as to what should be done, or did you feel that your general understanding of the conditions was...

Mr. Veliotis: I took nobody from the Department of Defence Production, but we had the Chiefs, the Petty Officers, and the technical officers of PNO with us any time we wanted explanations about the cabin work we had to do. I did not refer to the Department of Defence Production. I had no conversations whatsoever with the latter about the number of repairs or the condition of the cabins.

Mr. Cafik: Very well. Now, you have indicated—and I think I quote you exactly—that "it would not be responsible to arrive at a price by averaging it out, by just counting up the number of cabins...

Mr. Veliotis: This is my professional opinion and not a statement out of a book.

Mr. Cafik: That is very good.

Mr. Veliotis: I have no specification, no paper, to which to refer you in this connection.

Mr. Cafik: Right. Now, Mr. St. Laurent, who appeared before this Committee and prepared some of the departmental estimates of cost so that it could be related to your firm

price bid, indicated that he, in fact, averaged out the cost—that he did not visit—is Mr. St. Laurent here?

The Chairman: Yes.

Mr. Cafik: You might care to comment on this.

The Chairman: Mr. St. Laurent.

Mr. Cafik: You indicated that you did not go to all the cabins.

Mr. Veliotis: I did, sir.

Mr. Cafik: No, I am talking to Mr. St. Laurent, who was responsible for preparing the departmental estimates. You, sir, did not go to all the cabins, though you calculated how many there were and looked at a few typical ones. I believe you talked about going to, perhaps, 25 out of the whole group. Mr. Veliotis does not seem to think that he could have arrived at a reasonable or responsible price in that way. How, then, did you arrive at a responsible estimate?

The Chairman: Mr. St. Laurent.

Mr. L. E. St. Laurent (Project Officer, Department of Supplies and Services): I think Mr. Veliotis was careful to say that, in his professional opinion, he would not average out the cost of cabins and multiply by the number of cabins. However, I have a professional opinion of my own and I feel that it is acceptable in this case—that is not to discredit Mr. Veliotis' professional status.

Mr. Cafik: I think that is fair enough as long as we . . .

Mr. Lowery: If I may speak—not being directly involved. A lot depends upon the extent of the sampling and the techniques used. With the technique we were using, our method, we thought, was more appropriate.

• 1755

Mr. Cafik: Well, you would have to assure yourself of a good position with the Department for that. They will appreciate that, I am sure.

In summing up on X-782, the work you actually performed constituted the cabins, the cabins alone—am I correct?—in the three areas, the X2 CRs, 3 CRs, I think it is, and the 4-Quebec. Is this correct?

Mr. Veliotis: You are correct. The cabins, not only those mentioned in the attached specification or guide—call it whatever you want to call it, sir—are the cabins which were on X-84. Because of their location and because of the work areas we had to put them there, besides cabins which—although not mentioned in the attached specifications—were indicated in the marked up drawings. Now, actually we disregarded the document, and our guidance was the explanation we received in the marked up drawing.

Mr. Cafik: Do you think that you did cabins on X-782 that are not mentioned in the specifications?

Mr. Veliotis: B.C.

Mr. Cafik: Are all those that you did, which are not mentioned here in, contained in X-784?

Mr. Veliotis: Yes. I did cabins that were mentioned on both X-782 and X-784, besides cabins that were not mentioned on either one of them. I estimated on X-782 and I can give them to you, sir.

Mr. Cafik: Well, if you would just table that information, sir.

Mr. Veliotis: It is very difficult information to table, sir.

Mr. Cafik: Well, we have a competent staff around here and I think they could—

Mr. Veliotis: No, I believe that I am the only one who can understand that information. I am not prepared to table it, but it is very short and if you want to know the duplications or the cabins that were not included I can give them to you.

Mr. Cafik: Perhaps the document which you have is complicated, but surely, with your mental capacity, you could devise some uncomplicated way in which to do it.

Mr. Veliotis: I can prepare an uncomplicated explanation for you—a very simple document—and mail it to you, give it to you, transmit it to you—

Mr. Cafik: Give it to the Committee. We would be glad to have it, I think, so that we would understand this problem.

Mr. Veliotis: You understand now that there were cabins which were not mentioned—

Mr. Cafik: Yes, I understand that. Now, could you explain to the Committee why under X-782—I think I know the answer—the

charge out rate is $5.10 per hour, and the charge out rate under X-81 is $3.95.

Mr. Veliotis: The charge out rate changed following negotiations with the Department of Defence Production after the 200,000 man hours undertaken by Davie Shipbuilding had run out.

Mr. Cafik: All right. Now, on the 200,000 man hours involved with Davie Shipbuilding were those man hours not specifically allocated to the original price contract, to the original fixed price?

Mr. Veliotis: Allocated where, sir?

Mr. Cafik: Well I had the impression that this work arising, of which we are talking, all came subsequent to the $5.95 price's being determined.

Mr. Veliotis: Certainly, you are very correct in saying that, but you must take into consideration that it was February 1967 when we were instructed to do that work. In August 1966, the 200,000 man hours were already spent.

Mr. Lowery: The process used was: as the X forms went in, all the X forms up to the total of 200 or 200 and 5,000 were at one rate, and all the X forms thereafter were at the other rate.

The Chairman: Now, might I just—

Mr. Cafik: Did it matter when you did the job?

Mr. Lowery: No.

Mr. Cafik: In other words, you could find $3.95 charge out rates being done after the negotiated price, and you could find $5.95 rates being done prior to this renegotiated price. Is that correct?

Mr. Lowery: Yes, it was a basis of calculation.

Mr. Veliotis: Mr. Cafik, I believe I can explain to you. We had undertaken an obligation in our contracts to perform the known work for so much at a fixed price, and work arising at a charge out rate of $3.95 up to April 1967, when the contract was supposed to be completed. In February 1966 we had already spent, or were committed to spend the 150,000 man hours, and here, if you want to know the story, you will have to allow me to refer to documents and correspondence which, of course, you have. Perhaps, if I point them out to you, the explanation will be very simple.

• 1800

Mr. Cafik: Excuse me, I hate to interrupt you, but the $5.10 charge out rate was put forward to this Committee because of a change in overhead rate or something similar, because you had less volume going through the shipyard after the elapsed period than you had prior to that. Is that right?

Mr. Veliotis: The $5.10 rate was renegotiated to take into consideration the work envisaged in the shipyard for (a) the year 1967, and (b) the increase in the labour contract. Perhaps you have not been advised, through you should have been—I will not repeat if you interrupt me—that our labour contract expired December 31, 1966, and an increase was given to the workers to the tune of some 35 cents weighted average.

Mr. Cafik: How much?

Mr. Veliotis: About 35 cents weighted average. The point I am trying to make here is that in August, 1966 we had already spent that 200,000 man hours.

Mr. Cafik: I would have to relate all that to previous testimony. It sounds all right and I would like to check it out.

The Chairman: I would like to ask a question in here, Mr. Cafik. Would the Department of Defence Production know, when they asked for your estimate on repairing the furniture, that the 200,000 hours had been spent and that the new rate would be $5.10...

Mr. Veliotis: Are you asking me, Mr. Chairman?

The Chairman: I suppose I should direct it to you.

Mr. Veliotis: If you are asking me, I will give you the answer. They knew that from August 25, 1966, at the third meeting of August 1966.

The Chairman: Tell me Mr. Veliotis...

Mr. Veliotis: On August 25, 1966, during the production meeting—there was one every month—we made a statement. I had the Assistant General Manager of Davie Shipbuilding Limited go into the meeting and make to the Department of Defence Production a statement allowing the following lines. "Look, the ship has been in the yard three

months. We have opened up everything. Some 150,000 man hours already been spent and, from the work arising, we can see that you will see many, many more man hours." Perhaps you have that document, Mr. Chairman, or you Mr. Cafik. This is the meeting of August 25 which I have here and, if you wish, perhaps it could be tabled, or tabled as an exhibit.

Mr. Noble: Mr. Chairman, could I ask a question here.

The Chairman: Mr. Noble.

Mr. Noble: When Davie Shipbuilding Limited are dealing with private enterprise, do they use the same procedure as that followed in the handling of our contract?

Mr. Veliotis: With private enterprise, in respect to what sir?

Mr. Noble: In respect to these hours. You charge for so many hours at a certain price, then you raise it up to a higher price for another set of hours.

Mr. Veliotis: Yes. The current rate at Davie Shipbuilding Limited would have saved the contract from the new Department of Supply and Services the sum of $6.57 an hour.

•1805

Mr. Noble: I am talking about private enterprise, Mr. Chairman.

Mr. Veliotis: It is the same thing sir.

Mr. Lowery: Sir, we have actually communicated to the Committee information to the effect that during the time we were doing the *Bonaventure* we were charging private enterprise higher rates than those that apply to *Bonaventure*.

Mr. Noble: This is what I want to know, Mr. Chairman.

Mr. Lowery: This is tabled, and you have it in your records.

Mr. Veliotis: Mr. Cafik, I am referring to a document originating from the Department of Defence Production, or whatever they call it. This is LG30-560655, third production meeting held at Lauzon, Quebec, August 25, 1966.

Mr. Lowery: May I ask that my last remark be kept confidential. I do not want all our commercial customers to be too aware of this fact.

Mr. Veliotis: I read:

> Mr. Page of Davie Shipbuilding Limited will make the statement as follows:
>
> To date we have already undertaken or committed ourselves to undertake work arising from supplementary specifications or inspections, amounting over 150,000 man hours.

This is August 25, 1966 of which I am now talking, Mr. Cafik—just a few months after the ship arrived in the yard.

> We have advised you that delivery of the ship as promised will not be affected. I may tell you now that we expect...

Mr. Cafik: Excuse me, I do not have a question on the floor, and I find it interesting, but why do you not table it? I think that we are satisfied.

The Chairman: As a matter of fact, it is in the Auditor General's Report on page 56.

Mr. Cafik: Then we already have it all.

The Chairman: Yes. Gentlemen, we are at this point now—have you questions, too, or will we adjourn?

Mr. Cafik: I think that all the questioning and information we got out of X-782 applies equally well to X-784, and I do not want to waste the time of the Committee. In terms of X-1237, I have only two questions. The first concerns the implication in X-1237 that the manpower supplied by Davie Shipbuilding Limited was to augment some of the naval staff or the armed services staff aboard the ship in their effecting some repairs and odd jobs in the bunks and that area.

Mr. Veliotis: Yes, the information you have is correct, sir. If I remember correctly, when the people who were to steam the *Bonaventure* for trials were due to arrive, eating, sleeping and entertainment accommodation had to be provided for them. The request we received was to supply 20 men working under supervision—allowing some men for shop work, to change legs on beds, brackets and so forth. We have a union in the yard. For every so many men we have to apply a supervisor, a chargehand. Those men did not work under my direction, Mr. Cafik.

Mr. Cafik: All right. The question now is as follows. It has been put forward to this Committee—and we do not know what proportion of this $19,728 charge would be attributable to the point I am going to bring out—that at one

time a fairly significant amount spent was in regard to the securing of lockers, positioning them and bolting them down. What do you know about that?

Mr. Veliotis: I know very little about that. The only thing I know is that I supplied 20 men to work under the supervision or the direction of the ship's staff. I had to have my own supervision because of union regulations and also I had to do some work in the shops for them. That means if the leg of a bunk was broken they had to take it to the tinsmith's shop and repair it.

I cannot tell you, sir, if they were securing lockers or if they were securing or repairing beds. The requirement itself was supply manpower. If you are a contractor and I come to you and say, "Send me five labourers to fix my garden and I will direct and supervise them," who are you to tell me then what they are to do? You will not be there.

Mr. Cafik: Mr. Chairman, as far as I am concerned I have had enough questions. I have a few further conclusions in the back of my head, but I think they had better wait until we have a meeting specifically for that purpose and we assess things. As far as I am concerned at the moment, I do not think we need Davie Shipbuilding Limited back here again unless something comes up, on subsequent days, for which we feel they could be of some assistance to us.

• 1810

The Chairman: I think the Committee would agree to that. We have not had a full Committee here, so I would just ask those who are here to think about this point which I will bring up at the next meeting. It would appear that the whole procedure by the Department of Supply and Services and the Department of Defence Production needs a genuine overhaul. It might be in order for us to give consideration to asking the Deputy Minister of Supply Services, Mr. Hunter, and the Deputy Minister of National Defence, Mr. Armstrong, who have appeared before us at many of these meetings, along with Mr. Henderson, to come up with an improved procedure on this type of refit that the Committee could look at, digest. Perhaps this would help us arrive at some of the other conclusions or recommendations that we will be making to the House.

Mr. Cafik: Could I make a suggestion on that line, Mr. Chairman?

The Chairman: Mr. Cafik.

Mr. Cafik: I have, over the months, of course, prepared certain basic premises, certain things that I think should be done to improve in this particular area. I am sure that all members of the Committee who have been participating, and present, feel the same way. I think it would be good if everyone came out with some specific baseball park recommendations; and when we, as a committee, have boiled them down into reasonable ones, before making any recommendations, we should call the two deputy ministers and anyone they want before us and thrash the matter out until we arrive at something we think to be really reasonable and workable.

The Chairman: As I say, it is something for the members to think about.

Now, the next meeting would be Tuesday, May 20, and we have decided not to hold a meeting on that day. The following meeting on Thursday . .

Mr. Cafik: Not to hold, did you say?

The Chairman: There will be a meeting on Thursday, May 22, a week today, but no meeting next Tuesday. That meeting will be held in camera. Excuse me—it escaped my mind—the de Havilland people are coming next Thursday. The following meeting will be in camera, and that will be concerned with attempting to resolve this matter.

Mr. Cafik: Mr. Chairman, one last thing before we go. I think that, in good faith, and with all due respect, we should thank the gentlemen from Davie Shipbuilding for coming before us and giving us their testimony. I hope we do not give them too much trouble when we come up with the recommendations, but we have to get to the bottom of this. . .

The Chairman: Mr. Cafik. . .

Mr. Cafik: . . . somehow. It is in the public interest.

The Chairman: Mr. Cafik, I am glad you did that. You took the words out of my mouth. I would only add that they have been good witnesses. We have learned something from you, and I hope that you have learned something from our Committee and that we will all benefit from the meetings.

Mr. Lowery: Thank you very much, Mr. Chairman, and members of the Committee. We have six ships worth $30 million to get delivered in the next six weeks, so it is certainly a relief for us to go if we can proceed as planned. Thank you very much, gentlemen.

APPENDIX K

CANADA

DEPARTMENT OF SUPPLY

AND SERVICES

AUDIT SERVICES BUREAU

YOUR FILE NO.

OUR FILE NO. SC2-600-1141-34
Gomin Building, 5th Floor,
2835 Gomin Road, Ste. Foy, Que.
May 14, 1969.

The Director,
Contract Audit Service,
Department of Supply and Services.

AUDITOR'S CERTIFICATE

In accordance with the request for discretionary audit from the Financial Review Branch of the Department of Supply and Services, dated April 9, 1969, I have made an examination of the books and records of Davie Shipbuilding Limited, Lauzon, Quebec, insofar as they pertain to Contract LG30-560655, Serial 2LG5-307, dated March 25, 1966 and amendments 1 to 26 inclusive thereto, and I have received all the information and explanations I have required. I have reviewed the system of internal control and the accounting procedures of the Contractor and, without making a detailed audit of the transactions, I have examined or tested the accounting records of the Contractor and other supporting evidence by methods and to the extent I deemed necessary.

I report that, subject to the extent of my examination, in my opinion, the amount of $9,231,677. is the cost in accordance with Costing Memorandum DDP 31 incurred by the Contractor, the profit $919,888., and the Federal Sales Tax $138,525. based on the total contract selling price of $10,290,090., as shown in the accounts and records examined and according to the information and explanations obtained.

Emile Langelier,
Auditor,
Audit Services Bureau.

APPROVED:

Donal Fortier,
Regional Director.

EL pf

APPENDIX L

FRB—D45-2-1FRB-6134-02
Ottawa 4, Ontario
April 9, 1969.

Discretionary & Priority
Mr. G. H. Cheney,
Director General,
Audit Services Branch,
Concord Building,
280 Albert Street,
Ottawa, Ontario.

Dear Mr. Cheney:

Contract Serial 2LG5-307 dated March 25, 1966 was awarded to Davie Shipbuilding Limited, Levis, P.-Q. on the basis of competitive tender. Additional work was awarded on a negotiated Firm Price Basis.

A discretionary audit is now required on the complete contract and your action in carrying out this audit on a top priority basis would be appreciated. Three (3) copies of the contract are enclosed. It is understood that an audit has already been performed of the Company overhead account on a DDP 31 basis for other purposes and it is hoped that this will enable you to complete the prime contract audit and provide a certificate within the next two to three weeks. Completion should not be delayed as the result of your audit of the major sub-contracts or the repairs to office and cabin furniture both of which could be incorporated in a supplementary audit report at the earliest date possible.

Cost charges against the contract in question include sub-contract charges. It would be

appreciated if, concurrently with the audit of the prime contract, you would extend your audit to include the major sub-contracts with the following firms:

Peacock Brothers Ltd—Montreal, P.Q.
Sperry Gyroscope Div.—Montreal, P.Q.
Versailles Inc.—Montreal, P.Q.
L. Moffet Ltee.—Quebec, P.Q.
Theriault & Béland Inc.,—Quebec, P.Q.

As you will see from the copy of the advisory letter to Davie Shipbuilding Ltd. enclosed, that Company has been requested to furnish you with the identification details for these sub-contracts.

It would also be appreciated if, in your audit report, you would segregate costs covering repair to office and cabin furniture covered by Additional Work Arising Form DDP 779 No's X782 and X784.

A reply indicating the expected date of completion of your audit report is requested.

Yours very truly,
H.M. BELYEA

(Originally signed by)

H. M. Belyea,
Director,
Financial Review Branch.

ABM/mlb
Encl.
c.c. R. D. Wallace.

APPENDIX M

(9) The treatment will remain effective for approximately 18 months, provided the surface is not repainted.

(10) The application of insecticidal lacquer shall be done in two stages.

(a) Areas of bulkhead in way of equipment, underside of equipment, back and underside of fixtures, and areas normally inaccessible after fitting out, are to be treated after these surfaces are painted but prior to the installation of such things as ovens, ranges, steam tables, counters, cupboards, refrigerators, and other equipment.

(b) The remaining areas such as exposed baseboard, dado and the underside of tables and other equipment easy to reach after painting of the compartment is completed, shall be treated after the installation and painting is done.

(11) Compartments in which the paintwork is worn, faded or damaged should be repainted before receiving the insecticidal lacquer coating. This will make it possible to achieve the maximum benefit from the treatment over the longest period possible. When it is necessary to repaint surfaces which have been coated with insecticidal lacquer for less than two years, the Regional Surgeon (Staff Officer-Hygiene) is to be notified.

3-39 REPAINTING METAL FURNITURE

(1) Metal furniture may be "touched-up" or completely repainted by the ship's staff.

(2) The surface preparation and repainting procedure for metal furniture with paintwork in reasonably good condition, having a few scratches, chips and some bared surfaces in areas of heavy wear, shall be as follows:

(a) *Surface Preparation.*

(i) The article must first be washed clean and all grease, oil, wax and furniture polish removed with solvent. (All furniture is greasy from sweat and body oils deposited by persons' hands, whether or not wax and furniture polish are also present. These waxes and oils must be removed rather than burnished into the surface, otherwise they will affect the drying and adhesion of primers or enamels to be applied.)

(ii) Scratches and chipped areas are to be sanded smooth, "feathering" the edges of all surrounding intact paint.

(iii) The remainder of the paintwork is to be lightly hand-sanded with fine sandpaper to provide a "tooth" for the new primer or enamel.

(iv) Clean away all sanding residue and degrease for a second time.

(v) When dry, the article is ready for repainting.

(b) *Repainting Procedure.*

(i) Inhibit the bared metal with one coat of vinyl wash primer, 1-GP-121.

(ii) Apply two coats of primer (1-GP-48 on steel or 1-GP-132 on aluminum) over the inhibitor.

(iii) Lightly hand-sand between each coat with fine sandpaper, making sure the primers are "feathered" into the intact painted surfaces.

(iv) Apply one coat of Enamel; Alkyd, Gloss (Type I-Air Drying) to specification 1-GP-88 in colours green 503-114 or brown 204-101 overall.

(v) When dried hard, sand lightly and apply a second coat of 1-GP-88 enamel.

(vi) For best results, all coats of primer and enamel are to be sprayed. These materials may be applied by brush when necessary.

(vii) If thinning of 1-GP-88 enamel is necessary, and for cleaning spray equipment or brushes used in its application, use Thinner; Xylene, (Xylol), 1-GP-94.

(viii) Enamel 1-GP-88 will dry, to touch, in two hours and hard in eight hours.

(3) When metal furniture has an excessive amount of bared metal due to worn paint, or is so badly scratched and chipped that the bared areas exceed 50% of the article, then the entire item is to be stripped to bare metal before repainting. Paint remover is to be used for removing the old paint. Repainting shall be done by applying the one coat of inhibitor, two coats of primer and two coats of finish enamel overall. Lightly sand between each coat when dry. Apply all coats with a spray gun.

(4) Furniture repainted ashore by dockyard staff may be primed with a faster air-drying primer (6 hours)-Primer; Alkyd, For Vehicles and Equipment (Type I-Air Drying), 1-GP-81; or Type II, a baking primer. The alkyd gloss enamel (1-GP-88) is also supplied as a Type II material for baking. The 1-GP-81 primer is thinned with High Solvency Thinners, 1-GP-70. No primers to specification 1-GP-81, Types I or II, and baking enamel (1-GP-88, Type II) are to be stocked in HMC Ships for ship's staff use.

3-40 REPAINTING WOODEN FURNITURE

(1) Wooden painted furniture is repainted in basically the same way as metal furniture described in article 3-39 above. The article shall be washed and degreased at the start of the job. Scratches, chipped areas and worn spots are to be sanded smooth. Edges of intact paint are to be "feathered" and the old paint lightly hand-sanded. Clean and degrease a second time and, when dry, apply the first coat of primer-Paint; Priming, for Wood (1-GP-125) thinned 15 to 20 per cent with mineral spirits (Varsol) (1-GP-4) to all bare wood. When the primer is dry, fill the cracks and nail holes with putty and then sand the article smooth. Apply the second coat of primer (1-GP-125), unthinned, to the bared areas. When dry, sand again and then apply two coats of the air drying 1-GP-88, Type I, alkyd gloss enamel overall.

(2) Small holes and cracks can be filled with putty or plastic wood filler. Putty must never be applied directly onto bare wood; always prime first.

(3) Dents or large holes and cracks must be filled with plastic wood filler. Always apply plastic wood filler onto bare wood whenever possible. Sand all patches smooth before priming.

3-41 REVARNISHING WOODEN FURNITURE

(1) Wooden furniture with worn but relatively undamaged varnish need only be washed clean, degreased and given an overall sanding with fine sandpaper, being sure to "feather" the edges of any scratches or chipped areas, before it is ready for revarnishing. Normally, two coats of Varnish, Phenolic Resin, Marine (1-GP-99) sanded between coats will do a good job. If necessary, a third coat should be applied. For best results, the final coat should be allowed to dry hard and then be hand-rubbed with rubbing compound or rottenstone and oil.

(2) Wooden furniture with excessively worn, cracked, alligatored, checked, chipped or otherwise damaged varnish is to be stripped to bare wood with paint remover. The bared wood is to be washed with mineral spirits (Varsol) (1-GP-4) to neutralize and remove any residual paint remover, because it will re-act on any varnish applied later. Sand the entire article smooth and then the furniture is ready to receive the complete varnish system as described in the applicable para-(2), (3), (4) or (5) of article 2-85.

(3) Wooden furniture finished ashore by dockyard staff may be lacquered in lieu of varnish.

3-42 to 3-44 Not Allocated.

3-45 REPAINTING OF INTERIOR PAINTED DECKS

Basically, interior decks are repainted in the conventional manner. Any corrosion products and loose or damaged paint is to be removed to bare metal. Feather the edges of all remaining adherent paintwork. Wash and degrease all undamaged paint. Each bare area is to be painted with all the required coats of the "Complete Paint System", except for the final coat which it will receive when the deck is painted once, overall. This system ensures

that the bared metal receives all the coats that are considered the minimum requirements to provide protection and wear, while the undamaged areas only receive one additional coat for appearance sake. The "Complete Paint Systems" for normal traffic areas, infrequent traffic areas, deck and coving surrounding vinyl tiles, and decks in way of acid spillages are listed in article 2-91.

3-46 REPLACING WORN OR DAMAGED NON-SLIP DECK TREADS

(1) The method of replacing non-slip deck treads on areas of the ship's interior decks shall be the same as for exterior decks described in article 3-14.

(2) For the type of deck tread to be used, its CGSB specification number and description, see para. (4) of article 2-96.

(3) Non-slip deck treads are not to be painted.

3-47 REPLACING WORN OR DAMAGED VINYL-ASBESTOS TILES

(1) Whenever worn or damaged tiles are to be replaced in small quantities, the old tiles can be lifted by heating with a blowtorch. This method softens the tile and adhesive making removal easy. Care must be taken against overheating or burning any adjoining tiles. When a tile or tiles have been removed, the old adhesive shall be scraped off the deck, taking care not to damage the underlayment or, in wooden decks, the wood surface. After the old adhesive is removed, the surface is considered ready for a fresh coat of adhesive and the new tile can be laid.

(2) If rust or any signs of corrosion is discovered under any tile being replaced, the entire corroded area is to be exposed and properly treated as described in para. (9) (a) of article 2-97.

APPENDIX N

AIDE-MEMOIRE

Ref: Spec. No. H-397
DDP Form 779 Serial No. 782
Cabin furniture

In order to properly appreciate or reasonably estimate the full extent of work required to be peformed by the shipyard to bring a cabin to the designated category, it is most important to have a clear understanding of the general statement of requirements for the three categories A, B and C as listed on the first page of the guidance specification.

This requirement is not only applicable to the items on which certain known defects have been listed but also to all items within the specified spaces, in other words this requirement applies to the cabin as a whole.

A typical single berth cabin is furnished as follows:

1 — Berth setee with drawers under (in most cases metal)
1 — Set of lockers over settee
1 — Secretary
1 — Chair in many cases straight chairs were removed by DND.
1 — Full height Wardrobe (wood built-in or metal)
1 — Medicine cabinet
1 — Book rack and/or shelves
Miscellaneous hardware such as towel rails, soap dish, hat and coat hooks.

Taking a single cabin as an example, over and above known defects as listed, the following is a list of requirements necessary to complete all work in the space to comply with the category "B" requirements for the cabin as a whole.

Prior to reading my list I should possibly explain category "B" requirements.

I refer to Category "B" requirements which states:

"B" means medium repairs to surfaces, frames and locking arrangements, etc., thoroughly clean and refinish.

I realize what the RCN means by refinishing of furniture, I wish to read the relevant pages of BRCN 1100.

Obviously the degree of quality of repairs must be reflected in the finished products and once there is a final requirement to *thoroughly refinish* all the items, surface repairs must be to a standard which will enable a high standard refinish.

I will now move to my list of requirements.

Surface Repairs.

I would therefore now like to deal with surface repairs and go into some details in order for you, gentlemen, to appreciate the work involved.

Surface repairs may include one, part or all of the following:

1. Straightening and/or fairing of dents of buckled surfaces on metal furniture, cabin doors and door frames.

2. Holes caused by damage or by previous fitments must be plugged and repaired by rivets and/or welds which later must be ground flush.

3. Radius corner trim, desk top trim, deck moulding, trim, etc., generally cannot be readily repaired in place and in most cases it is necessary to remove, repair or renew and replace.

4. Areas prone to corrosion are locker and berth drawer bottoms, etc., which are usually in inaccessible areas—where items cannot be readily removed. Repairs are effected by patch welding, if part patch repairs would be too extensive, removal and complete renewals are then necessary.

5. Wooden door frames, jams, etc. of wardrobes if at all warped must be renewed.

6. Wooden doors of wardrobes if at all warped must be renewed.

7. Arborite tops if burnt, cracked or scored must be removed and new tops fitted.

8. Damaged arborite bulkhead linings must be secured or repaired but generally require complete renewal.

9. When a piece of furniture such as a berth or a desk are removed from location the seatings are generally corroded and require treating i.e. descalling, cleaning and coating.

Refinishing

When surface repairs are completed as described previously the furniture in the space has to be refinished. In order to thoroughly refinish any item of furniture all hardwares must firstly be removed, if they cannot be adequately masked and approximately protected. Removable items such as drawers, etc. are removed and treated separately.

As is often the case furniture must necessarily be refinished in situ and it then becomes necessary to mask all other items in the area e.g. bulkheading, upholstery, chrome fixtures, lighting, etc.

On completion, and once all masking is removed, hardware and fitments are refitted in place.

Hardware

Locking arrangements must be checked and made functional and if beyond repair—new locks or lock sets must be fitted.

Miscellaneous items such as—keeps, catches, holdbacks, stoppers, stop chains were generally missing or defective.

Drawer guides and rollers: once there is any requirement for fairing and/or renewals of sections of berth drawers—all drawer guides and rollers must be refitted and readjusted. Repairs can only be effected if the damage is minor. Generally new guides and rollers had to be fitted.

This work cannot be done on a furniture factory production line basis, it must be done by individual custom application of labour by different trades working under less than ideal conditions.

One would have had to see the ship when arrived at the shipyard for its half-life refit to visualize the general extent of disrepair of the furniture and to appreciate the condition of spaces of such a vessel after 10 years of vigorous service with little or no major repairs having been performed in these spaces during that time. Furthermore, the role of BONAVENTURE which subjects it to transient use of accommodation arising from squadrons changing personnel and also changing from sea-going to shore-billets. The rapid turn over of personnel using these individual cabins tends to deteriorate the equipment much more rapidly.

APPENDIX O

Office Furniture—Form 779 Serial No. X-784

In general the comments made as to the extent and type of work applicable to the cabin furniture Ref. Spec. No. H-397 779—No. X-782 also apply to office furniture ref. Spec. No. H-398—779 No. X-784.

It should however be noted that the compartments covered by item X-784 varied considerably both in size and type.

A total of some forty-five (45) compartments located on nine (9) different deck levels and in areas from stem to stern were reconditioned to type "B".

Unlike cabin furniture, the majority of office space furniture had been subjected to periodic cosmetic painting over the years by ship staff personnel, no doubt an attempt to maintain some level of good housekeeping. This build-up of applied paint required to be stripped in accordance with BRCN 1100 prior to refinishing.

The offices referred to in X-784 are spaces used to conduct the day to day business of the ship and as such are open to ship's personnel as a service centre in the operation of their respective departments or inquiries regarding personal matters, etc. For this reason, again unlike cabins, these offices are heavily trafficked areas by personnel in working dress and as such the furniture therein is subject to a considerable amount of wear and tear.

The Queen's Printer, Ottawa, 1969

HOUSE OF COMMONS

First Session—Twenty-eighth Parliament
1968-69

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: Mr. A. D. HALES

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 38

THURSDAY, MAY 22, 1969

Public Accounts, Volumes I, II and III (1968 and 1967)
Reports of the Auditor General to the House of Commons (1968 and 1967)

WITNESSES:

(*See Minutes of Proceedings*)

HOUSE OF COMMONS

First Session—Twenty-eighth Parliament

1968-69

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: Mr. A. D. HALES

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 38

THURSDAY, MAY 22, 1969

Public Accounts, Volumes I, II and III (1966 and 1967)
Reports of the Auditor General to the House of Commons (1966 and 1967)

WITNESSES:

(*See Minutes of Proceedings*)

20361—1

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. A. D. Hales

Vice-Chairman: Mr. T. Lefebvre

and Messrs.

Boulanger,	Guilbault,	McCutcheon,
Cafik,	Harding,	Noble,
Crouse,	Laflamme,	Rodrigue,
Cullen,	Leblanc (*Laurier*),	Tétrault,
Flemming,	Major,	Thomas (*Maisonneuve*),
Guay (*Levis*),	Mazankowski,	Winch—(20).

(Quorum 11)

Edouard Thomas,
Clerk of the Committee.

MINUTES OF PROCEEDINGS

THURSDAY, May 22, 1969
(42)

The Standing Committee on Public Accounts met this day at 9.35 a.m., the Chairman, Mr. A. D. Hales, presiding.

Members present: Messrs. Crouse, Cullen, Guay (*Lévis*), Hales, Laflamme, Noble, Rodrigue, Thomas (*Maisonneuve*), Winch—(9).

Witnesses: Messrs. D. B. Annan, Vice-President Operations, William T. Heaslip, Vice-President Engineering, John Brown, Counsel, and R. W. Becker, Program Manager, De Havilland Aircraft of Canada Limited; Capt. T. S. Allan, Hydrofoil Project Manager, Department of National Defence.

The Committee questioned the witnesses concerning the hydrofoil *HMCS Bras D'Or,* in particular, the fire.

The Committee agreed to accept the following as appendices to this day's proceedings:

(a) Letter from the Auditor General of Canada dated May 13, 1969 (*See Appendix P*),

(b) Letter from the Director General, Audit Services Bureau, Department of Supply and Services dated May 16, 1969 (*See Appendix Q*).

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

Edouard Thomas,
Clerk of the Committee

20361—1½

EVIDENCE

(Recorded by Electronic Apparatus)

Thursday, May 22, 1969

• 0937

The Chairman: Gentlemen, we will come to order. We have set this meeting aside to deal with the hydrofoil, and more particularly those questions the Committee was asking when this matter was under discussion earlier. The report of the circumstances surrounding the hydrofoil fire which occurred at Sorel, Quebec, on November 5, 1966, was referred to our Committee and most of the questions that were asked related to this unfortunate fire, and the Committee felt that they would like to discuss this in greater detail with some of the officials of The de Havilland Aircraft of Canada, Limited, which has the contract to produce the hydrofoil. So, we have with us this morning some gentlemen whom I will introduce to you. On my immediate right is Mr. William T. Heaslip, Vice-President Engineering, and on his right is Mr. D. B. Annan, Vice-President of Operations. They have Mr. John Brown, their counsel, with them.

So, gentlemen, we will proceed with any questions you have in mind. I would like you to deal with the fire part first and after that we will branch into a general discussion of the development of the hydrofoil. The meeting is now open. Mr. Winch?

Mr. Winch: Mr. Chairman, as I was given the privilege at a previous meeting of . . .

The Chairman: Excuse me, Mr. Winch. Perhaps I should tell these gentlemen that we were in Halifax and went aboard the hydrofoil, so I think you will find that the Committee is pretty well acquainted with it.

Mr. Winch: Mr. Chairman, as I was saying, I was a member of a subcommittee of this group at a recent meeting when we directed questions to the Department of National Defence and the Department of Defence Production. I was privileged to lead off with a series of questions. I hope, sir, that I may be permitted to do the same thing now that we have the de Havilland officials before us.

According to the information supplied to this Committee, an investigation into the fire was conducted by the Department of Defence Production and the Department of National Defence, and de Havilland also carried out an investigation of their own. According to information we received from the Board of Inquiry of the government, both investigations were consistent in their conclusions regarding the most probably cause of the fire. May I ask if that is correct in the view of the de Havilland people?

• 0940

The Chairman: May we have the question again, Mr. Winch?

Mr. Winch: We were informed that the two investigations, the Board of Inquiry conducted by the government and the one held by the de Havilland people, were consistent in their conclusions regarding the most probable cause of the fire. Because our Committee was so informed, I wish to ask the de Havilland people if they agree with that statement.

Mr. William T. Heaslip (Vice-President, Engineering, The de Havilland Aircraft of Canada, Limited): Mr. Chairman, I think that is correct. Neither report was able to identify the cause of the fire but there was agreement that the most probable cause was a leak in the low pressure hydraulic system.

Mr. Winch: Basically we can take it then, that you agree with the conclusions of the Board of Inquiry. That being the case, I believe the Committee would be most interested in having your comments on this section of the Board of Inquiry report. It reads:

> . . . the fire fighting provisions and organization were inadequate to cope with a fire of this magnitude; the inspection records did not afford proof that the hydraulic system in use had been fully inspected; documentary evidence of quality assurance was incomplete and thus inadequate; and that National Defence personnel had not been advised that this particular test was planned for Saturday, 5 November.

In view of the fact that we now have it that you agree with the basic report, we would like to have your comment and explanation with respect to this statement.

Mr. D. B. Annan: (Vice-President, Operations, The de Havilland Aircraft of Canada,

Limited): Could we take one question at a time, Mr. Chairman?

The Chairman: Yes.

Mr. Winch: The first question is that the fire fighting provisions and organization were inadequate to cope with the fire.

Mr. Annan: Let me say that I think the three words you omitted . . .

Mr. Winch: I am sorry, "of this magnitude".

Mr. Annan: "a fire of this magnitude".

Mr. Winch: I mentioned that before.

Mr. Annan: I think those words are important and I think the Crown would probably agree that they should be read in the context of the total statement. We would not agree that the fire fighting provisions were inadequate under the circumstances and, if I may, I would like to give you a list of the provisions that were in effect at the time of the fire. Do I have your permission, Mr. Chairman?

The Chairman: Yes, go ahead.

Mr. Annan: This is a list of things that were currently in effect at the time of the fire.

1. Daily inspections were carried out by de Havilland Company inspection staff, and these were particularly emphasized, fire prevention, housekeeping, et cetera.

2. There were weekly inspections carried out by the fire department of Marine Industries Limited, where the ship was located, and they checked all fire extinguishing equipment and weighed the carbon dioxide extinguishers which were aboard the ship. These are the portable, small extinguishers.

3. There were weekly inspections carried out by the staff of the Principal Naval Overseer at Sorel, and these weekly inspections resulted in reports which were made to the company and corrective action was taken as required. The last such inspection occurred three days before the fire. The housekeeping was said to be satisfactory at that point.

4. There was a periodical inspection by the then DDP Industrial Security Branch, Field Consultants, who worked out of Montreal.

• 0945

5. Marine Industries Limited security staff, their watchmen, patrolled the ship on a 24-hour surveillance basis and their fire department was on a 24-hour standby basis. In this regard there was a clocking system aboard the ship, with one clock being located at the stern and another clock located forward, and these were punched during the rounds of the watchmen at two hourly intervals up to midnight and hourly intervals from midnight until eight o'clock in the morning.

6. There was liaison established and maintained between the Marine Industries fire department and the local municipal fire departments of the communities of Tracey and Sorel, and I can assure you that excellent co-operation existed not only earlier but at the point in time of the fire.

I could go into the list of equipment aboard the ship, Mr. Chairman, but you may not wish me to go into that in detail.

Mr. Winch: I will have a question on that later.

Mr. Annan: I see. Then would you like me to list it?

The Chairman: We will get that later, Mr. Annan.

Mr. Winch: May I ask a supplementary question on this phase? Basically this is a small ship and the fire was confined to the engine room only. How can you maintain that the fire fighting arrangements were adequate? Also, when you conduct tests in the engine room do you not have additional facilities in case of fire?

Mr. Annan: I might point out that the ship has a carbon dioxide system, which is part of the ship's system. This is in addition, of course, to the portable type of fire extinguishing equipment which is located throughout the ship. Perhaps I could spend a moment in clarifying—in case it needs clarification—the situation vis-a-vis the carbon dioxide system aboard the ship.

Mr. Winch: Perhaps, Mr. Chairman, although I was going to ask about this later, as we are on that subject I could switch ahead and ask about it now because it has to do with the equipment. As the Chairman said, this Committee was on board the hydrofoil in Halifax. We noted the very fine detection equipment in the engine room, part of which can take note of excessive heat and part of which can note the presence of flame. May I ask why that detection system was not operational when you put on this important test in the engine room of the hydrofoil?

Mr. Heaslip: First of all, Mr. Chairman, I would like to advise the Committee that these detection devices that Mr. Winch referred to are installed in the ship to detect fires. They are there because normally when the ship is at sea the machinery compartment is unmanned and detection equipment of the kind that Mr. Winch has described is required to alert the crew if a fire breaks out in the engine compartment. Under those circumstances

these devices would sound an alert at the engineers console, giving him an opportunity to actuate the CO_2 system that has already been referred to. There is nothing automatic about the CO_2 system that was installed on the ship at that time or as it is currently installed. It has to be operated by some member of the crew. It can be operated remotely by electrics from the engineer's console and it can be operated manually at points around the ship. The normal sequence in an at sea situation is that these devices that are referred to detect the fire, alert the crew and the extinguishing systems are then operated on the decision of the personnel involved. At the time of the fire at Sorel, the engine room was manned. The problem there was not one of detecting the fire, which is what these devices do. The CO_2 system, which is basic to fire suppression in that engine compartment, was available, armed and ready.

• 0950

Mr. Winch: That is the subject of my next question. Of course, I want to state that I just cannot understand why the detection system was not operational. Our Committee was advised that the carbon dioxide was operational but only on a mechanical basis, and the mechanical basis is immediately outside what I call the entrance or escape doors. It is right alongside the door outside the engine room. You put your finger in a key ring, you pull on the chain—according to our information, that was operational too—there is exactly 15 seconds to permit anyone in the engine room to get out by either of the two doors which go to the engine room, and then the carbon dioxide goes into operation to put out the fire. We were told it was in operation. We were also informed that no one was stationed at the mechanical control outside the door. I would like to ask why?

Mr. Heaslip: I have two comments, Mr. Winch. First of all, when the system is operated mechanically, manually if you like, such as it would be at the position close to the bulkhead, there is no 15 second delay—when that manual operation is actuated the CO_2 discharges immediately.

Mr. Winch: Then you are giving us different information than that which was given us by the naval overseer when we were on board ship.

Mr. Heaslip: I am not aware of that information, sir. But there is a 15 second delay built into the remote control system. You have to remember that the electrically-operated system is operated from the engineer's consul at the forward part...

Mr. Winch: But not the mechanical.

Mr. Heaslip: But not the mechanical. In that case the operator, in reacting to a detection signal, would press the extinguisher button, the system then would give a warning and a 15 second delay, if you like, to allow any personnel who were in the area of the machinery compartment to escape. You have to recognize that when the CO_2 is discharged anyone who is in that compartment would be immediately suffocated—and that is the reason for the 15 second delay. But at the manual end, where the position can be observed, there is no 15 second delay.

Mr. Winch: I want to be very clear on this, Mr. Chairman, because I in company with the subcommittee on this very matter were definitely told, in connection with the mechanical equipment which was in operation, that on pulling that chain the warning signal sounded inside the engine room and there was 15 seconds for them to get out before the carbon dioxide was discharged. Are you saying that this information that we were given is not correct?

Mr. Heaslip: I am passing on to you my best understanding of the way the system works. I would like to check with our people here to make sure I am not misinforming you. What I have said is quite correct.

Mr. Winch: Could I then ask if you had a man stationed at the mechanical equipment when you were putting on a major test inside the engine room?

Mr. Annan: Perhaps I could answer that. There were two men present at the manual release system of the CO_2.

Mr. Winch: How many inside?

Mr. Annan: One inside and two outside.

Mr. Winch: Then if that was the case, and this is now getting important, as one went in to save the life of the man inside who was badly burned why did the other not pull the mechanical control?

Mr. Annan: It is my understanding, Mr. Winch, that the man or men who were stationed outside the machinery compartment did not go into the machinery compartment.

Mr. Winch: Then who got the man out who was badly burned?

Mr. Annan: The man whose clothing was on fire staggered to the door and was dragged out from outside. Now I could be wrong in some detail but that is how I understand it.

Mr. Winch: According to the Board of Inquiry you are wrong in some detail.

Mr. Annan: My understanding is that the employee whose clothing was on fire semi-staggered to the door of the compartment and was dragged out. The men chose to try to extinguish the fire on his clothing and get him out of the ship, they did not pull the manual release, and when they tried to return to the compartment they were unable to do so because of the flames.

• 0955

Mr. Winch: You do not have to return to the compartment to pull the mechanical release; it is outside the engine room.

Mr. Annan: I am speaking of the compartment where the manual release is located.

Mr. Winch: That is outside the engine room.

Mr. Annan: This is right.

The Chairman: Mr. Winch, I think the Committee were told that the reason the manual switch had not been pulled was that the man was more concerned about getting the man out of the engine room and therefore did not have time to pull the manual control. Now we are told that there was a man at the manual control and two men in the engine room.

Mr. Winch: There was one man in the engine room and two men outside.

The Chairman: I am sorry.

Mr. Annan: Perhaps I misled you. There was one man in the engine room who was monitoring the running of the machinery and two men who were outside the engine room in the compartment where the manual release for the CO_2 system was located.

The Chairman: May I ask you, Mr. Annan, if you or any members of your staff had an opportunity to look over this report of the circumstances surrounding the hydrofoil that was prepared, I believe, by the Department—or is it a combination effort?

Mr. Annan: We have read it in the proceedings of this Committee, yes.

The Chairman: But the evidence that you are giving now does not exactly agree with some of this. This is the point.

Mr. Annan: I think it is a question of interpretation.

Mr. Winch: May I carry on, Mr. Chairman.

Mr. Annan: Mr. Winch, I am sorry to interrupt but I just wanted to make one point.

I want to make clear that when Mr. Winch said, "Do you agree entirely with the fire report?"; we agree with the most probable cause of the fire but we do not necessarily agree with everything in the report or other aspects of it. I wanted to make that clear.

Mr. Winch: May I state that when our Committee visited the hydrofoil at Halifax we asked for the inspection records. We found not only that there was more than one page missing but that on those that were not missing there was neither the inspection staff nor initial. According to the Inquiry Board report, the inspection records did not afford proof that the hydraulic system in use had been fully inspected and documentary evidence of quality assurance was incomplete and thus inadequate. Would you comment on that, sir?

Mr. Annan: Perhaps, first of all, I could just run through the background of the inspection that was carried out on this particular system.

Mr. Winch: But we want it particularly where it was not carried out.

Mr. Annan: I do not agree it was not, sir.

Mr. Winch: You disagree then with this also in the Inquiry Board report?

Mr. Annan: The Inquiry Board report says there is no documentary proof. I would like to bring out what actually happened. First of all, each individual component—and I am talking about pipes, beading and the like on this system—were pressure tested either at Downsview or at Sorel prior to assembly on the ship. They were pressure tested to a minimum of 1½ times systems pressure. These individual tests are recorded in inspection paper work and inspection stamps are on the pipes. Secondly, after the system was installed on the ship as a system it was pressure tested at 225 lbs per square inch, which is approximately 3½ times normal systems operating pressure, and this was done before any functioning. All visible leaks were corrected, usually by tightening connections. Inspection did not record leaks during these preliminary tests but, again, lines were inspected under full pressure after all rectifications were complete. Thirdly, the system was then flushed under pressure and volume for a number of hours to clean out any sediment that may have interfered with its operation. Fourthly, on two separate occasions the system was run at full system pressure on

• 1000

November 2 during a trial, and November 3 during another trial, for a total elapse time of approximately 1½ hours and during these times there was no evidence of any problem.

Now turning to the question of inspection records, none of what I have said is at variance with the reports tabled by Captain Allan, in which I think he was careful to point out that he was not saying inspection had not been done but that inspection records were not complete at that time as evidence that it had been done. I would like to say, and I am sure that this has been said many time before, that this was a development program and it differs substantially from a production program, not only in inspection aspects but in others.

Mr. Winch: In view of what you just said that the inspection records were not complete when the fire took place on November 5, 1966, why when we, as a Committee, went there some two months ago were the inspection records still not complete as shown to us on board ship?

Mr. Annan: I must point out, Mr. Winch, that immediately after the fire those records were impounded by the Crown and there was no further action that could be taken on it.

Mr. Winch: When did you get them back?

Mr. Annan: I could not tell you without checking.

Mr. Winch: Did you get them back before two months ago? The fire took place in 1966.

Mr. Annan: I would have to get the answer to the question.

Mr. Winch: You see the purport of my question now: they were not complete when we went there two months ago.

Mr. Annan: But I am not sure that that is really relevant in the situation, Mr. Winch, because after all we were in a completely different situation on the latter part of the program. What had gone before, was gone—had disappeared. Those inspection records have no validity in the new situation

Mr. Winch: If they had no validity on the situation, are you now for the third time in the last few minutes going to say that you disagree with the statement in the Board of Inquiry Report—and this is recognizing what you have said about all the tests of manufacturers et cetera—and I quote:

> There was evidence to indicate that some of these connections had not been properly installed and there was no record to indicate that certain of these connections had been inspected by the Company inspectors.

That is a definite statement in the report.

Mr. Annan: The second part of the question relates back to the subject of inspection records we have just been discussing, and I am sorry I did not complete my statement.

Mr. Winch: I am sorry.

Mr. Annan: I will come back to it. But the first part of your question as to improper installation, the Company has no evidence to support the view that there was improper installation.

Mr. Winch: Can you inform this Committee as to why a board of inquiry held by the Department of Defence Production and the Department of National Defence definitely states that there was evidence to indicate that some of these connections had not been properly installed?

Mr. Annan: I cannot tell you why that should be, Mr. Winch, except to say that the Crown may be privy to information that we have not got. In our own investigation, and on the facts available to us, we had no reason to believe in any sense that there was improper installation.

Mr. Winch: This being so important, Mr. Chairman, I wonder if I could ask you, sir, if there is anybody here from Department of Defence Production or the Defence Department who can tell us about this definite statement that there was evidence that these connections had not been properly installed?

The Chairman: Captain Allan, I think you had a part in drafting this report, so perhaps you should answer the question.

Captain T. S. Allan (Hydrofoil Project Manager): The statement is based on two factors; one a photograph of a particular joint which failed in a different way than the other joints that had failed during the fire; it appeared to fail mechanically rather than burning through. We did not consider this conclusive evidence, but we felt it was evidence to indicate that probably the clamp had been put on incorrectly; in other words, it had been put on either on the wrong side of the bead on the pipe or on top of the bead itself and, therefore, it was not sufficient to hold the clamp on in a mechanical situation which might tend to pull the pipe out of the hose connection. I have a photograph of the particular joint to which I am referring.

Mr. Winch: Therefore, Captain Allan, you disagree with the statement we have just heard now, that they challenge this statement?

• 1005

Capt. Allan: Yes, but in fairness, my intent in the words I chose was that there was evidence to indicate this, but not conclusive proof. There was not conclusive evidence.

The other bit of evidence which led me to make that statement was that the type of clamp which was authorized by Engineering was a particular type with a particular screw mechanism and there were other types of clamps employed. I am not saying the other type of clamp was not effective.

Mr. Winch: But it was not the one specified?

Capt. Allan: We could find no evidence to indicate that Engineering had approved the substitution clamp.

Mr. Winch: You are saying now there was a substitute clamp that differed from the specification?

Capt. Allan: Yes. We could find no evidence that it had been approved by Engineeering. Perhaps it had been, but we could not find any in the records which we impounded. I have two photographs to substantiate what I would consider evidence. In my opinion, they are not conclusive evidence, and perhaps this is the difference of opinion between de Havilland and myself.

The Chairman: I gather from the evidence submitted that the Department specified a certain type of clamp and this passed your requisitions, and you expected that clamp to be used but apparently this clamp was not used by the Company; am I correct in that?

Capt. Allan: Partially correct, Mr. Chairman.

The Chairman: We want to be wholly correct.

Capt. Allan: Yes. We did not at that time in the program approve every detailed specification. When we saw hardware or a particular type of equipment going in which we felt was not adequate, we had the option of "blowing the whistle" so to speak. At no time in this particular hose and clamp arrangement did we "blow the whistle", but we did not, on the other hand, formally say, "We accept that particular clamp".

The Chairman: In other words, you are saying they went ahead and used the type of clamp that was not specified by you, but your inspectors allowed it to be used?

Capt. Allan: That is correct, and they had every contractual right to use a clamp which they felt was adequate and met the intent of the contract. What I am saying is that on the investigation after the fire we found clamps which, to the best of our knowledge, were not approved by their engineering personnel; we could find no documentary evidence to prove it. I stress this point of documentary evidence because this is a contractual term that they were obliged to meet.

Mr. Winch: Could I ask while Captain Allan is here, were you part and parcel to signing this report where it said:

> . . . there was no record to indicate that certain of these connections had been inspected by the Company inspectors.

and on what did you base that statement?

The Chairman: Are you reading from the report?

Mr. Winch: I am reading from the Inquiry Board report, Mr. Chairman.

The Chairman: On what page, Mr. Winch?

Mr. Winch: On page 3, as submitted to us by Mr. Armstrong.

The Chairman: What number is it?

Mr. Winch: It is the last part of Number 10. That is a rather important statement and I think it needs clarification.

The Chairman: I might say while Captain Allan is getting that ready that what kind of clamps were used is not a minor thing by any means. We have been told that this might have been the cause of the fire, and the fire cost the taxpayers $6 million. So we are dealing with a very important subject here.

• 1010'

Capt. Allan: Those are my words so I certainly agree with them and I based them on the fact that when we examined the hydraulic system inspection record pertaining to the system as it was then designed, there were a number of operations of which we had no record or there were no records in the inspection document to indicate they had been inspected. For example, on operation 250, there were various tube assemblies, roughly eight or nine, and this represented the entire plumbing from the return manifold, which is the low pressure side of the hydraulic system, and there were no inspection stamps to indicate that that particular portion of the system had been inspected. Here again I am not saying it was not inspected but there were no inspection stamps to indicate to us by providing documentary evidence that it had been inspected. This is part of the system which was in operation at that time.

Mr. Winch: Is it customary, under your operation and to your knowledge, when the company inspects, that there is then to be a stamp and an initial put on that inspection?

Capt. Allan: Yes.

Mr. Winch: And this was not done?

Capt. Allan: This was not done in certain of the operations and this is the basis of my statement here. But I think in earlier testimony I said that I felt the problem was not that the inspectors were not doing their job per se. I think the problem arose because Production were not offering up completed assemblies to Inspection for their formal inspections. In other words, the production state of the ship, the installation state of the ship, was further ahead than Inspection in their inspections. Commodore Bridgeman referred to this situation as "behind in their bookkeeping". It was not behind in the sense that Inspection had a backlog to do. The backlog was that certain installations which had been completed had not been offered up to Inspection for their formal inspection and therefore stamping, signing, date, etc.

Mr. Winch: Is it your view, when a major test is to be put on, that all inspections should have been made, you expect them to be made, and there would be verification that they had been done?

Capt. Allan: Yes, I would expect them to have been done.

Mr. Winch: But it was not done on this occasion?

Capt. Allan: It was not done. There is a difference of opinion. . .

Mr. Winch: Does your study coincide with what our hon. friend said a few moments ago that there was only one man inside the engine room and two outside? Have you any evidence or indication of why the mechanical chain was not pulled when there were two men outside?

Capt. Allan: There was one man in the engine room, two men in the compartment immediately after the engine room, and I would have to agree with the company's statement. The man who was in the engine room and who was burned, whose clothing was on fire, staggered to the bulkhead door—the one to which you refer—and I have just checked our own internal document to make sure my statements are valid. He staggered to the bulkhead door and the two men in the aft compartment got to him, put the fire out, and it required both of them to get to the hatch and out of that compartment up on the upper deck. When they got up on the upper deck, they could not get back down because of the smoke and this, I think, was covered in earlier testimony. In our opinion, the two men had a choice of saving the man or pulling the chain and they elected to save the man. In our opinion at the time of the enquiry, we would not fault them on this.

The Chairman: While you are on that question, Captain Allan, on page 2, paragraph 5, it says:

> There was one eye witness, a de Havilland employee, . . .

Are you saying now that that is incorrect?

Capt. Allan: No, I am saying that that is correct. There was one man in the engine room, where the fire occurred, and two in the compartment after the engine room.

The Chairman: Is there some other place in this report that says that there were three men on board? Not to my knowledge.

• 1015

Mr. Winch: Not according to our evidence either. There were only two.

Capt. Allan: I do not think I covered the point as to how many were on board. I think we are probably getting confused in what I meant by eye witness. There was only one man who witnessed the hydraulic fluid—what he took to be hydraulic fluid—coming out of the area of the engine room which then ignited. And this is what I call an eye witness. There were many other people on board the ship.

The Chairman: Mr. Winch, do you have another question?

Mr. Winch: I would like Captain Allan to stay there if he does not mind. Is it normal, on a major test in the engine room, to have only one man inside?

Mr. Annan: It is not abnormal. If there had been a second man in the engine room, I cannot predicate that circumstances would have turned out differently than they did turn out on that day. In the first place, the man would have no facility to release the ship's CO-2 system without vacating the engine compartment, going aft to do so into the next compartment. And I also feel that in the same circumstances, with the first man in the engine room having been injured and on fire, a second man would have done exactly the same thing as the two men who were standing outside the compartment did. He would have attempted to save the man. I doubt, which you did, that he would have gone to the manual release.

Mr. Winch: Although it is right there.

Mr. Annan: No, it is not there, sir. It is not in the engine compartment.

Mr. Winch: No, I know exactly where it is. I was on board ship.

Now may I ask, Mr. Annan, if you would give us your comment—and this is the reason I asked

Capt. Allan to stay, sir, in the hope that he would also afterwards—on the statement in the enquiry report on page 3:

> . . . National Defence personnel had not been advised that this particular test was planned for Saturday, 5 November.

If you were not advised, why not?

Mr. Annan: First of all, let me say that there was no contractual requirement to advise the service. This was not an acceptance test and I want to make this clear. This was a stage debugging of a system. It was not being offered up to the customer for witnessing and acceptance test. And we normally—and I think most people normally, at least in the aircraft business—would not invite a customer in until we were ready to offer the product up for acceptance. It may involve witnessing tests—fine. I think in this case there had been an informal agreement with the naval people and they usually were aware of tests and could choose whether or not to attend a particular test, depending on their interest in that particular test. I think there was no requirement. There had been an informal understanding carried forward. I would put it in the category perhaps of courtesy. Again we were not offering the system up for acceptance.

Mr. Winch: Then, Capt. Allan, on the hydrofoil, of which you were the naval overseer, were you usually advised about tests? Did you usually have somebody there when tests were undertaken, especially of this magnitude, and did you, because of the procedures in the building of this hydrofoil, anticipate that you would be advised of this test?

Capt. Allan: I will try to answer each one in turn. We would anticipate being advised, yes. There was a system set up, albeit informal, if that is the correct word, by which we would be advised.

Mr. Winch: There was an understanding that you would be advised of tests?

Capt. Allan: Yes. And we had actually asked on the Friday night whether there was any likelihood of a test taking place on the Saturday and the opinion then—and it was an honest opinion—was that there would not be a test on Saturday. As events turned out, the work program on the Saturday progressed better than they had anticipated—by "they" I mean de Havilland—and they elected to do the test.

Mr. Winch: But you were not notified?

Capt. Allan: No. There is no contractual requirement to notify us.

Mr. Winch: But there was an understanding.

Capt. Allan: There was an understanding. Normally we would have been there. But Mr. Annan is quite correct in saying that we would elect not to be there if we so thought.

• 1020

Mr. Winch: But you would have been there . . .

Capt. Allan: Normally we would have been there, particularly at this stage of the activation because it was just beginning to activate the system and this was the first time the electrical generators were going to be put on load. So we would have been there for that. But I would not read too much significance into it—and this is an opinion—because I do not think that had we been there events would have been much different because the person that I would have assigned to go would have been there primarily to see how the electrical system was performing under this first test. Again, he would have been looking at the electrical side of it as opposed to fire fighting.

Mr. Winch: Mr. Chairman, may I just say to both the de Havilland people and to Captain Allan that this Committee does place significance on a board of inquiry report; it is not something that we do not consider of real significance.

May I ask a further question on the inquiry board report?

Mr. Cullen: Excuse me, Mr. Winch, I have one short supplementary.

Mr. Annan, I can understand your not notifying the government, in its position as the owner, of the contractor coming in, because you were debugging, or working it up, but in this particular contract the government stood in two areas. It was in the position of the owner to yourself, asking you to do a particular job—to build this particular ship—but, in addition to that, it stood in the same position as the insurance company.

Did you not feel that under your insurance coverage, there was a contractual obligation to notify the government in that capacity—not as owner requiring a ship to be built but in the position of being the insured?

Mr. Annan: Mr. Cullen, in the first place, I would not have thought that any of us would have placed a legal interpretation on the advice to the customer to attend. I would also like to point out that the decisions to test, or not to test, and the decision on when to test and the advice to the Crown, are really at a working level—at a supervisory level—and those people are not normally involved in matters of insurance and contracts. I am sure this would not have occurred to the people who made the decisions. Does that answer your question?

Mr. Winch: I just have one further question on the fire itself. In the inquiry board report they make certain recommendations, and on page 3 we were given this information:

> (c) That flammable fluids be isolated where practicable from potential ignition sources.

Were there flammable fluids in the engine room that led to this recommendation?

Mr. Annan: Mr. Winch, are you speaking of flammable fluids that may have been there on a temporary basis, or are you thinking in terms of ship systems?

Mr. Winch: In a ship system I imagine it would not be there, but you were going to undertake a generating test. This recommendation leads me to believe that on a temporary basis there must have been flammable fluids in the engine room. Is that correct?

Mr. Annan: No, sir.

Mr. Winch: There were no flammable fluids in the engine room?

Mr. Annan: No temporary flammable fluids. If you are referring to ship systems, of course, there are flammable fluids, and I would refer that question to Mr. Heaslip, because it is a technical one.

Mr. Winch: I am talking about flammable fluids. Was the housekeeping such that there were flammable fluids in the engine compartment at the time that you made this stand?

Mr. Annan: The answer is no; to the best of my knowledge, no.

Mr. Winch: Information was given to our Committee at a previous meeting that some of the joints, or other equipment, that reach a high temperature had not been covered, although they are now covered. Before you undertook this kind of test why were not all high-temperature joints or equipment covered? In other words, what sparked the fire?

Mr. Heaslip: I presume you are referring, Mr. Winch, to an item in Captain Allan's report, where he indicated—I have forgotten the exact words—that a portion of the exhaust casing was uncovered. Is that the item you are referring to?

• 1025

Mr. Winch: Yes; which we understand can go up to 4,000 degrees?

Mr. Heaslip: Up to 1,000 degrees, I think. There is insulation designed for that particular element. This is a long pipe, which runs from the floor of the compartment to the deckhead. It contains a duct of about a foot in diameter, part of which is a flexible joint to allow for the expansion and contraction within the temperature range.

The part as designed for that casing was not available at that particular stage of the ship's development. I am sure you will appreciate that this is a continuum in relation to manufacturing and insulation. So that work on the ship as a whole could progress temporary arrangements were made for the installation of that duct. The upper part of the duct was insulated with an asbestos-type material in the general fashion of naval practice, but over the section where the bellows existed that could not be used because it would not accommodate the movements that are associated with a bellows joint. In that area a temporary insulating blanket was laid out. It did not fit exactly. It takes the final, design product to ensure that the fit is exact. At the facing surfaces of the joint there were small gaps. These were positioned away from piping which carried flammable fluids. One can only presume that through deflections, and so on, the fluid did find a hot spot, or one can presume, if you like, that this was the hot spot.

Mr. Winch: That is all I want to know. Does that mean, then, that you would conduct a test of this importance, and with possible serious complications, without first of all making sure all the hot spots are protected? This obviously, from what you have just said, you did not.

Mr. Heaslip: I think there is evidence to show that in that particular area there were parts of the casing not completely covered. But I would remind the Committee that also included in that engine room was a standard marine diesel engine. It was installed in a standard marine way, with all the precautions that are normally taken on a standard marine installation. But that item has hot spots on it which are in the same order as the casing we are talking about here. Therefore, if one is looking to marine practice in machinery compartment you can find—and it is standard naval practice—exposed machinery with temperatures in the region of what we are talking about.

Mr. Winch: I am sorry, sir; but the evidence given to us at a previous meeting was that in relation to the engine room and what goes with it, it is based more on aeroplane practice than on marine practice, in that they use fluids which are far more volatile than those we find in the marine area. Therefore, in view of that evidence, should not the procedure have been based on the more highly volatile type of fluid? We were told it was more of an aeroplane type than a marine type.

Mr. Heaslip: That is right, Mr. Winch; you have chosen the correct word. The hydraulic fluid is more volatile than many of the fluids normally used in marine applications. But the fluids used in the marine application as lubricating oils—the fuel oils—are every bit as flammable; they will burn just as violently. In fact, in many applications these less volatile fluids are a greater fire hazard because they do not evaporate on impinging on hot surfaces.

Mr. Winch: Therefore, in relation to protection and inspection it was not marine normalcy you should have been considering but aeroplane normalcy? Or am I wrong in that?

Mr. Heaslip: I was trying to respond, Mr. Winch, to your question about covering all hot spots. . .

• 1030

Mr. Winch: I am relating my question to highly volatile, aeroplane-type fluids.

The Chairman: May I put a question here, and then move along to the next. . .

Mr. Winch: Just a moment, Mr. Chairman. Before you do that—and I want to thank you for your consideration—the answer coming up will complete my questions on the fire. I am deliberately not asking questions on the insurance because it is only fair that others should have an opportunity.

The Chairman: While we are on this matter of insulation, Captain Allan, would the Committee be correct in assessing it in this way. You stipulated a certain type of insulation and design for these pipes and the Company found that this was not available at the time, so they went ahead and used a temporary insulation. Did your Department check and test this and were you aware that a temporary insulation was being used and that these joints were not properly covered, because of the type of insulation which you had specified?

Capt. Allan: We did not specify the insulation but we were aware that it was going in. By "we" I mean myself, specifically. I was aware there were gaps in the hot exhaust ducting. They were not large gaps but nevertheless there were gaps and I was aware that tests were being conducted with these gaps in existence.

In my opinion, the risk was reasonable under the circumstances, and I am talking pre-fire. If you ask me today I would obviously use different words but I am trying to be honest with you. At the time I thought the risk was reasonable.

The Chairman: So both you and the Company took a chance, as it were?

Capt. Allan: Yes, I think so but I think the thing to consider is the environment at the time and the degree of risk involved. You know this happens in everyday life. In hindsight, we were wrong. I do not think there is any question but at the time I thought the risks were reasonable.

The Chairman: It turned out to be a pretty expensive chance.

Capt. Allan: Absolutely; there is no argument there.

The Chairman: Before we go into the insurance aspect we were told why the Department was not informed, and I think Mr. Annan, as a matter of courtesy, it would have been nice for you to have informed them. I know it was not contractual but you had informed them on other occasions and I think the Committee are at a loss to know why they were not informed on this one, regardless of what they could have done the Department officials should have been on hand. Why was it on a Saturday afternoon? This is a most unusual day, and is generally a day off in most firms.

Mr. Annan: Well, Mr. Hales, I would have to disagree that as far as the hydrofoil was concerned, Saturday or Sunday is an unusual day to work. Under the pressures of this program our people have, in many instances, been working seven-day weeks and extremely long hours. A 56-hour work-week is considered normal, and it is no surprise whatsoever to have been doing something on a weekend. If we had an opportunity to do it, we would do it because the consequences of a one-day delay are so staggering in financial terms that you must do everything you can to further the program.

The Chairman: Mr. Crouse, do your questions concern the matter of insurance?

Mr. Crouse: No, Mr. Chairman.

The Chairman: If not, proceed...

Mr. Crouse: I would like to direct a few general questions to the witnesses before us. First, under the terms of the contract was de Havilland responsible for the design, construction, and the testing of the hydrofoil?

Mr. Annan: Yes.

Mr. Crouse: You stated that the test which was made on the day the fire occurred was a debugging operation which explains why you were not offering this system for acceptance since the fire occurred while you were testing why would you or your insurance coverage not be held responsible for the fire?

Mr. Annan: Well, I think that is very clear, Mr. Crouse. It is very clear to us. In the first instance, the contract specifically directs us, or forbids us to take out fire insurance.

Mr. Crouse: This was a direct order, Mr. Chairman, from the Department of National Defence or Department of Defence Production.

Mr. Annan: It is a term of the contract, sir.

Mr. Crouse: Yes.

Mr. Annan: Secondly, the Crown under another arrangement insured the ship as a self-insurer.

Mr. Crouse: Therefore, when you agreed to take the contract and agreed to be responsible for design, construction and testing, this did not include any insurance.

• 1035

Mr. Annan: This is right, yes.

Mr. Winch: Even if you were guilty of negligence. I say, even if you were guilty of negligence.

Mr. Annan: Yes.

The Chairman: According to the legal opinion.

Mr. Annan: Yes. If it could be proved that we were negligent, it would have no bearing, in our view, on the legal situation as far as the insurance was concerned.

Mr. Crouse: All right, Mr. Chairman, you have told us that the system was pressure tested. What we would like to know is what heat tests were made on the hose and clamps, in addition to the pressure tests?

The Chairman: Mr. Heaslip.

Mr. Heaslip: Mr. Crouse, no specific tests were made with respect to the elevated temperature operation of the joints. I presume the question is asked because reference has been made to these joints being close to a gas turbine engine which has a high temperature surfacing. Is that correct?

Mr. Crouse: Well, that is partly correct. I have another question I would like to follow up with. The question of heat and the tests which you made to determine how much heat these couplings would stand in addition to the pressure is a most important one at this time to this Committee. You told this Committee that you tested them for pressure.

Mr. Heaslip: That is right.

Mr. Crouse: This is understandable. You had to determine what pressure these connections would stand under operating conditions but it would also seem to be important—since you were responsible, you told us, for the design, the construction and testing of the hydrofoil and its equipment—to determine how much heat these couplings would stand in areas where they were exposed to heat. This is only logical.

Mr. Heaslip: Right.

Mr. Winch: And not covered I presume, Mr. Crouse.

Mr. Crouse: Well, this is another question. They were not covered with asbestos covering, which is normal shipbuilding practice.

Mr. Heaslip: I say, again, that there were no specific tests done at elevated temperatures. The coupling is designed to operate in a reasonably hot environment, and I would just have to take a ball park guess at what that limit would be at the moment. I think that type of coupling is normally used at temperatures up to about 250 degrees. That kind of a number. I am sorry I cannot give you anything more exact than that at the moment.

The surface temperature at that coupling would be significantly less than that, even though it was operating close to a gas turbine engine that had a touch temperature of about 400 degrees Farenheit. You do not have to move many inches away from that until the environmental temperature is significantly reduced. In fact, you can walk past this thing, or very close to it and not feel any great heat at all. In addition, the system is carrying fluid at all times at a temperature of around a hundred to 150 degrees. The selected system was entirely incompatible with that environment.

Mr. Crouse: All right.

The Chairman: All right, Mr. Winch.

Mr. Winch: When I was speaking about the exposed temperatures, especially on the exhaust trunking I said, from memory, that it was up to 4,000 degrees. I want to correct that, sir, because I have now had a chance to check it, and the exhaust trunking of the auxiliary gas turbines reaches approximately 1,000 degrees Farenheit. I just want to correct that in case any questions were based on it.

The Chairman: Mr. Crouse, continue.

Mr. Crouse: That is exactly what I was going to mention. The report before us stated that the heat was approximately 1,000 degrees Farenheit when the engine was operating, not 400.

The Chairman: Mr. Crouse, will you please speak a little louder

Mr. Crouse: The report before us states that the exhaust trunking of the auxiliary gas turbine reaches approximately 1,000 degrees Farenheit when the engine is operating, not 400 degrees which we were just informed.

The Chairman: Mr. Heaslip.

Mr. Heaslip: I was referring to the engine casing, not the exhaust.

Mr. Crouse: But you initially told us that you were responsible for the testing, design and construction. Mr. Chairman, we are trying to determine who is responsible for the fire. Now, you have stated that the Company has no evidence that there was improper installation. Have you seen the pictures of Figure 3 of the Report tabled on March 6, 1969, before this Committee? Do you believe that this type of fitting is adequate?

Mr. Heaslip: We are now seeing it for the first time.

• 1040

Mr. Crouse: It shows a view of damage after the fire and it says:

Note hose and couplings

My question is, in proper marine construction do you believe this type of fitting adequate, bearing in mind that it was your responsibility to design and produce this ship?

Mr. Heaslip: I would answer yes to that without qualification, Mr. Crouse. I would like to take a minute of your time and explain the circumstances. Any joint in any system anywhere has to do a number of things. Our problem here was to provide a coupling which was adequate for the final operating function which was to contain the pressure at the pressures that were being used and to operate effectively in the environments, and at the same time provide an effective joint which would couple this multitude of pipes involved in the plumbing of this engine compartment.

You have seen the ship. You know how much space there is and you know how much piping there is in it. We were faced with the problem, after the basic design of these components, of mocking up the elemental bits of pipe at the mock-up at Toronto, manufacturing the pipe at Toronto where the equipment was available, and then, to ensure that they were compatible when they were installed in the ship at Sorel, there has to be a type of coupling used which would permit small variations in fit. There was no way that a rigid piping could be installed at this stage of the development of the ship. So this coupling then had to be adequate for its final function, which it is, and accept minor variations in shape and fit of the components as they were taken from Toronto where they were manufactured against the mock-up requirement for installation in the ship.

The joint provides that degree of flexibility. The components were tested, as you have already mentioned. The adequacy for the pressures involved is also confirmed in the military specs put out by the United States military covering this joint, establishing a working pressure capability far in excess of what was used. In addition to that, in recognizing that there was a pulsating load in a system of this kind where the pressure varies from time to time, a typical joint was taken and subjected to a fatigue test on a very large pressure variation; in fact, between zero and 100 psi, a variation greater than the working pressure itself. That test was continued for 100,000 cycles and discontinued at that point because we were more than satisfied that the joint was adequate. There was no failure.

Mr. Crouse: Mr. Chairman, apparently, the people at de Havilland were very much concerned about the pressure tests and carried them out adequately, but what you apparently overlooked were the heat tests, because if you look carefully at that picture of Figure 3, the clamps that hold that little piece of hose to the two pipes are not adequate to withstand any excessive heat.

The Chairman: Mr. Crouse, this may be borne out by the fact that those clamps and couplings have all been changed since the fire. Is that right, Mr. Heaslip?

Mr. Heaslip: In some areas they have been changed.

• 1045

Mr. Crouse: I would like to refer the witness, Mr. Chairman, to Figure 1, which shows a view of the ship system partially installed prior to fire. There you will see what appears to be a piece of flexible rubber hose. Why did you not use flexible steel piping on an installation of this type, in areas of severe vibration and contraction and expansion, because there is flexible steel piping which looks like that flexible rubber hose, but which is used in all marine installations where there is certain vibration, expansion, contraction and exposure to heat? I say this because I have built three ships of my own, sir, and I am speaking with some knowledge of shipbuildin....

The Chairman: Mr. Crouse, your question is about rubber or steel.

Mr. Crouse: Why did you not use flexible steel piping on an installation of this type in areas of some vibration, contraction and expansion?

Mr. Heaslip: In all areas where relative vibration between components was anticipated, flexible hoses were used.

Mr. Crouse: Flexible steel hoses.

Mr. Heaslip: Mr. Crouse, I am not personally aware of any flexible steel hose. I am aware of flexible hoses which have steel braiding coverings on them, but they are essentially rubber hoses. I am not personally aware of a flexible steel hose, which will contain any reasonable pressure. The flexible hoses of the type that I am talking about are used wherever there is relative motion between components. The situation we have here, in this low pressure hydraulic system, is not one of that category, We had the problem of joining elemental bits of pipe together, but we did not have a vibration problem.

Mr. Crouse: But obviously there was a heat problem, which apparently was overlooked by your designers in building this ship, or in drawing up specifications.

What company carried out the pressure test on these couplings, and is a certificate available showing the number of tests and the pressure and the heat that these couplings would stand?

Mr. Heaslip: The tests were done by de Havilland. The couplings are not bought as couplings; they are bought as the elemental bits: a piece of pipe prepared in a specified way, a length of hose of a specified standard is cut to length and a standard clamp is used. These components put together are the couplings. You do not buy them as such; you buy the bits and you perform those operations on them. They were assembled and they were tested as we have already described. They are capable of operating at the environmental temperatures to which they were subjected. I suggest, Mr. Crouse, that you may be concerned to some extent about fire resistance or fire proofness rather than heat in the environmental sense—adequacy for operation.

Mr. Crouse: You have stated there has been so much pressure put upon you during the construction of this ship, which explains why the tests were made on Saturday, and you stated you sometimes worked on Sunday. Might I ask, in view of the fact that the Plainview was built in the United States as well as the gunboat Flagstaff by Grumman, and your competitors, and the Boeing people constructed the *Tucumcari* which is a gunboat being utilized by the United States Navy at the present time, did you get in touch with any of these people to determine design features construction practices, before you literally pioneered this development?

The Chairman: Mr. Annan.

Mr. Annan: With your permission, Mr. Chairman, I would like to ask Mr. Becker, who is our Program Manager and I think the most knowledgeable on this subject, to respond.

Mr. R. W. Becker (Program Manager, de Havilland Aircraft): Mr. Chairman, since the beginning of the program with the study phase in 1960 we have had contact with the various

• 1050

American companies concerned, and both the Navy and ourselves have had close contact throughout the American programs on the West Coast. Most of them, as you know, are based in Seattle and both Naval officers concerned with the Bras d'Or Project and our own technical people have made more than one visit to the ships. We have also had discussions in Toronto, Sorel and Halifax with the American officials concerned.

Mr. Crouse: Since the Plainview built by Lockheed Aircraft Corporation of Canada Ltd. is almost twice the size of this ship and has been operative now for some considerable time, were any of the design principles of that ship made available to Canadians so that you would not have to pioneer every feature and go by guess and by God on so many of these things? Were they made available to you in any form whatever?

Mr. Becker: First, you should bear in mind that the Plainview design was undertaken by Grumman in the first instance at about the same time. They were the designers of Plainview and we had our closest contact with them at that time because Lockheed were not in the hydrofoil business then. Secondly, there are many features that will appear in all hydrofoil ships. A cross-pollination of information took place between us, for example in some features of propeller design and transmission design, although the Canadian design produced by General Electric is much more sophisticated than that in the Plainview.

There is one minor point I would like to make. To my knowledge Plainview has had only about twice as much foil-borne time at the moment as Bras d'or. They were not really significantly ahead of us in time or experience.

Mr. Crouse: One final question. Did you see any engine room installations in the Plainview or the other hydrofoils that have been developed by the United States similar to the ones that are depicted in these pictures and which you people utilized for hose clamps and connections? Did you see anything comparable to that in their ships?

Mr. Becker: I do not recall them and I would prefer not to comment on details of another contractor's design.

Mr. Crouse: Thank you, Mr. Chairman.

The Chairman: Captain Allan, it appears that the cause of this fire was improper use of couplings and clamps. I think the Committee has been told this. Mr. Crouse asked if they had been pressure-tested. He wanted to know if any outside company had tested them. They were tested by de Havilland. Did your inspectors know that they had been pressure-tested? Were they present when the pressure test was held?

Capt. Allan: We were aware they had been pressure-tested, but we were not there. They were tested in either Malton or Downsview, I have forgotten which plant, but in the Toronto area. They would normally have been subjected to government surveillance that is instituted in the Toronto facility.

The Chairman: But after they were in place on the ship was there not a test taken then?

Capt. Allan: When they were installed on the ship and pressure tested, yes. We were aware of it and we witnessed it. But that is not the sole part of the installation. Although we are both in agreement here, we disagree with what happened after that, I think.

The Chairman: All right.

Mr. Crouse: It is quite obvious, Mr. Chairman, that the pressure test could not have been adequate, because it was the hose clamping that gave way and precipitated the flammable hydraulic fluid over some heated part of the engine. This caused the fire. This is almost as logical as A, B, C. Is this not right?

Capt. Allan: We did not go quite that far. We said the most probable cause was that. Although you can do a pressure test up to one and a half times the working pressure—I think earlier on I said 300 pounds; the correct pressure is 225—the thing is that it is a static pressure and in a running condition you may get fluctuations or a dynamic condition which can cause leakage. This is the point I was trying to emphasize in one of these photographs. We felt that perhaps the clamp had been put on improperly, if that is the right word. It may have passed the static pressure test, but over a period of operations with vibrations it could come loose.

The Chairman: Yes, but Captain Allan, the fact that they have been changed would lead the Committee to believe that they were not proper to start with.

• 1055

Capt. Allan: Well, it is a question of judgment of what is an acceptable risk and what is not. Having been burned once, literally and figuratively, we elected not to assume the risks that we took before. Therefore we advanced on a broad front, if you want to call it that. We changed our couplings, we isolated the heat sources, and we took other precautions. We increased fire-fighting protection and so on.

Mr. Winch: I would like to ask a very brief question. As a result of the fire and what you thought was the probable cause, in the rebuilding have you used a different type?

Capt. Allan: In the systems where there is a risk of fire if a leak occurs, that is, where it is either carrying inflammable fluid and/or it is close to a heat source, we have used a different connector. We used this type of connector in systems where the risk is low, that is, where the system is carrying water or oil which is not as inflammable and it is isolated from heat sources.

The Chairman: I was going to say that we have locked the door after the $6 million has been lost. I do not know if that is a fair statement or not, but I hope it is.

Now we would like to table two letters. I am not going to read them, but the two letters are to be tabled as appendices. One is from the Auditor General, dated May 13, re the legal opinion on the hydrofoil fire, and the second one is from the Director General, Audit Service Bureau, Department of Supply and Services, dated May 16, re independence of Audit Service Bureau re-audit of the *Bonaventure* contract. With your permission those will be tabled for your perusal.

Mr. Noble has a few questions to ask, and then I think Mr. Cullen wants to ask one on insurance.

Mr. Noble: Mr. Chairman, I would like to ask if couplings and conductor pipes similar to those used in the hydrofoil have been used by de Havilland in the manufacture of other productions from its plant?

Mr. Heaslip: Used in other applications?

Mr. Noble: You produce other items in your plants and I am wondering if you use this material in other productions as well—the things you used in the hydrofoil.

Mr. Heaslip: The answer is "yes."

Mr. Noble: Then I would like to ask; Did you make tests of this material in any way before the installation in the hydrofoil?

Mr. Heaslip: Yes, sir. We have tried to describe those tests.

Mr. Noble: Well, one last question. Would it be fair to say that if your company had had the

responsibility of this fire loss, that you would have been more careful in respect of the precautionary measures that were taken?

Mr. Heaslip: We exercised every reasonable precaution at the time.

Mr. Noble: That is all, Mr. Chairman.

The Chairman: Mr. Cullen.

Mr. Cullen: You have had the responsibility for designing and building, and the $40 million question is: Is it going to work?

The Chairman: Is the hydrofoil going to work?

Mr. Heaslip: That is a very good question and I can only answer it in part, Mr. Cullen. There has been some measure of foil-borne time accomplished on the hydrofoil to date, exploring into the operating envelope of the ship. Everything that has been tested and evaluated to date is performing at least up to expectation and generally better than expected. I think it looks very good for the future, and Captain Allan might want to participate in this answer by giving the Navy's opinion.

Capt. Allan: I concur.

Mr. Cullen: Is the speed classified?

Capt. Allan: We have not opened up the speed envelope to the maximum. We have a small technical problem on which a temporary fix has been evaluated. It appears to be successful and we are now incorporating that fix. While we are incorporating it, we will be doing displacement trials. We see no reason why we cannot expand the flight envelope out as far as is operationally attractive. We do not really know what the top speed is going to be until we try it.

Mr. Cullen: It has not been tested in heavy seas yet, has it?

Capt. Allan: We have tested it in four-foot waves and frankly you do not know you are in four-foot waves, let me put it that way.

Mr. Crouse: Could I ask a supplementary? Has the sonar problem been tested and rectified?

Capt. Allan: As you know, the program at the moment is only a vehicle evaluation to complete and take delivery of the fighting equipment.

• 1100

So a short answer to your question is "no", we have not installed the sonar and tested it. But as part of its production the sonar equipment has been tested, yes, in a static installation.

Mr. Winch: I have one brief question. I have to be hypothetical, but this is rather important. If the cause of this fire was found to be the responsibility of the Havilland and a judgment was obtained against de Havilland, would you then in turn sue the government as they were the insurers of the ship?

Mr. Annan: Well, Mr. Winch, we can only say we do not know. You are predicating a hypothetical situation. We think we are adequately covered under the government insurance provisions, and outside of that I do not really think that we have any opinion at this point in time.

Mr. Winch: Thank you.

The Chairman: Gentlemen, would you like to conduct any further questioning of the de Havilland principals? If so, we could arrange to sit this afternoon. But if you think we have had sufficient information, we will let them journey back to Toronto.

Mr. Winch: I have asked all my questions.

Mr. Cullen: I am satisfied. With the questions we have been asking, I do not know whether we have established anything or not. Whether we establish negligence or not on behalf of de Havilland, the big question is, so what? They are covered by insurance.

The Chairman: Gentlemen, it has been very useful to have had first-hand information. We thank you gentlemen for coming and hope that we will have no more fires.

Appendix "P"

AUDITOR GENERAL OF CANADA
AUDITEUR GENERALE DU CANADA

Ottawa, May 13, 1969.

Dear Mr. Hales,

Paragraph 97 of Auditor General's Report, 1967—Hydrofoil development program

At the Committee's meeting last Thursday, May 8th, reference was made by Mr. Cullen to the opinion given by Mr. R. H. Evans, Solicitor, Legal Branch, Department of Defence Production, on December 1, 1966, concerning the liability of the contractor for damage to the hydrofoil vessel as a result of fire on November 5, 1966.

In the discussion which followed you asked if I would consult with my legal advisers with a view to securing an outside or independent opinion. I have therefore discussed this matter with my legal advisers who have been following the Minutes of Proceedings and Evidence published thus far and therefore had reference to the opinion in question which appears as Appendix F on page 425 of Minutes of Proceedings and Evidence, No. 25 dated March 18, 1969.

In a discussion of this matter with them today, my legal advisers say they share the opinion given by Mr. Evans on December 1, 1966 and do so on the basis that the only provision of the contract that has application is, as quoted by Mr. Evans in his letter, Section 12 of DDP-26B (R.5/60) having to do with the care of Crown property. As Mr. Evans noted, this section makes the contractor liable for any loss arising from his failure to take reasonable and proper care, except where the loss is attributable to fire.

I have sent a copy of this letter direct to Mr. Cullen for his information.

Yours sincerely,

Alfred D. Hales, Esq., M.P.
Chairman, Public Accounts Committee,
House of Commons,
Room 549-S, Centre Block,
Ottawa.

Appendix "Q"

Concord Bldg., 280 Albert St.
Ottawa 4, May 16, 1969

Mr. A. D. Hales
Chairman, Public Accounts Committee
House of Commons
Ottawa, Ontario

Dear Mr. Hales:

I am writing to thank you for the courtesy extended to me during the meeting of the Public Accounts Committee on Thursday afternoon.

Given the opportunity, I had hoped to comment on the independence of the Audit Services Bureau which, I understand, was questioned during a previous meeting of your committee. I believe that the question arose from the fact that my Bureau and the contracting officers involved in the "Bonaventure" contract are now part of the new Department of Supply and Services.

While it is true that we share the same departmental name and are responsible to the same Minister, the departmental organization is designed to clearly segregate the Supply function from the Services function. The contracting officers report to Mr. G. W. Hunter, Deputy Minister of Supply, while we report to Mr. H. R. Balls, Deputy Minister of Services.

You are undoubtedly aware that independence is a prime concern of the professional auditor. We enjoyed it in full measure when we were part of the Office of the Comptroller of the Treasury. I am aware of no diminishing in that happy state now that we are part of the Department of Supply and Services.

Yours sincerely

G. H. Cheney
Director General
Audit Services Bureau

The Queen's Printer, Ottawa, 1969

HOUSE OF COMMONS

First Session—Twenty-eighth Parliament

1968-69

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: Mr. A. D. HALES

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 39

TUESDAY, MAY 27, 1969

THURSDAY, MAY 29, 1969

Public Accounts, Volumes I, II and III (1966 and 1967)

Reports of the Auditor General to the House of Commons (1966 and 1967)

WITNESSES:

(*See Minutes of Proceedings*)

20363—1

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. A. D. Hales

Vice-Chairman: Mr. T. Lefebvre

and Messrs.

[1]Bigg,	Guilbault,	Noble,
Boulanger,	Harding,	Rodrigue,
Cafik,	Laflamme,	Tétrault,
Crouse,	Leblanc (*Laurier*),	Thomas (*Maisonneuve*),
Cullen,	Major,	Winch—(20).
Flemming,	Mazankowski,	
Guay (*Lévis*),		

(Quorum 11)

Edouard Thomas,
Clerk of the Committee.

Pursuant to Standing Order 65(4)(b),

[1] Mr. Bigg replaced Mr. McCutcheon on May 22, 1969.

MINUTES OF PROCEEDINGS

TUESDAY, May 27, 1969
(43)

The Standing Committee on Public Accounts met this day at 9.38 a.m., *in camera*, the Chairman, Mr. A. D. Hales, presiding.

Members present: Messrs. Boulanger, Cafik, Crouse, Flemming, Guay (*Lévis*), Hales, Harding, Laflamme, Leblanc (*Laurier*), Lefebvre, Noble, Rodrigue, Thomas (*Maisonneuve*), Winch—(14).

The Committee discussed the points to be included in its reports concerning *HMCS Bonaventure* and *HMCS Bras D'Or*.

By unanimous consent, the following motion tabled by Mr. Cafik at the meeting held April 29, 1969, was withdrawn:

> "The Committee of Public Accounts conclude that the briefing room seating arrangements and writing trays referred to in the job description attached to X81 on D.D.P. Form 779 dated June 20, 1966 are in fact the same items as referred to in X427 on D.D.P. Form 779 dated October 6, 1966.
>
> This Committee therefore resolves that X427 is a duplication of work performed under X81 and therefore recommends that the sum of $4,173.00 be returned to the Receiver General of Canada by Davie Shipbuilding Limited."

At 10.40 a.m., the Committee adjourned to the call of the Chair.

THURSDAY, May 29, 1969
(44)

The Standing Committee on Public Accounts met this day at 9.38 a.m., the Chairman, Mr. A. D. Hales, presiding.

Members present: Messrs. Bigg, Cafik, Crouse, Cullen, Flemming, Guay (*Lévis*), Hales, Leblanc (*Laurier*), Lefebvre, Major, Mazankowski, Noble, Rodrigue, Thomas (*Maisonneuve*), Winch—(15).

Also present: Mr. Noël.

Witnesses: Mr. G. R. Long, Assistant Auditor General; Mr. H. E. Hayes, Audit Director, Auditor General's staff.

The Committee agreed to accept examples of errors in the Public Service Superannuation Account pension and contribution calculations as an appendix to this day's proceedings. (*See Appendix R*)

The Committee questioned the witnesses concerning the following items of the Auditor General's follow-up report:

18—Interest Charges on Loans to the National Capital Commission;

20—Indirect Compensation to Chartered Banks;

20363—1½

21—The Canada Council;
22—Surplus Assets Disposal;
23—Awards under the Pension Act;
24—War Veterans Allowances.
25—Amendments to the Customs Act and the Excise Tax Act.

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

Edouard Thomas,
Clerk of the Committee

EVIDENCE

(Recorded by Electronic Apparatus)

Thursday, May 29, 1969

• 0941

The Chairman: Gentlemen, on January 30 we were dealing with the follow-up report of the Auditor General to our Committee on the action taken by departments and agencies in response to recommendations by this Committee to the House, and we were on page 9, item 17, which had to do with "Errors in Public Service Superannuation Account Pension and Contribution Calculations". At the close of that meeting, according to the record, the Committee asked the Auditor General's office if it would provide the Committee with examples of the worst types of errors in connection with the superannuation operations. This has been circulated to the members and you may now ask questions on it if you wish, but we expect to have an official from the superannuation branch before the Committee and I think it might be better to ask the questions at that time, and if it is your wish we could have it tabled as an appendix to our Minutes of Proceedings. Agreed?

Some Hon. Members: Agreed.

Mr. Cafik: This is in respect of what item?

The Chairman: Item 17 on page 9, Mr. Cafik.

Mr. Cafik: Thank you.

The Chairman: Item 18 is headed "Interest Charges on Loans to the National Capital Commission". Mr. Winch?

Mr. Winch: May I ask if a member of the Department of Finance is here to explain this?

The Chairman: I do not think so, not today.

Mr. Winch: The reason I asked is because as far back as 1963 there were reports and follow-up reports and we were told that since 1963 no discussions had been initiated by the Department of Finance. I think it is very important that we have a representative of the Department of Finance before us in order to explain, according to the comment of the Auditor General, why no discussions have been initiated since 1963. It is now 1969.

The Chairman: Mr. Winch, I think your point is well taken. I suggest that we leave item 18 until next Thursday. At that time we will have an official present to answer that question.

We will skip item 19 and go on to item 20, "Indirect Compensation to Chartered Banks".

Mr. Winch: I have exactly the same question to ask with respect to this because our first report on this was made in 1963.

The Chairman: I think Mr. Long has some observations to make first, Mr. Winch. I might say that Mr. Henderson is in New York to audit the books of the United Nations. As I said before, this is Canada's year to take part and to help in this audit and Mr. Henderson is there. He will be with us on Tuesday, June 3 and on Thursday, June 5.

Mr. Long, would you like to make some observations?

Mr. G. R. Long, (Assistant Auditor General): Mr. Chairman, just to summarize "indirect Compensation to Chartered Banks", this is in reference to an amount of $100 million which is retained on deposit with the chartered banks and it earns no interest. Any amount on deposit in excess of $100 million does earn interest. The matter has been

• 0945

discussed by the Committee on previous occasions and you will note that included in the recommendation there were three questions asked. The Committee asked for an explanation of why the Department considers that an amount of $100 million should be left on deposit with the chartered banks free of interest; why it considers that the chartered banks should be compensated for the services provided by them to the government; why if it considers that they should be compensated it is not recommended that subsection (1) of Section 93 of the Bank Act be amended to permit this; and also what other means of compensating the banks for services rendered were considered and the reasons they are being discarded.

As far as I am aware there has been no further development on this and I have never seen any answers to these questions.

Mr. Winch: Mr. Chairman, may I again—and this is the third time this morning—draw to your attention that the Committee first made a unanimous report on this in 1963 and we have been follow-

ing it up. We even made a report in 1966-67, and according to Mr. Long there has still been no discussion or understanding on this matter.

The Chairman: This is another item for the Department of Finance, and we can ask them this question at the same time. I would simply say that when the Bank Act was amended about two years ago this was pretty thoroughly discussed by the Committee and all the people representing banks, government, and so on, and it was decided not to amend the Act to make this change. The Committee will have to agree or disagree with their findings and get it off the list. We will either agree with the recommendations or we will not, but we will take it off this list or leave it on. Perhaps we can settle this when the finance people are here next week.

Item 21, "The Canada Council"

Mr. Cafik: Mr. Chairman, before you go on to item 21. I am not aware of these banking arrangements. Is it the figure of $100 million that you spoke of which was without interest?

The Chairman: Mr. Long will explain that for you.

Mr. Long: The Bank Act. . .

Mr. Cafik: No, Mr. Long, I think I understood most of what you said but it is a figure of $100 million?

Mr. Long: $100 million.

Mr. Cafik: When did that policy commence?

Mr. Long: From time immemorial there has been a prohibition in the Bank Act against any charge being made for negotiating government cheques or other documents. Of course, the policy of leaving $100 million on deposit, interest free, does provide some compensation and undoubtedly this has some connection with the service that is provided to the government by the banks, but it has been done in spite of this forbidding provision in the Bank Act. When the Bank Act was amended the section that says that no charge shall be made was not changed but it did add some words in another subsection, I believe it was, to the effect that nothing in subsection (2) should be construed to prohibit any arrangement between the Government of Canada and the bank concerning interest to be paid on any or all deposits of the Government of Canada with the bank. We do not think this provides authority to any government department to be free in granting to others the use of an asset of $100 million. Our understanding is that this amendment had the effect of freeing the banks from any guilt in accepting this as remuneration.

The Chairman: In other words, Mr. Cafik, in the early days I think the banks said to the government, "You give us a charter and we will cash all your cheques free of charge, and if you leave $100 million on deposit interest free we will render all the service that you wish as far as exchange, cheques and so on are concerned". It has been that way and it might now be that. . .

Mr. Cafik: Mr. Chairman, if I may interrupt for a moment. When you say "From time immemorial", that is a long time. Could you be a bit more specific than that?

• 0950

The Chairman: When the charters were given.

Mr. Cafik: To the Bank of Canada?

The Chairman: No, to all banks.

Mr. Cafik: How was this divided up between the banks? Was the $100 million on a pro rata basis?

Mr. Long: Of course, I could ask the question what would be pro rata? I do not believe I would be giving away any secrets, but the banks decide among themselves how they. . .

Mr. Cafik: Who is the money in fact given to? Where is it deposited, with the Bank of Canada, and it in turn divides it up, or what?

Mr. Long: There is a government account with each bank where revenues are deposited and those balances are kept adjusted to give what each bank considers to be its share of this $100 million.

Mr. Cafik: Who determines how it is to be divided?

Mr. Long: I believe it is the bank.

Mr. Cafik: The banks themselves. This practice has been going on for 50 to 100 years, I gather.

Mr. Long: From the origin of the Bank Act I presume. In all fairness, I think we should recall that banks originally had a note issue privilege, which they lost at the time the Bank of Canada came into being, so this could have had a bearing on the division of free service. We have never said that the banks should not be compensated for service. This is a matter of parliamentary policy, but the point is that this section forbidding any remuneration or any charge by the banks for cashing government documents has been retained.

Mr. Cafik: Does this contradiction arise as a result of amendments to the Bank Act, or has it always existed?

Mr. Long: As far as I am aware, it has always existed. It goes back many, many years.

Mr. Cafik: You are not bringing up any new problem by this. You are just bringing to the attention of the Committee something that has always existed.

Mr. Long: The prohibition has always existed.

Mr. Winch: Mr. Chairman, may I just point out to Mr. Cafik that this matter has been before the Committee in years past, and going back to 1963. . .

Mr. Cafik: That is a pretty short time out of a hundred years.

Mr. Winch: No, no; a full study was made by the Committee in 1963. It was the view of the Committee then and of each succeeding committee that something was wrong when the government did not get interest on a $100 million when deposited with the banks.

Mr. Cafik: Has anybody, in the great study by this Committee, ever figured out what we saved in banking charges by having a $100 million? It would be quite a relevant question, I would think.

Mr. Long: Mr. Cafik, this was not the point. The point is that an Act forbade the banks to make any charge. The question of remunerating them is another matter, and this is one of the questions the Committee asked: why does the Department consider they should be remunerated? What other ways of doing this were considered? Why were they not accepted? Nothing has ever been said to the effect that the banks should not receive some remuneration, but somebody should know, and surely Parliament should decide on what basis they are to be remunerated. Is $100 million interest-free adequate remuneration? Is it too much or too little? We do not know.

Mr. Bigg: We think the Treasury Board have this information, but they have never given it to us.

Mr. Noble: Mr Chairman, under present interest rates this amounts to $8 million.

The Chairman: It is a big item now, and it gets to be a bigger item as the interest rates go up.

Mr. Cafik: I would think that this $8 million is peanuts now because of the number of cheques that go out.

Mr. Rodrigue: A lot of cheques go out.

The Chairman: Well, I think we should ask further questions of the officials of the Department of Finance. I do not like this coming up year after year on recommendations from this Committee. When we have the officials here, let us make a decision. We either want action on it, or we are willing to withdraw it, having studied it and discussed it.

Mr. Cafik: Yes, it seems like a very academic point.

The Chairman: All right, number 21.

Mr. Winch: No interest on $100 million is not academic, sir.

Mr. Cafik: No, neither is no charge on all the chequing.

The Chairman: I think we should have some of those figures so we could come to some conclusions.

Number 21, the Canada Council.

21. The Canada Council. The Committee stated that, in its Fourth Report 1963, it had noted that the Council proposed to accept the 1956 census as a basis for distribution of the profits realized and interest earned on the University Capital Grants Fund and also to accept the "hotch-pot" or trust fund approach to this distribution. Because of doubts expressed by other legal counsel and the Auditor General as to the propriety of applying these bases, the Committee had postponed further consideration of the matter.

The Committee was infofmed that in the interim the Council had proceeded to allocate and distribute funds resulting from profits realized and interest earned on the foregoing bases. The Committee regarded the approach as a reasonable one, but because of the conflicting views held as to whether the action taken is ultra vires of subsection (2)(*b*) of section 17 of the Canada Council Act, recommended that steps be taken to seek amending legislation to provide clear authority for the Council to use the 1956 census and the "hotch-pot" approach in the distribution of interest and profits in respect of the University Capital Grants Fund.

In its Third Report 1966-67 the Committee again reiterated its recommendation and requested the Canada Council to formally request the Government to give consideration to the required amending legislation with the object of having it considered by Parliament prior to the final closing out of the University Capital Grants Fund.

Comment by the Auditor General: On September 17, 1968 I was informed by the Minister of Justice that

> In February, 1967, the Cabinet authorized the preparation of an appropriate amendment to the *Canada Council Act* on the recommendation of the Secretary of State. Under the terms of the outstanding Cabinet directive governing the preparation of Government legislation, detailed drafting instructions were then required to be transmitted by the Department

of the Secretary of State to my Department so that work on the amending legislation could go ahead.

I am advised that the required drafting instructions were not received by my Department in time for the amending legislation to be made ready for the 1967-68 session of Parliament. Since the end of that session the priorities governing the drafting of Government legislation by my Department have had to be revised to make provision for the most urgent and essential items that must be dealt with during the session that has just begun, and it is my understanding that, while the amendment to the *Canada Council Act* continues to hold a place on the list of desirable legislation for the present session, it has not been possible to assign any higher priority to it in view of the very heavy volume of legislation already announced.

Mr. Long: This recommendation had to do with money over and above the Canada Council's original University Capital Grants Fund. There was no provision in the Act as to how this money should be distributed. This was earnings actually on the original Canada Council money, and felt that it should be distributed on a similar basis to the original money. The Committee has agreed with this, but there were conflicting opinions as to the Canada Council's authority to make this distribution in this way.

• 0955

The Committee recommended that the Act should be amended to authorize this, and as we say in the follow-up report, "the Cabinet authorized the preparation of an appropriate amendment to the Canada Council Act". However for reasons of pressure of other legislation, I presume, these amendments have not yet been presented to Parliament.

The Chairman: I think we were following the system of writing beside each one of these some designation. For instance, this one is being acted upon or under consideration. There may be some questions.

Mr. Crouse: By way of information, I am a little hazy on this this morning. The Canada Council originally received its funds, did it not, from the estates of Sir James Dunne and Isaac Walton Killam. Is that the original source of the funds?

Mr. Long: Well, not directly, Mr. Crouse. I think it was the income from the estates tax that make this money available to the Council.

Mr. Crouse: Mr. Chairman, was it not $50 million from the Sir James Dunne Estate, and $50 million from the Isaac Walton Killam's estate, totalling $100 million, which was set aside as the basis for the establishment of the Canada Council? Am I correct in that?

Mr. Long: There is no direct association of those estates with the Canada Council in the beginning, but I believe it is the fact that the government had this large revenue in those years that enabled it to do so. It had the funds, but neverthelsss the Canada Council was set up by Parliament.

Mr. Crouse: Yes, I realize that. I am just trying to establish, in my mind, where these funds originally came from.

Mr. Winch: Mr. Chairman, I think we should let Mr. Crouse finish.

Mr. Long: I have never heard the Killam estate being mentioned. I have heard of the Dunne estate but I do not know the details.

Mr. Crouse: I see.

The Chairman: Now, Mr. Winch.

Mr. Winch: I just want to say, Mr. Chairman' that I think it rather important that the members should know that previous committees on public accounts agreed with what was being done, but on the advice of the Auditor General's Department and our own consideration, we felt they were doing it without the legislative authority. That was all we were after because we agreed with the principle of what they were doing, but thought that the Act should be changed so as to give them the legislative authority for what they were doing without legislative authority.

Mr. Cafik: Mr. Chairman, I gather from conversations that the government has agreed that this legislative change should be made. Is that correct?

Mr. Long: Yes, in the follow-up report, we give the wording of a letter of September 17, from the Minister of Justice which deals with that.

Mr. Cafik: Then when the Chairman says we should categorize this, one would conclude that the thing is in process?

Mr. Bigg: Legislation pending, I think is one category we had.

The Chairman: What was that category we had?

Mr. Cafik: Perhaps if we cut out a few of the filibusters around the House, we might get to this sort of thing.

Mr. Bigg: Legislation pending, I think, we had—

The Chairman: Legislation pending, I think.

Mr. Cafik: How long has it been pending now? How long have you fellows been talking about it?

The Chairman: Are there any further questions?

Mr. Winch: You are not looking at me on that one.

The Chairman: Are there any further questions on that?

Mr. Crouse: Mr. Chairman, while this particular one is before us, in view of the controversy over the recent allocation of funds by the Canada Council,

• 1000

is there any way we could get further information about the rules and regulations that govern this group? Do they have authority to make grants to just anyone they decide should get assistance? I recall a recent grant was made which certainly created considerable concern throughout Canada. I was just wondering about the terms of reference of this Council. Perhaps this is not the right place to bring it up.

The Chairman: No, Mr. Crouse; it is hardly our prerogative in view of the fact that another committee discussed it.

Mr. Crouse: All right.

The Chairman: I have forgotten just which Committee, but they handled it. It is really not within our jurisdiction.

Mr. Crouse: Thank you, Mr. Chairman.

The Chairman: Well, gentlemen, I am just not satisfied to leave these items as "legislation pending" and yet we do not seem to be in a position to withdraw it from the follow-up report and yet we know that there is going to be action taken on it. I suppose I had better leave it there until the action is taken, if that is the wish of the Committee.

Paragraph 22 on surplus assets disposal has to do with the value of inventory and it is quite a lengthy chapter. Mr. Long, could you give a brief resumé of that?

Mr. Long: The wording of the recommendation is given at the bottom of page 11 where it states:

> that every effort be made by the Executive to introduce at as early a date as possible an effective accounting change in the operations of the Department of National Defence whereby inventory quantities can be costed on acquisition and recorded in the quarterly or periodic inventory listings made by the Department.

As previously reported to the Committee, the Department is in the process of developing one supply system for the Canadian Forces, which it hopes to have in operation by 1972. Because of the size and nature of the program and the number of studies involved, it is expected that a fully operational system providing priced inventories of stores will not be completely installed for several years.

The Chairman: The Committee will recall that past discussions on this came about because of sale or disposal of government equipment by Crown Assets Disposal Corporation. When they appeared before the Committee, the Committee asked them if they could tell us what these items cost that they were selling for the Department of National Defence. They said they could not tell us what they cost because the Department of National Defence did not have any record of the cost of this equipment.

Then the Committee, on a visit to the Department, looked into this more fully and found that the inventory was on a quantity basis; they could tell you how many items, numbers of pieces, and so on, but they had no record of what they paid for it. The Committee recommended that they should have an inventory as to count and to price. We therefore recommended that.

The Department accepted our recommendation and they are now in the process of putting it into operation. I think it was a pretty good recommendation from the Committee and the Department is doing this. It is a big job. It is a lot bigger job than we realized. When we got there we saw the millions of pieces of equipment that the Department has. Therefore, we can say progress is being made on this follow-up report on this paragraph. Are there any questions? Mr. Cafik.

Mr. Cafik: Mr. Chairman, was it the war surplus people who did not know the value?

The Chairman: Both departments; the Department of National Defence could not supply the War Assets people with the cost figures of a lot of the articles.

Mr. Cafik: Would it automatically follow that Defence Production would not know the value?

The Chairman: I would imagine so, because I do not think they keep the records this way either.

Mr. Cafik: Are you talking only about surplus goods or are you talking about all goods?

The Chairman: All goods.

Mr. Cafik: Do you mean to tell me at this particular time that if Defence Production purchased something they immediately went to a great deal of trouble to make sure there was no record of how much it cost?

The Chairman: They know what it costs, but they do not tie it in with their inventory.

Mr. Bigg: They told us that they only kept them a year at that time.

Mr. Cafik: They only kept the price figures and threw them out after?

The Chairman: Yes, they did not tie them in with their inventory.

• 1005

Mr. Cafik: Just one moment. This does not add up with other information that we have. We know what it cost for a lot of the materials, and so on, on the *Bonaventure*—if I may introduce that unfortunate topic.

The Chairman: That is a familiar topic.

Mr. Cafik: That is right. It is quite some time ago. How do we come to the conclusion that they do not know what these things cost? It does not make any sense to me.

The Chairman: You must remember, Mr. Cafik, that some of the material that was given to Crown Assets for disposal was rather old in some cases and they had never kept the invoices or the cost price, and therefore, they could not advise Crown Assets what it cost.

Mr. Cafik: In your Committee investigations, did you find out at what point they destroyed these records of costs?

The Chairman: I would not be sure of that. Mr. Long, could you comment?

Mr. Long: Mr. Cafik, of course when the Department of Defence Production purchases the materials they know the cost, but this material loses its identity when it goes to the Department of National Defence. It goes into inventory. It could be in inventory stores anywhere in Canada, or perhaps in Europe. You cannot identify that with the actual purchase. You have numerous purchases at different prices being mixed in together. They do not keep an inventory with a dollar value. They only keep an inventory by quantity.

Mr. Cafik: The physical location of, say, item "X" surely is not going to affect the inventory picture or the cost price of it. If DDP know the cost price then we would know it regardless of where it was in the inventory.

Mr. Long: Things do not always cost the same. Prices are changing all the time.

Mr. Cafik: Therefore, you are telling me that if "X" one year cost $12 and two years later it cost $24, that you want to know whether this particular "X" cost $12 or that particular "X" cost $24? Is that what you are trying to tell me?

Mr. Long: In the inventory it would depend on the policy they followed in costing out the things they were using, whether they used an average price, first in first out, last in first out, and so on. There are many ways, but the fact is that at the time these are declared surplus the Department of National Defence cannot tell you what the cost was.

Mr. Cafik: Could they have told us what the cost was if they were all purchased at the most recent price?

The Chairman: No, they did not have that.

Mr. Long: Possibly they could find out the most recent one, from the physical job of looking up a purchase invoice.

Mr. Cafik: All right.

Mr. Long: However, some of these things that are declared surplus may not have been bought for the last 10 or 15 years. Therefore, it would be quite a job to look back at the most recent purchase.

Mr. Bigg: Some of it is 100 years old. There are old army pots and pans that came from the Boer War and there is no record at all. They are selling this as junk.

Mr. Cafik: You consider it a matter of real criticism that they do not have to have the records of that?

Mr. Bigg: No.

Mr. Cafik: I think there has to be a reasonable cut-off date. That is the only point that I am trying to figure out here.

The Chairman: Mr. Cafik, I think what you are saying is that good business practice is that your inventory is priced at the market price.

Mr. Cafik: Yes, I would think so.

The Chairman: Mr. Mazankowski.

Mr. Mazankowski: That is exactly the question I was going to ask. I was just wondering what value you were using, whether it was the current value, or the original purchase value. I think when you are talking about Crown Assets you have shoes and junk of all sorts. How do you ever establish a figure on that? Do you use the new price or the depreciated price? Just what value do you expect to establish?

The Chairman: I think the Department of National Defence are setting up a computerized

system of all their inventory and they are indexing it at the price they paid for it and they will have that on their records. All right?

Therefore, progress is being made. I think it was a good suggestion and it is being followed up. I would think that that one could come off our follow-up list when it is revised.

In the Eighth Report we made a recommendation, Awards under the Pension Act. There is a comment here by the Auditor General involving me as Chairman of the Public Accounts Committee. It states that I previously had received a letter from the Minister of Veterans Affairs dated March 3, 1965, and that this letter has not yet been considered by the Committee. Mr. Long, perhaps you would like to make a few introductory remarks first.

Mr. Long: There has really been no change so far as this is concerned. These letters have been awaiting the attention of the Committee since they were received. This is dealt with in Paragraph 205 of the 1968 Report. I think we have the letters on file here.

• 1010

The Chairman: I think it might be advisable to read this. It is dated June 21, 1967, and it was from the then Minister, Mr. Teillet. It was addressed to the Chairman of your Committee:

> In your letter to me of March 8, 1967 you referred to the request of the Public Accounts Committee that the Minister of each department advise the Committee and the Auditor General within three months as to the action taken on matters on which your Committee had made recommendations.
>
> A copy of the Fourteenth Report of your Committee was attached to your letter and pages 8, 9 and 10 thereof recorded recommendations and observations by the Standing Committee on Public Accounts which had not yet been implemented or dealt with by Executive action as at March 31, 1965. Items 36 and 37 contained in the Eighth Report, 1964 and presented to the House on December 7, 1964 referred to awards under The Pension Act and to War Veterans Allowances.
>
> Although the implication is that the recommendation of the Committee had not been dealt with, I must advise that on March 3, 1965 I wrote to Mr. G. W. Baldwin, M.P. who was at that time the Chairman of the Standing Committee on Public Accounts and commented on the recommendations of the Committee. I also forwarded a copy of that letter to the Auditor General, which in brief indicated that either I did not agree with certain changes suggested or that they were questions of legislation which could only be decided by Parliament. A copy of my letter to Mr. Baldwin is attached.
>
> I might add that the Auditor General's Report covering the year ended March 31, 1966 again commented on the matters affecting the Canadian Pension Commission and War Veterans Allowances and stated that my comments of March 3, 1965 had not yet been considered by the Public Accounts Committee. I believe it would be useful if I send you the latest comments I have received from the Chairman of the Commission and the Chairman of the Board on the Auditor General's observations contained in his 1965-66 report. I am also sending a copy of this correspondence to the Auditor General.

That does not tell us too much other than it was a matter for Parliament to decide. The comments are on page 12 (a), (b) (c), (d) and (e). I do not know whether you wish to deal with each of those separately or not. Is any member of the Committee particularly interested in this Pension Act? If so I would be glad to have your comments?

Mr. Cafik: Mr. Chairman, how many people are involved in this?

Mr. Long: I would ask Mr. Rudy. Do you have any idea how many pensioners there are? I am afraid we do not have that information here but this is the Awards Under The Pension Act, the awards to servicemen. Unfortunately the numbers are dropping every year as time goes by, but the point of this note is that the Act is very ambiguous. There is room for inconsistency. It is pretty hard to say whether a thing is right or wrong when you do not have anything specific to work to.

The Chairman: I think the problem here is that it is very hard to draft legislation which will take specific care of each pensioner, and I think you have to leave room for discrepancies and various factors that you must take into consideration in giving pensions.

• 1015

Mr. Cafik: Is this an area where discretionary power is exercised, and you then find it difficult to tie it in to legislation?

Mr. Long: If you look at the recommendations, in (a) you need a definition of the term "specially meritorious". It is wide open and we noted inconsistencies in the granting of pensions.

Mr. Cafik: Did you feel that they were not specially meritorious? Is that what you meant?

Mr. Long: You could not bring them together. They did not seem to tie in with each other. We do not know what Parliament meant by "specially

meritorious" and we are now seeking a definition of this. The Department has replied to that.

The Chairman: Just take that one, for instance.

Mr. Cafik: Mr. Chairman, perhaps Mr. Long can answer this. Are we trying, through this recommendation, to do away with any kind of discretionary powers in the granting of pensions—in other words, codifying the whole thing? What was our intent in making the recommendation? Did we want it entirely codified and taken away from any discretion?

Mr. Winch: Mr. Chairman, I do not think that was the intent when this matter was discussed in the Committee. If my memory is correct, and I think it is, when we went into this matter, and we did rather fully, we could not find the reasons under the term why some grants were made and some were refused. I should ask Mr. Long; he was there at that time.

The Chairman: I think you are right, Mr. Winch; that is the gist of it.

Mr. Cafik: When a grant is given or a pension is granted, is there any policy or some kind of written documentation as to the reasons behind it, or is it just sort of granted? Is there no documentation at all that we can check on or from which we can find the background?

The Chairman: As Mr. Long has said I think this was the problem, Mr. Cafik. Certain pensions were given and they just could not tie in these grants with the right legislation or authority.

Mr. Crouse: I think, Mr. Chairman, I was on the Committee at that time and it seems to me that we recommended, where pensions were made payable on compassionate grounds which were not in accordance with the regulations of the Pension Act, that the words "specially meritorious" should be added. This would really be a classification that would indicate special consideration had been given these people for this compassionate payment. Otherwise, it was not in conformity with pension regulations as laid down.

Mr. Bigg: I think we were thinking in terms of a veteran with a Victoria Cross who became indigent. Would you want him to beg on the street with a tin cup or do you think that Canada could afford to give him a small monetary pension to keep him from begging? This sort of thing has happened. I do not want to mention any names. Since the war ended I can think of one or two of these rather unpleasant cases. This is an attempt to give Parliament the right to give this type of person security on meritorious grounds, and I do not see how you can define it because, for instance, new things come up. Space travel may bring in things which Parliament did not have on its mind.

Mr. Cafik: Mr. Chairman, I wonder if I could direct a question through you to Mr. Crouse. This arises from what he said. You spoke of categorizing "specially meritorious". I do not know what your feeling is now. Do you feel that it should be eliminated, spelled out in a more legalistic way or left as it is?

Mr. Crouse: No, Mr. Chairman; as I understand it those words are not in the Act. Awards are being made which apparently do not come under the various regulations of the Pension Act. If the words "specially meritorious" were accepted, this would be definitive of the reasons for granting these compassionate pensions, outside of the exact wording of the Act.

Mr. Bigg: Because he has some justification to the public since he made an outstanding contribution to space travel or to . . .

• 1020

Mr. Crouse: I am in agreement with that recommendation. Obviously it has not been accepted, although it was made some time ago.

Mr. Cafik: That is correct. It indicates in the recommendation, Mr. Crouse—this is what I do not really understand—that such an award should be clarified by defining the term "specially meritorious". I have the impression that you do not want the term to be defined.

Mr. Crouse: Mr. Chairman, I am sorry. I do not know just what I may have said that would give you that impression. I was saying that this was the reason for making the recommendation. In our view this is still, in my opinion, a worthwhile addition to the Act and it would clarify the reason for granting some of these compassionate pensions. I am very much in favour of it.

Mr. Cafik: So you are in favour of adding the two words. All right; that is fine.

The Chairman: Could anybody from the Department give us two or three examples where they have had real difficulty in deciding whether the money was paid according to the Act or not? Mr. Hayes, would you have any examples of this?

Mr. Hayes: I do not think we have this here today, Mr. Chairman, but I think if you would permit me a few minutes I might be able to help Mr. Cafik with his problem.

Mr. Cafik: I did not know I had one.

Mr. Hayes: You were wondering whether you were trying to codify the act. Now, the provision of the act is:

205.

5. (1) Subject to the provisions of this Act, and of any regulations, the Commission has full and unrestricted power and authority and exclusive jurisdiction to deal with and adjudicate upon all matters and questions relating to the award, increase, decrease, suspension or cancellation of any pension under this Act and to the recovery of any overpayment that may have been made; and effect shall be given by the Department and the Comptroller of the Treasury to the decisions of the Commission.

(5) The Commission shall determine any question of interpretation of this Act and the decision of the Commission on any such question is final.

This is part of the Act. I do not think anybody is suggesting that it should be changed. What we are saying is that not only are the Department of Veterans Affairs and the Comptroller of the Treasury, in fulfilling their normal functions with respect to payment of pensions, and so on, barred from taking their normal part in checking these, but the advice of the Department of Justice is not available to the Committee. Therefore it seemed, where the act is ambiguous, that it should be made more specific.

Mr. Cafik: This is due to the absolute powers granted in this section.

Mr. Hayes: Yes.

The Chairman: The Auditor General feels that the interpretation is too broad. Is that about the size of it, Mr. Long?

Mr. Long: This is an example. The words "specially meritorious" at first applied only to people who had war service and overseas service. Since then it has been gradually broadened to permit pension awards to service people in peace-time. This is an example of how it has drifted, might I say, to a broader application.

The Chairman: Mr. Cafik.

Mr. Cafik: I am right back where I started on this thing, Mr. Chairman. From what you are saying, Mr. Long, the term "specially meritorious" is already in the Act. Is that correct?

Mr. Long: I do not have the Act here. I believe it is in the Act. Yes, it is in the Act.

Mr. Cafik: It is in the Act. Then getting back to what Mr. Crouse and I were suggesting earlier, the recommendation under 23(a) on page 12 is really a recommendation to define the term "specially meritorious". Is that correct?

Mr. Long: That is correct.

Mr. Cafik: It is not the insertion of the term "specially meritorious".

Mr. Long: No, to define it.

Mr. Cafik: To define it, and then to what extent do you want it defined? Have we, as a Committee, made recommendations what definition it ought to have?

Mr. Long: No, I do not think the Auditor General or the Committee have taken it upon themselves to suggest what the definition should be. This would be up to the people who are more closely associated with this. But it is a troublesome term. We see instances of inconsistency, which do not seem to be right.

• 1025

Mr. Cafik: Has the Committee interviewed and had before it witnesses from the Commission and others who are responsible for the implementation of this Act to find out what general terms of reference they used for the term "specially meritorious"?

The Chairman: Yes, we did two or three years ago.

Mr. Long: I think the problem is that there were not any terms of reference for it. Each case was handled as they saw fit at the time.

Mr. Bigg: Mr. Chairman, I was on the Committee at the time and, for instance, we talked to widows of the Mounted Police. The policemen were killed on duty, and there was nothing in the RCMP Act which allowed the widow to be compensated from the public treasury. We had to pass a special act of Parliament every year to give these women, sometimes, $360 a year. At the time of the Committee we thought that if this could be spelled out where there was a gap in other legislation, not necessarily to limit the use of this, but where a clear case had been made where a person like that had done something for Canada, that there would be legislation to allow a well adjusted Committee to give people this type of help. The Gouzenko case is a good example as well.

An hon. Member: Which?

Mr. Bigg: The Gouzenko case, in the spy trials, where the man defected to Canada. We had to rely on private funds to give this man a pension for life. Personally I feel that it is up to Canada to compensate people like that to some extent without having them begging or relying on private industry to do it.

The Chairman: Mr. Noble has a question.

Mr. Noble: Mr. Chairman, do we have any evidence of any specific cases where the Act has been abused?

The Chairman: I am sure there must be, but they do not have them with them this morning. There may be three or four or half a dozen samples where it has been, as the Auditor General thinks, abused. Will you bring those to the Committee for perusal? All right? We will proceed to the next one, which is War Veterans' Allowances.

> 26. War Veterans Allowances.
>
> (a) The Committee after taking note of the increasing number of overpayments arising mainly from veterans making false or misleading statements, and of the fact that, although 80 such cases had been referred to the Board of the Auditor General. . .

and so on.

> . . . in none of these had legal action been instituted, recommends that all cases of deliberate deception which come to notice be vigorously prosecuted; . . .

and so on. It lists different examples there. The comment by the Auditor General:

> This matter was again referred to in paragraph 163 of my 1967 Report to the House on June 21, 1967. The Minister wrote to the Chairman of the Public Accounts Committee enclosing a copy of the letter dated April 3, 1967 from the Chairman of the War Veterans Allowance Board dealing with the overpayment referred to in paragraph 141 of my 1966 Report. The Chairman of the Public Accounts Committee had previously received a letter from the Minister of Veterans Affairs dated March 3, 1965. Neither of these letters have yet been considered by the Committee.

We dealt with one of those. Is there anything particular in those letters that the Committee should now discuss? Mr. Long or Mr. Hayes.

Mr. Long: The comments of the Chairman of the War Veterans Allowance Board, of course, give their explanation of the reasons for proceeding as they do. The Committee recommended that all cases of deliberate deception which came to notice should be vigorously prosecuted. Perhaps I should read the Chairman of the War Veterans Allowance Board's reply.

> The purpose of this memorandum is to provide you with my comments on the observations made by the Auditor General on the administration of the War Veterans Allowance Act in the Report of the Auditor General to the House of Commons for the fiscal year ended March 31, 1966. .
>
> The Auditor General has reviewed the substance of his reports of prior years and has included the recommendations of the Public Accounts Committee in its 8th report, 1964. . .

• 1030

> In the 1966 Report the Auditor General has drawn attention to 32 overpayments involving $63,700 resulting from inadequate or fraudulent information provided by the veteran and has pointed out that in no case were the penalties under the Act and the Regulations enforced.
>
> The example provided of a 65 year old veteran who incurred an overpayment of $14,579 was without doubt fraudulent. This veteran who is married, has had his right leg amputated. This amputation is not service connected. At the time the overpayment was discovered he had disposed of all his assets and, after consultation with our legal services, recovery of the overpayment at $32.00 a month was considered to be the best possible solution remaining.
>
> As I have stated in previous reports to you, the courts across Canada are disposed to be lenient in cases involving overpayments, due to three factors: first, that the wrongdoer is veteran; second, he is generally advanced in years and, third, on the general condition of the veteran's health.
>
> With the exception of one of the cases noted by the Auditor General, recovery action was taken by the District Authority concerned, generally by means of monthly deductions from the allowance or a mortgage to secure the recovery of the debt for the Crown. In two cases cash payments in full were made by the veterans. One case is still under administrative action. Of the cases mentioned by the Auditor General, some were fraudulent in character and some were deemed to be unintentional resulting from ignorance or carelessness. In setting the rate of recovery the financial circumstances of the recipient have to be weighed in order that he has sufficient funds for his sustenance and maintenance. In addition to monthly deductions, mortgages on properties are secured when possible so that the Crown may recover the outstanding overpayment, and in addition judgments or executions are kept in good standing by the legal services of the Department. Pressure for payment without court action is used where liquid assets are known to exist.
>
> In many overpayments there are grey areas where it is sometimes difficult to determine whether fraudulence or ignorance was the reason for the situation. While not condoning the action of a wrongdoer, the Board has tended to take steps to recover the moneys for the Crown rather than to recommend punitive

action where experience has shown that a suspended sentence may be the result of court action.

The point here is, of course, this 65 year old veteran being asked to pay back $14,000 at the rate of $32.00 a month is not likely to succeed in doing this. It seemed to be an unreasonably long time and you will notice that they do say—he had disposed of all his assets. This seems to be a means whereby a person can avoid having to repay something obtained fraudulently.

The Chairman: Mr. Cafik?

Mr. Cafik: I presume this gentleman we are speaking about had received this money over a very long period of time. Why was it not brought to light prior to reaching such high proportions?

Mr. Long: When fraud is involved it is not always easy to detect it immediately. Presumably, none of the departmental inspectors found out about this fraud until this amount had accumulated.

Mr. Cafik: I presume that the fraud in this particular case was as a result of him losing a leg and maintaining that he had done so in the services. Is that correct?

Mr. Long: I do not think you can presume that.

Mr. Cafik: I thought that was what you had said?

Mr. Long: He said, "This veteran, who is married, has had his right leg amputated". It does not say when it was amputated. "This amputation is not service connected".

Mr. Cafik: The implication being that he got a pension because it was?

Mr. Long: No, no. He was entitled to a pension.

Mr. Bigg: It was actually the compassionate grounds on which he applied. He is incapable of being hired, so he goes to the Legion and gets help.

Mr. Cafik: What was the fraud in his particular case?

Mr. Long: I am afraid I do not have the details of the case here. I have the statement of the Chairman of the Board that. . .

Mr. Bigg: He is not allowed to earn a certain amount of money beyond what they give in the way of a pension.

• 1035

Mr. Long: The Chairman says this was without doubt fraudulent; he accepts the fact that this $14,000 was obtained fraudulently.

Mr. Cafik: Who turned up this information?

Mr. Long: It would be the case workers or inspectors of the Board.

Mr. Cafik: It was not the Auditor General or his department?

Mr. Long: No, the Auditor General would not have any way to determine a thing like this. You would find this out by going and seeing the veteran and seeing that he is employed or doing something, or has income greater or apart from what he is reporting.

The Chairman: Mr. Cullen.

Mr. Cullen: Mr. Chairman, I am interested in the comment that the matter be vigorously prosecuted. There are two situations here: one, the allegation of fraud where you would prosecute for making fraudulent statements, and then the civil matter, that is, the recovery of the money. Is there a suggestion here that they are one and the same thing, that you are going after him to punish him in one instance, and in the other instance you are going after him to get the money back? Is there a suggestion of prosecution, for example, under the Criminal Code?

Mr. Long: I do not think there is any suggestion of that. It would simply be a question of recovering the amount. But here, because of the circumstances that the Chairman mentions, they thought that if they recovered $32 a month that this would be reasonable. Well, he will never live long enough to pay it at that rate.

Mr. Cullen: Was a legal opinion ever obtained? Quite often where assets are given away, for example if they are given to sons and daughters or members of the immediate family, I know there is provisions in the Ontario Statutes that these can be set aside as fraudulent conveyances. Was there any legal opinion obtained as to why they would not try to get those assets back?

Mr. Long: I do not have the details of this particular case.

Mr. Cullen: I do not think that you can fault the $32 a month. As one who is involved in many collections, the court will not make what is in essence a frustrated order. You could probably get more money but then the fellow would be on welfare or he would not be able to maintain himself. Going after these assets that he turned over to somebody else, there might have been a possibility there, and that is why I asked.

The Chairman: Mr. Lefebvre?

Mr. Lefebvre: Over how many years was this over-amount paid?

Mr. Long: There again I am afraid we do not have the details of this case with us. If this were coming up as an item in the report we would have the files here, but this is a recommendation made by the committee.

Mr. Lefebvre: All we know is that he was overpaid $393.30 per annum and we do not know the number of years involved.

Mr. Long: No. This case is $14,000.

Mr. Lefebvre: Oh, excuse me, I was on the wrong one. From what I have heard so far the position is that the court would not order more than $32 per year to be paid back because it would affect his standard of living?

Mr. Long: The committee's recommendation is that all cases of deliberate deception which come to notice be vigorously prosecuted. This is what the Public Accounts Committee is recommending. This is an example given by the Chairman of the War Veterans Allowance Board. He does not think that such cases should be prosecuted, and he gives his reasons.

The Chairman: Mr. Bigg.

Mr. Bigg: In total, what amounts of money are we dealing in? I understand that on an average we spend about $88 million a year on war Veterans Allowance. This sum of $14,000, of course, is an outstanding and glaring case although we do not know over how many years this accumulated. Is this just one isolated example or is this one of many cases?

Mr. Long: I think in our reports, for example in this recommendation, we mention 80 cases

• 1040

referred to the Board by the Auditor General in 1962 and 1963.

Mr. Bigg: Varying from a few dollars to what amount?

Mr. Long: I do not have the information, but do not forget that 80 cases is limited by the small staff that we have working on this. It is not possible to tell how much goes out in fraud because we just cannot examine all payments each year.

Mr. Winch: All you do is spot check?

Mr. Long: Spot check, yes.

Mr. Bigg: But in all fairness, this $88 million is almost pure charity. The people of Canada give these veterans in every case the benefit of the doubt. They are not entitled to any pension whatsoever outside this statute. These people are those who have found it hard to adjust to civilian life.

If it is only the odd case of bad bookkeeping of their own, or bad recording of their wife's income, or they have not said what the total family income is, or they have been overpaid over a period of 10 years, then it seems that this man who handles thousands of these cases a year is in a good position to decide whether or not the public is really being taken for a terrible ride or whether it is just a case of giving these veterans, who are shaky reeds in many cases, the sole benefit of the doubt.

Of course, I do not think the people of Canada even want to recover this $14,000 if there is any doubt at all about whether it is fraudulent or carelessness.

Mr. Long: There is no question here. This is fraudulent. The Chairman says that it is without doubt fraudulent.

Mr. Bigg: The other point is that out of a payment of $88 million I would just like to know how common this type of fraud is. I have dealt with hundreds of cases of this type myself in the work I have been involved in and my general impression is that these veterans are more than careful in their dealings with the Canadian government.

The Chairman: Mr. Cafik.

Mr. Cafik: Yes, Mr. Chairman, I want to get back to the point that was raised a little earlier with respect to recommendation 24 (a), and again I quote:

> . . . recommends that all cases of deliberate deception which come to notice be vigorously prosecuted;

I maintain that the Committee when it made that recommendation was, and must have been by the wording of it, talking about criminal action, not about recovery of funds. I believe Mr. Long has indicated verbally here this morning that he thought that this meant the recovery of money. I believe if it is the recovery of money that we probably want it whether it is a deliberate fraud or anything else. If it really is a faulty payment we probably should recover it. However, I do not know why there is the distinction between this unless you really intend to take a guy into criminal court, prosecute him, and lock him up for it. I do not know whether this Committee really wants to do that.

Mr. Long: I think, Mr. Cafik, the thought behind the recommendation is that they should not be allowed to get off scot-free because this encourages other fraudulent claims.

Mr. Cafik: You are saying that this recommendation means that, first, we want to recover the money, and second, where there is any evidence of fraud we want to take them to criminal court over it?

Mr. Long: I do not think that anybody wants to throw anybody into jail for fraud. I think the thing is to prosecute, make them repay, and let the publicity deter others from attempting the same thing.

Mr. Cafik: I do not know how you can do that just to get some publicity and then not convict him of the charge and make him pay the penalty.

Mr. Long: I am not a lawyer, Mr. Cafik, perhaps. . .

Mr. Cafik: If you just want to recover the money, then let us do it. We can pursue it in a legal and civil way, I think. If you want to punish the person on top of that, then that is something altogether different.

Mr. Long: You may recall that at the present time the Unemployment Insurance Commission has a very aggressive program in effect to stop Unemployment Insurance frauds. I do not think they are doing this but putting people in jail or anything like that.

The Chairman: I think the general idea of the Committee was that the War Veterans Allowance Board should really tighten up in their operations and be a little more careful in all respects and we recommended accordingly. I think we have to take into consideration that there are grey areas where the War Veterans Allowance Board have difficult decisions to make, and the Committee is broad-

• 1045

minded enough to realize that. I do not think we want to be nitpicking on this issue but we certainly want them to be firm, and where there are cases of deliberate deception action should be taken.

Mr. Cafik: Mr. Chairman, I think that everybody would agree with what you say. However, what is said in this recommendation I am not too sure is a reflection of that.

Mr. Noble: Mr. Chairman, do you not think that the leniency in some of these cases is due to the fact that these people have made a tremendous sacrifice for this country? This man we spoke of is missing a leg. He is incapacitated. He has been ordered to pay $32 a month back and perhaps all that is left is only a fair living. Of course, it does not indicate that he ever hopes to pay it back because he would have to live 38 years and he is 65 years old now. So I think it is beside the point to continue to argue this matter any further because it is evident what the Committee had in mind.

Mr. Cafik: That is what it says. This is what I maintain. I agree with what you are saying. I just do not agree with section (a) of this recommendation, or at least I certainly do not think that it should be passed by this Committee without some very careful consideration. We cannot say we are going to be tough and we are going to prosecute these guys and then on the other hand we say we realize that those who are looking after it have got to have a little leniency and understanding and so on. It does not tie in.

Here we are trying to be God, we are trying to lock guys up or take very stringent action against anybody who is doing this, and we are saying, "but of course, we do not really mean that; what we mean is that we should look at it a different way. Let us recommend what we mean, or mean what we recommend."

Mr. Mazankowski: I think the key words in that statement, Mr. Chairman, are "deliberate deception".

Mr. Cafik: Do you want then to follow this recommendation in the case of deliberate deception?

Mr. Mazankowski: As Mr. Long pointed out we have no choice. It will only encourage this type of thing.

The Chairman: One at a time, please.

Mr. Cafik: If that is what you want to do then that is fine. However, I want to make it perfectly clear in this Committee, as far as I am concerned, what we are talking about. If that is what you want to do that is fine. You have a vote the same as I do in this Committee.

Mr. Mazankowski: My observation, Mr. Chairman, would be that "deliberate deception" and "vigorously prosecuted" are the two key phrases in that statement, and if you have both of them in there I think the clause is very meaningful.

Mr. Cafik: "Vigorously prosecuted" is something pretty strong. I think it is even stronger than "prosecuted" and it should not be there.

The Chairman: Mr. Lefebvre.

Mr. Lefebvre: We are all looking for the same thing. For those who are getting too much according to the Act we have no choice but to try and get it back so that those who are not getting enough may get those funds and increase their pensions. I think that is the whole thing.

The Chairman: That is right.

Mr. Cafik: Yes, Tom, but that is not what is being said. We could recover the money without prosecution. Recover the money I think we all agree with, but why try to prosecute the person? That is the argument.

The Chairman: Mr. Winch and then Mr. Noble.

Mr. Winch: Mr. Chairman, I just want to make it clear that I will not give first place to anyone as far as my interest and concern with veterans is concerned, but I do think that we should realize that we are not discussing any matter of a grey area. What was in the report of a previous Committee was a report of a deliberate intent to defraud. There was the report especially of one who has deliberately defrauded and who gets rid of all his assets before he is caught up with.

It is my opinion that a person who is out deliberately to get away from the law and the regulations and who deliberately defrauds is being unfair to the vast majority of veterans who play square. If the legislation is wrong that is a different point.

I also think there is another factor, and that is if there is an opinion that because a man is a veteran he can get away with deliberately defrauding the government and it is allowable, then we cannot very well go ahead and prosecute a man who has deliberately defrauded an Unemployment Insurance, or on any of the other pension benefits. I think we have got to use a little bit of reasonableness here.

As I say I will not give way first place in my interest in veterans, but there is a mighty important principle here on that phase, which is not a grey area, but a deliberate intent to defraud. We have got to be careful on that.

Mr. Cafik: There is no argument about that, none at all. Nobody is going to condone deliberate

• 1050

deception on anybody's part, whether he be a veteran or an M.P., or anybody else. It does not make any difference. However, I think to use the term "vigorously prosecute" is absolutely redundant. I do not think that it means anything. I think if there is fraud there is plenty of option within the Act itself to prosecute. I do not think that we have to really say anything about it. I think we can recover our funds and we can achieve all the things that we want without putting that kind of recommendation here in this report. It would not condone it in any way.

The Chairman: Mr. Cafik, maybe if we left the word "vigorously" out you would be happy?

Mr. Cafik: I think it would make a big difference.

Mr. Lefebvre: We intend to take every means available under the Act and then go on from there.

The Chairman: I think if we took out "vigorously" and just said "prosecuted" it would cover everything.

Mr. Noble: Mr. Chairman, some of the things that I had in mind have been said but it seems to me that if we demand that we live up to the letter of this Act in considering all the offences committed by veterans, many of which are likely of a minor nature, I think we will leave ourselves open to a lot of criticism. That is all I have to say.

The Chairman: All right, granted, progress is being made on that. The next paragraph concerns Amendments to the Customs Act, No. 25. I stand to be corrected, but I think this has been taken care of by the amendment to the Customs Act.

Mr. Long: Mention is made here of Bill S–10. Bill S–10, An Act to amend the Customs Act, was passed by the House of Commons on February 24, and thus parts (a) and (c) of the Committee's recommendation have now been implemented. I am not aware of any further developments with respect to item (b); that is, Determination of 'sale price' for sales tax purposes. This has to do with the collecting of sales tax on amounts other than the actual sales price of the goods.

The Chairman: Could you give us an example, Mr. Long?

Mr. Long: This problem comes about because of the desire of the Department to collect the same amount of sales tax on all units of an item. For example, say there was a manufacturer of furnaces. He might sell some of his product through a wholesaler. He might sell some to a retailer. He might sell some direct to the consumer. The prices are different in each case. The Act as we understand it is that the tax should apply on the sale price regardless of what that sale price might be. However, the Department has tried to place the same amount of tax on each one of these units regardless of the distribution channel that it went through.

This has been commented on by royal commissions studying this matter. Mr. Carter's first commission, I believe, dealt with this and mentioned that it should be resolved. I do not believe he gave any indication of how it might be resolved but he did in a statement or an article some time after comment that the Auditor General had not referred to this. He referred to it as a short-fall of revenue, I believe.

It is a thorny problem and as far as we know nothing has been done to resolve it.

The Chairman: At the present time the Department is applying a tax on the sale price?

Mr. Long: On somewhat less than the sale price.

The Chairman: How do they arrive at that price? Is it 5 per cent less or 10 per cent less?

Mr. Long: They try to collect the same amount on each unit sold regardless of the price they sold

it at, which varies because of the channel through which it went into the market.

Mr. Winch: Mr. Chairman, I understand that there is no statutory authority for that?

Mr. Long: The statute requires the sales tax to be applied on the selling price.

• 1055

The Chairman: Regardless of whether it is retail, wholesale, or sold direct.

Mr. Winch: On the selling price, which has not been done. As I remember our discussion at that time, it was that there was no statutory authority beyond applying the sales tax on the selling price irrespective of the channel. That seems to be my memory, Mr. Chairman.

Mr. Long: Right. And the recommendation of the Committee is that an amendment be made to the Act to give statutory sanction to the existing scheme evaluation.

Mr. Noble: Mr. Chairman, I am wondering if these values were all set up on the wholesale value—each customer paying tax on what the wholesale value of the product was?

Mr. Long: I cannot say categorically, Mr. Noble, but I think by and large this would be the result here. It would be the lowest sale price that was used by the manufacturer in putting goods into consumption.

Mr. Winch: I just have one question here and I would like to get it clear. Do I understand, sir, that you are not objecting to the policy of the Department? What you are saying is that if this is your policy, and you think it is the correct policy, then you should have the statutory authority for what you are doing. Is that basically what you have in mind?

Mr. Long: Let me read the recommendation:

> that an amendment be made to the Excise Tax Act designed to give statutory sanction to the existing scheme of valuation followed by the Department of National Revenue in authorizing manufacturers by regulations to compute the sales tax on less than the actual sale price.

The Chairman: I wonder why this was not done when the Act was amended. That part was left out, and no doubt left out because they were awaiting a ruling of the Carter Commission.

Mr. Long: This was the explanation at one time, Mr. Chairman. I think the real problem is getting suitable wording for the Act.

The Chairman: We have not enough lawyers on this Committee to get a suitable wording for the Act, so we will have to let that go. We got two out of three on that one.

Mr. Cullen: Is that the answer? Mr. Winch had asked if it is not the policy you are objecting to but if this is being done there should be legislation to cover it.

Mr. Long: I do not think anybody has issued any objection to the policy. Right now the Act is not being followed and sufficient revenue is not being collected according to the wording of the Act.

Mr. Bigg: Is it not the policy of the Customs people to always go by regulations and not by act of Parliament? Do we not give them wide open authority to set these regulations and change them according to the need of the day?

Mr. Long: When taxes are levied, Mr. Bigg, the acts are usually quite specific on what they are to be levied.

Mr. Bigg: On the rate at which they are to be levied.

Mr. Long: Yes.

Mr. Mazankowski: Mr. Chairman, I am still not sure just what is meant by the existing scheme of valuation. Is it conceivable that for a man who is in the furnace manufacturing business that it is based on the sale price. There could conceivably be a different tax levied at the wholesale distributor or retail level depending upon which channel it was directed through?

Mr. Long: That is right.

Mr. Mazankowski: In other words, there could be three different tax assessments on one identical piece of furnace equipment depending upon the way in which it was sold.

Mr. Long: According to the Act there should be three different amounts of tax on one unit.

Mr. Mazankowski: That is what is meant by existing schemes of valuation under the present Act?

Mr. Long: No, the Act would call for the percentage of tax to be applied to the selling price. However, what they are doing is applying it to really the lowest selling price. So if this manufacturer sold you a furnace direct, he certainly is not going to give it to you at the same price that he gives it to the wholesaler, but he would only pay the same tax on that sale that he does on the sale to the wholesaler.

Mr. Mazankowski: Fine, thank you.

The Chairman: Gentlemen, I think we will have to adjourn at this point. Next Tuesday Mr. Henderson will be here and we will either go into the 1968 Report or continue on this Follow-up Report. I think possibly we should clean up the Follow-up Report first.

We have received from Davie Shipbuilding Ltd.

• 1100

the information that we asked for at the last hearing, I understand the Clerk has distributed this to each of the members of the Committee. I hope you will read it carefully, and if you have any questions you can ask them at a later date.

The meeting is adjourned.

APPENDIX "R"

Information requested by the Public Accounts Committee

At its meeting on January 30, 1969, the Public Accounts Committee requested examples of the types of errors in the Public Service Superannuation Account pension and contribution calculations. The type of errors and examples of each are as follows:

1. Annuities overpaid

(a)—(1964-65) Annuity overpaid at the rate of $393.30 per annum due to the annuitant being paid the full amount of a deferred annuity instead of its actuarial equivalent based on the annuitant's age on retirement at 55. The amount of the deferred annuity was picked up in error from the benefit work sheet, instead of the actuarially reduced amount, when preparing the Benefit Authorization Form. Current practice is to show only the actuarially reduced annuity on the work sheets.

(b)—(1967-68) Annuity to a deceased employee overpaid by $22.75 per annum, and totalled $140.30 at the date of his death. Subsequent overpayments to his widow amounted to $6.87 at August 31, 1967. These errors arose from the use of incorrect figures in the calculation of the average salary on which the annuity was to be based. The calculation included 24 months salary at an annual rate of $13,000 whereas both the Central Pay Division's salary ledger card and the Superannuation Branch's record card indicated that the annuitant only received this salary for 15 months.

(c)—(1968-69) Annuity overpaid by $91.00 per annum due to miscalculation of the six-year average salary by the Superannuation Branch.

2. Annuities underpaid

(a)—(1964-65) Annuity underpaid by $417.00 per annum for a total amount of $2,780 due to the failure to apply a 21% pension increase effective July 1, 1958. The annuitant had retired on November 19, 1949 with an annuity of $1,986. The 21% increase was granted pursuant to Vote 667 of the Appropriation Act No. 5, 1958, and the Public Service Pension Adjustment Act, 1959, provides authority with effect from July 1, 1958, for increases in the allowances and annuities granted or payable pursuant to the Civil Service Superannuation Act and the Public Service Superannuation Act. This error was not an isolated case as some 325 annuitants were found to have been underpaid to the extent of $53,600. This matter was referred to in our 1965 Report to the House of Commons.

(b)—(1967-68) Annuity to widow of deceased employee underpaid by $69.25 per annum due to the use of incorrect salary figures in calculating the six years average salary on which the annuity was to be based. The deceased employee had received a salary of $4,200 for the period July 1, 1959 to June 30, 1960 but only $2,100 was taken into account by the Superannuation Branch in calculating the six-year average salary.

(c)—(1968-69) Annuity to retired employee underpaid by $248.91 per annum due to credits for elective and non-elective service being understated and the average salary being miscalculated. The total amount underpaid from date of retirement in February 1968 to March 1969 approximates $275.00.

3. Overpayment of contributions

(a)—(1966-67) Employee overcharged $690.72 in respect of contributions for war service due to use of incorrect basic initial salary rate and failure of the Superannuation Branch to verify the rate with Central Pay Division records. The employee had elected on July 8, 1952 to pay for a period of war service extending from September 10, 1939 to August 22, 1945. The cost was calculated by using throughout this period a salary rate of $1,644 and a contribution rate of 12% whereas a salary rate of $1,140 and a contribution rate of 10% should have been used.

(b)—(1968-69) Employee overcharged a total of $88.65 to date of death due mainly to a miscalculation of the monthly charge in respect of elective service.

(c)—(1968-69) Employee was overcharged $44.34 due to his being charged twice for a six-week period of elective service in 1954. In addition, 50 days pensionable service was overlooked when the annuity was being calculated, resulting in it being understated by $31.97 per annum.

4. Underpayment of contributions

(a)—(1968-69) Employee underpaid contributions to the Superannuation Account by $165.70 due to failure of Central Pay Division to carry out instructions from the Superannuation Branch to deduct $16.57 per month in respect of arrears of contributions relating to elective service. This was offset to the extent of $89.22 by another error in the initial calculation of the cost of the election.

(b)—(1968-69) Employee underpaid contributions by $25.67 due to an excessive transfer from the Superannuation Account in connection with the recovery of a salary overpayment.

In order that the Committee may have up-to-date information, six of the eleven examples given were noted in 1968-69. The other examples are taken from earlier years and it will be noted that the amounts involved in the earlier years are rather more significant than in 1968-69. This would seem to indicate that although the number of errors continued to be high in relation to the files examined, as stated in our 1968 Report (paragraph 91), they tend to involve smaller amounts than was formerly the case.

The Queen's Printer, Ottawa, 1969

HOUSE OF COMMONS

First Session—Twenty-eighth Parliament

1968-69

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: Mr. A. D. HALES

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 40

TUESDAY, JUNE 3, 1969

Public Accounts, Volumes I, II and III (1966 and 1967)
Reports of the Auditor General to the House of Commons (1966 and 1967)

WITNESSES:

(See Minutes of Proceedings)

20365—1

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. A. D. Hales

Vice-Chairman: Mr. T. Lefebvre

and Messrs.

Bigg,	Guay (*Lévis*),	Mazankowski,
Boulanger,	Guilbault,	Noble,
Cafik,	Harding,	Rodrigue,
Crouse,	Laflamme,	Tétrault,
Cullen,	Leblanc (*Laurier*),	Thomas (*Maisonneuve*),
Flemming,	Major,	Winch—(20).

(Quorum 11)

Edouard Thomas,
Clerk of the Committee.

MINUTES OF PROCEEDINGS

TUESDAY, June 3, 1969.
(45)

The Standing Committee on Public Accounts met this day at 9.42 a.m., the Chairman, Mr. A.D. Hales, presiding.

Members present: Messrs. Bigg, Cafik, Flemming, Guay (*Lévis*), Hales, Lefebvre, Mazankowski, Noble, Winch (9).

Also present: Mr. Noël.

Witnesses: Mr. A.M. Henderson, Auditor General of Canada; Mr. G.R. Long, Assistant Auditor General.

The Chairman presented a report from the Sub-Committee on Agenda and Procedure as follows:

"Your Sub-Committee on Agenda and Procedure met on Tuesday, May 27, 1969, and agreed that the Sub-Committee would prepare three draft reports for presentation and approval of the Committee on (a) the hydrofoil, (b) *HMCS Bonaventure*, (c) miscellaneous items e. g. bus purchase.

The Sub-Committee recommends that the Committee finish the follow-up report with as little delay as possible to permit the immediate study of the Auditor General Report for the fiscal year ended March 31, 1968.

Your Sub-Committee has decided to continue its study of the *HMCS Bonaventure* and to obtain the services of an engineering consultant from among the applications received.

Two applicants were selected from the group for interview by Messrs. Hales and Cafik assisted by Mr. Thomas, the Clerk of the Committee. Your Sub-Committee has engaged the services of Mr. Edwardson of E. Edwardson and Co. Ltd., 353 St Nicholas Street, Montreal, Que. He will commence his duties tomorrow under the direction of your chairman and Mr. Cafik. A report will be made on the *Bonaventure* to Parliament just as soon as Mr. Edwardson has completed his investigation.

It was agreed that the Sub-Committee on Agenda and Procedure should request the authority of the Committee to adjourn from place to place and the Clerk of the Committee and the necessary staff accompany the members bearing in mind that it will be necessary for at least two members to accompany our engineering consultant as well as officials of the Department of Supply and Services and the Department of National Defence aboard the aircraft carrier in Halifax.

It was agreed that, in view of the finding of the Committee and the evidence educed, the Auditor General be asked to consult the Deputy Ministers of Supply and Services, and National Defence and submit to the Standing Committee on Public Accounts their recommendations as

20365—1½

to how it is proposed to revise the departmental operations to improve the system and methods to be used in future refit contracts.

The Sub-Committee on Agenda and Procedure will obtain legal advice on certain points that have arisen in the course of the investigations."

The Committee questioned the witnesses concerning the following items of the Auditor General's follow-up report:

26—General Election Expenditure;
27—Accounts not Examined by the Auditor General;
28—Audit of the Office of the Auditor General;
29—Salary of the Auditor General;
30—Separate Act of Parliament;
31—Standing Committee on Public Accounts;
33—Possible Loss of Revenue when Goods Lose Tax-Exempt Status;
34—Drawback Paid on Goods Destroyed after Release from Customs;
35—Tax Exemptions for Particular Groups;
36—Loans and Advances Representing Grants to Crown Corporations;
37—Advances to Canadian Corporation for the 1967 World Exhibition;
38—Prairie Farm Emergency Fund;
39—Repairs and Alterations to Canadian Coast Guard Ships;
40—Cost of Salvaging Sunken Vessel.

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

Edouard Thomas,
Clerk of the Committee

EVIDENCE

(Recorded by Electronic Apparatus)

Tuesday, June 3, 1969.

• 0942

The Chairman: Gentlemen, if you will come to order, I would first like to introduce to our Committee some visitors whom we have this morning. They are from the Auditor General offices in other countries and they are here in Canada studying and learning from our Canadian audit system under the direction of our Auditor General, Mr. Henderson, and our Assistant Auditor, Mr. Long. I would like to introduce them to you and I would ask each gentleman to stand when I call his name: Mr. A. S. C. Johnson, the Auditor General of Sierra Leone, Mr. Thambo Ratnasabapathy, Deputy Auditor General of Ceylon and Mr. Ronan Critchlow from the Office of the Auditor General of Jamaica. Welcome, gentlemen, we are glad to have you sit in one of our Public Accounts Committee meetings here in Canada. No doubt you have been reading some of the minutes of our previous meetings and you have been following our study of some of the government expenditures in various fields, the most recent one being the refit of one of our air carriers, the *Bonaventure*.

I would next like to report to the Committee the findings of your steering committee.

[*See Minutes of Proceedings.*]

• 0945

Gentlemen, that is the report of your steering committee. I think that covers it pretty well. Are there any questions?

I shall file that with the Clerk and it will appear in the minutes.

We are glad to welcome back with us this morning, Mr. Henderson our Auditor General who, as you know, has been in New York helping to audit the United Nations books. Canada is doing her share in that project this year. Mr. Henderson has supplied the Committee with a timetable that would make you dizzy to read. He is flitting back and forth between here and New York and it is at some effort that he is with us this morning and will be again on Thursday and then two other meetings in June I believe. So Mr. Henderson just to bring you up-to-date we have been going over the Follow-up Report with the hope that we could wind this up and get into the 1968 Report as soon as possible. No doubt you would like to make a statement or two at this time.

Mr. A. M. Henderson (Auditor General of Canada): Thank you, Mr. Chairman, I should just like to say at the outset how much I appreciate the understanding and the forbearance of the members of the Committee in putting up with my infrequent apperances or frequent absences whichever way you want to look at it. I am indebted to my colleagues on the Board of Auditors, the Comptroller and Auditor General of Pakistan, and the Comptroller General of Colombia for their permitting me to be absent in order that I may be here. It all adds up to the fact that June is a rather chopped up and busy month at both ends. However, I am in touch with your proceedings and I am able to talk with both my officers and your Chairman on the telephone in the event of any sudden turns of events.

Mr. Chairman, I observe that you have returned to the Follow-up Report and I should like to say how glad I am that this is so because if this could be disposed of it would be of very material help I think to the departmental officials, who have been awaiting your further views on this and also to me in order that when it comes to our 1969 Report we will know where we stand on these matters.

On January 30 last at your meeting you referred a number of these outstanding recommendations back to me for attention in later reports. Also, we were able to decide at that time, as you will remember, that six of them had, in fact, been implemented. That leaves 39 in the marked up list that you have and of those 39 I noticed in going over this that on 17 of them there has been no action at

• 0950

all and 14 of them record a disagreement from the executive, and that is set out in the Follow-up Report.

I take it, Mr. Chairman, you would like to just push along beginning with No. 27. You referred No. 26 to the Chairman of the Committee of Privileges and Elections, I think, for attention.

The Chairman: That is right, Mr. Henderson.

Mr. Henderson: I think that is very timely and presumably we might at least get that fixed up through that method. Is that not so?

The Chairman: Yes. It so happens that the Clerk of this Committee is also Clerk of the Committee of Privileges and Elections and he advises me that next on their agenda is this matter of the Elections Act and at that time I am sure our recommendation will be given thorough consideration. I have written to the Committee bringing to their attention our recommendations.

We are on Paragraph 27.

27. *Accounts not examined by the Auditor General.* The Committee noted that although this officer of Parliament is the auditor of the majority of the Crown corporations, it has not been the practice of successive governments to appoint the Auditor General the auditor of seven of the Crown corporations and other public instrumentalities and that therefore their accounts have not been examined and reported upon by him to the House. The Committee expressed its belief that it would be in the best interests of Parliament in its control of public funds were the Auditor General empowered to audit the accounts of all of the Crown corporations, agencies and public instrumentalities owned or controlled by the Crown, wherever they may be, and to report to the House.

The Committee therefore recommended:

(a) that the Auditor General be appointed either the sole auditor or a joint auditor pursuant to subsection (2) of section 77 of the Financial Administration Act, of each Crown corporation, agency and other public instrumentality in respect of which other auditors have been or may be appointed;

(b) that in cases where such other auditors are appointed, they function as joint auditors with the Auditor General, and that such appointments be made by the Government.

In its Third Report 1966-67 the Committee repeated this recommendation.

Comment by the Auditor General: On November 29, 1966 the Minister of Finance advised that he had considered this matter with his colleagues chiefly concerned and concluded that these bodies should be audited by public accountants and not by the Auditor General. The considerations entering into this conclusion were stated by the Minister as follows:

> By the very fact of incorporation, these Crown corporations are intended to have a large measure of responsibility for the performance of their statutory functions and to be able to function more or less as other companies do, and in several instances to compete with them. They are intended to be more independent than departments which are held accountable through Ministers to Parliament for day to day administration.
>
> Indeed, because they are commercially oriented and are intended to operate at arm's length from and without the day to day governmental and parliamentary surveillance that is the case with government departments, it would seem proper that these Crown corporations should, as a matter of policy, be audited by public accounting firms that would treat and serve them in the same way as they would treat and serve any other commercial corporation. Such a policy will best ensure that the arm's length relationship and the operational independence and freedom of these corporations conferred on them by Parliament are adequately safeguarded and that the corporations have the use of the same kind of commercial accounting advice from their auditors that privately owned companies have. The practice of including the financial statements of the corporations and the auditor's reports thereon in the Public Accounts brings them within the scope of the Public Accounts Committee and enables that body to examine the reports and to call the presidents and other officers, and, if desired, the auditors before it.
>
> The foregoing has led me to the conclusion that no change should be made in our present practices. This view is reinforced by the policy followed in the United Kingdom where, after careful consideration, the decision was taken and was subsequently confirmed after re-examination, that the accounts of the nationalized industries should be audited by public

accountants and not by the Comptroller and Auditor General. You will find the considerations that led to this conclusion set out in paragraphs 29 and 32 of the Report from the Select Committee on Nationalized Industries, House of Commons Paper No. 235 of July 23, 1953.

This letter has not yet been considered by the Committee.

Mr. Henderson: This relates as you see to Accounts Not Examined by the Auditor General. The recommendation of the Committee has been outstanding for some time. It was repeated by the Committee in its Third Report 1966-67 and at the top of page 14 you will see that it brought a reply from the Minister of Finance on November 29, 1966 in which he records disagreement with the Committee. Your recommendation of course, has to do with the Crown Corporations which the Auditor General does not audit and it recommended, as indicated, that he either be appointed the sole auditor or a joint auditor of each for the reason that they handle public funds, accordingly, the Auditor General of the country should be at least one of the appointed auditors, rather than private firms. This has been the subject of not a little discussion. The Committee as enunciated is contained in the draft act for the office of the Auditor General which you instructed me to cause to be prepared and which I have prepared and distributed to you, but which has not as yet been discussed. Your recommendation is reflected in that act, so you might say it will be coming up for discussion as and when you consider that draft piece of legislation which you originated.

Not everyone here was present at the time of these earlier discussions. I may say that the principle of the Auditor General being the sole auditor, or joint auditor, of all of the Crown instrumentalities corporations is an established fact in many of the Commonwealth countries. It is not in the United Kingdom, but it is in Australia and India and most of the Commonwealth countries. I filed a very lengthy memorandum with this Committee following research of the question the last time we discussed it.

Mr. Chairman, I do not know whether there are any questions members may have, but I would be very happy to do my best to answer them.

The Chairman: Mr. Cafik.

Mr. Cafik: I think it is a good recommendation, Mr. Henderson. I understand you were down at the United Nations and you have a heavy schedule, not only yourself, but all of your staff, what sort of additional staff would be required by yourself, if you were to take over this function for Crown Corporations?

Mr. Henderson: I should need more staff, not nearly as much as if I were to become a joint auditor, rather than the sole auditor.

Mr. Cafik: Would you prefer being the joint auditor, as opposed to the sole auditor?

Mr. Henderson: I have no particular preference in that. It depends entirely on the size of the audit and the working arrangements. I am already the joint auditor, or I already have private firms with me on some of the government's Crown corporations. On Polymer overseas, for instance, I have a private firm overseas who do the work, submit the details to me and I join with them in the responsibility for the accounts. That is a very happy arrangement. It saves me time and cost and they, of course, are familiar with the laws of the respective countries.

• 0955

Mr. Cafik: You are doing this with Polymer, with any other Crown Corporations?

Mr. Henderson: I did Expo jointly with the provincial auditor of Quebec; that was a joint arrangement. I am, of course, working jointly with two other colleagues in the United Nations. We are able to divide up the work better.

I think the Committee's views have been that the Auditor General should, so to speak, have a foot in the accounts of these corporations in order that Parliament might be furnished with his comments, which I am unable to do at the present time. If I were to take over the sole audit, it would involve the engagement of additional people. My staff is not a large staff, only something to the order of 220 and that is fairly modest when you compare it with the size of comparable staffs in other countries.

Mr. Cafik: If you performed this function for Crown corporations, would authority would be as a Committee have in making recommendations in respect of what is going on in Crown corporations. Are there limitations?

Mr. Henderson: No, you have that authority now. You have had Crown corporations of which I am the auditor before this Commit-

tee. You had some years ago Central Mortgage and Housing, of which I am not the auditor, before this Committee. I do not think the auditors were present on that occasion were they, Mr. Chairman?

The Chairman: No.

Mr. Henderson: I think this is the subject of one of the follow-up items, as a matter of fact. You have complete authority to summon the officials and the accounts of any Crown corporation before this Committee. In the past you have had, in addition to the one I have just mentioned, the Canadian Broadcasting Corporation; the Canada Council each year; the St. Lawrence Seaway Authority and the National Harbours Board. That is entirely up to the Committee to decide within its schedule of preparations.

Mr. Cafik: What is the reaction of the government now, or over the years in respect of this recommendation?

Mr. Henderson: As indicated in this letter from the Minister of Finance on November 29, 1966, they prefer the status quo to remain unchanged. They have expressed their views here...

Mr. Cafik: What is their argument?

Mr. Henderson: They are set out on page 14 in the document before you. You have the letter here.

Mr. Cafik: Right.

Mr. Henderson: I do not know if you want me to read it.

Mr. Cafik: No, you may proceed.

Mr. Henderson: They have set out their reasoning which is not one with which everyone disagrees, neither are all of the facts in accordance with my understanding. As a matter of fact, they refer to the Select Committee on Nationalised Industries in the United Kingdom. The Auditor General of the day did not, in fact, wish to do any of the nationalized industries in Britain. He was not equipped then and he is not equipped now. It says:

> It was suggested in the course of the evidence that the present Comptroller and Auditor General...

That is of the United Kingdom, and I am reading from the Select Committee's report on Nationalised Industries.

> ...might himself perform the work on the Nationalised Industries which he now performs on the Government Departments. Sir Frank Tribe...

He was then the Auditor General.

> ...agreed that this could be done, but he warned us...

that is the Select Committee

> ...that it would entail an enormous expansion of his organisation and a complete dislocation of the auditing profession in this country. Both for this and other reasons, including those expressed in paragraph 29 we entirely agree that this suggestion is not appropriate.

This was in the year 1953. That may well have been the case at that time. I would have no disagreement with it, but it may interest you to know that the Comptroller and Auditor General of Great Britain today does not have a single chartered accountant on his staff. He does not consider they are necessary in the pursuit of his duty.

I have, out of my small staff of 200 about 90 qualified accountants, which I am bringing along and doing the very best I can in giving them experience and this type of thing. I think that is a good thing. Everyone is entitled to his views on these matters, but I believe that in the development of my office it is a good thing for my work and a good thing for the Government of Canada to have men develop along these lines. That has been my policy and will always continue to be my policy.

• 1000

Mr. Cafik: Thank you, Mr. Henderson.

Mr. Mazankowski: I would like to direct this question to Mr. Henderson. In your opinion, if you became the sole auditor of the Crown corporations, would it result in a saving to the taxpayers of Canada?

Mr. Henderson: The short answer to that is "yes."

Mr. Mazankowski: In so far as fees are concerned?

Mr. Henderson: Yes.

Mr. Mazankowski: In so far as the fees for auditing are concerned?

Mr. Henderson: In my opinion, it would result in a saving to the treasury of Canada, but having said that, I would like to say that

my own personal preference I think, would be to see, the Auditor General one of two auditors. I come by background and training from industry and the profession. I have a high regard for the people in my profession. As a matter of fact, they are very interested in this recommendation and there is a Committee of the Institute of Chartered Accountants coming to talk to me about it tomorrow. I think it brings another point of view but I think the Auditor General should be one of the auditors and a private firm, if the corporation is in a position to expend the money on the fees, should work alongside him. If this were extended to include the six corporations where the Auditor General does not do any work I would not foresee any particular objections all things equal if the private firms were to come into some which I now do solely; always subject to the wishes of the government in that regard.

Mr. Winch: May I ask a supplementary. Do I understand, Mr. Henderson, that your point of view is that because on Crown corporations public money is involved, therefore, you as Auditor General should be in a position, perhaps as joint auditor, to be able to know what is going on and report to Parliament on it?

Mr. Henderson: Exactly, Mr. Winch, that is the precise reason I agree with this Committee recommendation, and which I have said in past years and is on the record.

Mr. Mazankowski: As it stands right now, Mr. Henderson, you are not allowed to examine or interfere with the auditing of some Crown corporations, is that correct?

Mr. Henderson: You say I am not allowed to. I am allowed to by virtue. I have complete access, my legal advisers confirm that I have complete access, to all of the records of all of the Crown corporations wherever they may be situated whether I am the auditor or not. There have been instances where it has been necessary for me to exercise that, but, by and large, I refrain from doing so because there is a matter of ethics involved. I would prefer to address such questions as I had to the presidents of the corporations or the Minister as I have done in the past and through their auditors to obtain the information. Right now we have a case where we believe we should go in and do certain work but we have arranged it very happily so that their auditors are doing that and furnishing the information to me, which, to me, is a sensible way to do it.

Therefore, I am not in a position to include any comment respecting that in my annual report to the House as I am not the auditor.

Mr. Mazankowski: Over and above the matter of ethics, you in fact do have access and we, as a Committee, have access?

Mr. Henderson: Absolutely, sir.

Mr. Mazankowski: To examine the accounts of the Crown corporations, so therefore, in theory what you are suggesting then in fact could be termed a bit of duplication.

Mr. Henderson: I do not know that I quite follow you on that. The law now is that the Auditor General can be appointed as a joint auditor of any Crown corporations or, if no one else is named, I think we have the reference here. It has been the practice for years to appoint someone else. This has gone on for many years long before I arrived on the scene. You, therefore, do not find the Auditor General reporting on any of these corporations. If you would like to have his comments, he should have access to the books.

If this Committee were to instruct me to go in and make a special study of one of these Crown corporations, then I would have to put my ethis aside, I would probably plead with you that it would be better to ask the auditors but, you after all have the right to demand what you want.

The Chairman: Mr. Cafik?

Mr. Cafik: What specifically is this ethical problem that you have, Mr. Henderson?

Mr. Henderson: It is the same problem of ethics that you find in all the professions. I suggest to you, where other people are the auditors of the company you hesitate to inject yourself into it just because there might be some overriding authority. I have a natural hesitancy to do this, anyway.

Mr. Cafik: It would seem to me that in your unique position...

Mr. Henderson: There is no point in my going in and duplicating it.

Mr. Cafik: It would seem to me in your unique position as Auditor General, you should not have to concern ourself with the kind of ethical problems that you are describing that might relate to other auditors. You are in a very unique position, I think.

Mr. Henderson: Perhaps you are right Mr. Cafik, and if you want to suggest that I go in

and obtain a report on it, I would very much like to be in receipt of that recommendation.

Mr. Cafik: I would certainly...

M. Henderson: It is up to this Committee; I am your servant.

Mr. Cafik: I certainly think, Mr. Henderson, that if you feel it is in the public interest for you to look into a particular Crown corporation, you have a reason to want to do so, then I think the real ethic would be to do it.

Mr. Henderson: I have done it.

Mr. Cafik: Not to hesitate to do it.

Mr. Henderson: I have done it, but there is no point unless there is something specific I wish to know or that I wish to have done. I see no point in duplicating the auditing. They are doing a perfectly satisfactory job and I try to resolve these things by across the table discussion and I have never had any difficulty resolving it. But if you felt that you wanted to see the auditing duplicated you have only to instruct me.

Mr. Cafik: Right, but do you feel that we have sufficient control over these given Crown corporations that we are referring to, under the law as it is now or do we have to make changes.

Mr. Henderson: As far as your having sufficient control over them, I...

Mr. Cafik: Legal power over them in any event.

Mr. Henderson: I just think there is not any question that Parliament has sufficient legal power over the Crown corporations to indicate what it wants. After all Parliament are the shareholders of these Crown corporations and the auditors duty is to report to the those shareholders; namely to Parliament. If you are satisfied with the reports you are getting from the audits that I do not audit then, that is just fine. Are you satisfied, that is the question?

Mr. Cafik: Of course, I have not looked at them all. It would be premature for me to make a statement in that regard. You are the expert here, I think.

Mr. Henderson: You have an item coming up, No. 49 on page 24, right on this very point, Central Mortgage and Housing Corporation—Reports of the Auditors. Here is a case where you had a Crown corporation before you of which the Auditor General is not the auditor and there was a report of the auditors.

49. *Central Mortgage and Housing Corporation*—Reports of the Auditors. The Committee is of the opinion that it is entitled to be furnished with copies of all reports made by the external auditors of any Crown corporation and requested that the Minister responsible for Central Mortgage and Housing Corporation instruct the Corporation to make these available to the Committee for the fiscal years ended December 31, 1963 and December 31, 1964 and to do so without further delay.

At the top of page 25 you see the refusal to comply with that.

Mr. Winch: Speaking from memory I seem to remember that we were refused the information that this Committee asked for.

Mr. Henderson: You are still refused, and the letter is still referred to there.

Mr. Cafik: This does not seem to be consistent with what has been previously stated here, perhaps I am stupid this morning. The opening of the National Arts Centre took a little longer than I thought last night. In any event it seemed to me that we have been saying we have control and authority in the sense that we can call Crown corporations before and get whatever facts we want and now Paragraph 49 would indicate quite the contrary.

Mr. Henderson: You have not got any action that is why it is on the follow-up report for you to consider this morning, Mr. Cafik.

Mr. Cafik: Are you saying that in effect we do not have the legal right to get this information that we can only get it by their good graces.

Mr. Henderson: I have never disputed the fact that you do not have the legal right. The reality of the situation is that you are not getting it.

Mr. Winch: They refused to give it to us.

Mr. Cafik: Has anyone sought out any legal advice on whether we have the right or not?

The Chairman: Apparently we have not up to this point, Mr. Cafik, but I think we will leave this discussion until we come to this paragraph on page 25. It is relevant.

Mr. Cafik: I am not discussing that particular case...

The Chairman: It is a fact we had Central Mortgage and Housing Corporation come before Committee, granted Mr. Henderson was not the auditor of Central Mortgage and Housing Corporation but by the fact that they were listed in the blue book Public Accounts which were referred to our Committee, we had the right to call them before the Committee which we did, a few years ago. As this says the auditors failed to give us certain information and declined to make those reports available to the Committee. I wrote to the Minister and, he declined to make these reports available saying that they were confidential. So up to this point we never have received them.

Mr. Cafik: Does the Auditor General have the right to look at those?

The Chairman: Yes, I would say.

Mr. Henderson: Yes, sir.

Mr. Cafik: Do you have the right to report the contents of those reports to us.

Mr. Henderson: Yes, sir.

Mr. Cafik: If we asked you instead of asking the Crown corporation...

Mr. Henderson: You can do that.

Mr. Cafik: And you have no reason not to give it to us?

Mr. Henderson: No, sir, I am your servant.

Mr. Cafik: Why did we go about this laborious way of requesting this information when we could have done it more directly?

Mr. Henderson: I was not present at the meeting. I am not the auditor of the corporation.

The Chairman: We took into consideration...

Mr. Henderson: I was not present at the meeting. I am not an auditor of the corporation and such a request has never been made to me.

Mr. Cafik: I gather the Minister was not present either but he got a letter, why did we not write to you instead of the Minister?

Mr. Henderson: I do not know, Mr. Cafik.

Mr. Cafik: Would that not be the sensible thing to do if you can give it to us?

The Chairman: I will tell you, Mr. Cafik, why we did not write to the Auditor General. I think we considered the ethical viewpoint of it and there are certain ethics involved in this profession. I was Chairman at the time and I did not want to introduce this ticklish point of ethics between auditors so we wrote to the Minister. But, having failed to get our answer from the Minister now we might overstep that other angle and ask the Auditor General.

Mr. Cafik: It just strikes me as being rather silly. If you really thought it was important that you got the information and you made a request through the appropriate Minister and the Minister did not comply, then it would seem to me the next sensible thing to do would be to go to someone who would comply, which is obviously the Auditor General, who is in a way a servant of this Committee.

The Chairman: I think that is the point we are at now Mr. Cafik. That will be our next step when we come to this.

Mr. Cafik: It would have saved at least a little paper on this report. We would have had the job finished by this time.

The Chairman: I think we will have to consider that. Gentlemen, unless there are any further questions I think what you would write opposite paragraph No. 27, executive disagreement but see Act, for the Auditor General later on.

On Paragraph 28, Audit of the Office of the Auditor General. Who audits the Auditor General?

28. *Audit of the office of the Auditor General.* The Committee noted that pursuant to the provisions of section 75 of the Financial Administration Act, an officer of the public service nominated by the Treasury Board examines and certifies to the House of Commons in accordance with the outcome of his examinations the receipts and disbursements of the Office of the Auditor General.

The Committee recommended that this section of the Financial Administration Act be amended to provide that the receipts and disbursements of the Office of the Auditor General be examined by a qualified person nominated by Parliament through its Standing Committee on Public Accounts, and that such person should report thereon to the House of Commons. In its Third Report 1966-67 the Committee reiterated this recommendation.

Comment by the Auditor General: On January 24, 1967 the Minister of Finance advised that:

> ... I know of no precedent for the proposal that a Committee of the House should be given the responsibility for making the nomination that is here proposed.
>
> In considering this recommendation of the Committee, I have noted that, in accordance with the legislation of Parliament, the appointment of two officers to act as servants of Parliament—the Auditor General and the Clerk of the House of Commons—are made by the Executive and not by the Speaker or Parliament. I should think that the nomination by the Treasury Board of a person to examine the receipts and disbursements of the Auditor General's Office and to certify to the House of Commons in accordance with the outcome of his examination is wholly in accordance with these precedents. Moreover, it must be recognized that the government accepts some responsibility in regard to the Auditor General's expenditures as it must recommend them to the House of Commons. Accordingly, I do not believe any change should be made in the law.

The above letter has not yet been considered by the Committee.

Mr. Henderson: This is an old chestnut that has been always brought up at this point. The Financial Administration Act provides that the Treasury Board will nominate an officer of the public service to examine the receipts and the disbursements of the Office of the Auditor General.

I, of course, am the auditor of the Treasury Board so the Treasury Board, therefore, is hardly the body to appoint my auditor. I really do not care, my relations with them have always been excellent, I hope they will continue to be and I am sure they will. However, this Committee interested itself in this problem and they felt they would like to nominate the auditor of my accounts. Perhaps a private firm in Ottawa and I welcome that, too. It is not for me to say who my auditor is at all. You are really the stockholders in this situation and I am your servant and it seems to me that if you want a report on how I am doing that you should be free to employ the person you wish to do it. I have never, therefore, taken any objection to this. That is the situation in a nutshell.

There has been no action on this, but the Minister of Finance did reply on January 24, 1967 on page 15. You might say this problem will also come up as and when you consider the draft act because it is in the draft act, at least I put it in. That was your decision at the time. This is another one that will find its way in there.

The Chairman: Mr. Henderson, who audited your Department's books last time?

Mr. Henderson: Treasury Board's nominee audits it every year, Mr. Chairman. I think it was Mr. MacDonald of the Post Office Department.

The Chairman: One person.

Mr. Henderson: I think Mr. Bolton of the

• 1015

Dominion Bureau of Statistics has just been appointed by them. An Order in Council was sent to me indicating that they had nominated him now.

Mr. Bigg: Is he an independent auditor?

Mr. Henderson: No, he is a public servant.

Mr. Bigg: He is not on your staff?

Mr. Henderson: Oh, no.

The Chairman: Mr. Lefebvre?

Mr. Lefebvre: I was on the Committee when we made this recommendation and sometimes when we restudy things maybe we do not always have the same opinion later. Do you feel an outside firm would make a more thorough investigation of your books, or do you find that the present system is quite thorough and there are no areas where the auditor has inhibitions about going into them?

Mr. Henderson: I have no criticism at all of the way in which this has been done in the past, Mr. Lefebvre. I do not think that it necessarily follows that a private firm would be more thorough or anything of that kind. It is purely a question of who should have the nomination. Should it be the people that I audit, namely Treasury Board or should it be this Committee? You have engaged yourself a consulting engineer to look at an aircraft carrier, you could equally well nominate some member of this Committee who is a chartered accountant to come and look at my office. I have no views either way and it is not right that I should have.

The Chairman: Mr. Winch.

Mr. Winch: Mr. Chairman, you will remember in our discussion that what hit us at that time was what we thought rather an extraordinary situation, that the auditor who audits the Auditor General's books is a public employee whose own department and whose own business as an auditor is audited by the Auditor General. We thought that was a little bit of a ridiculous situation. Do you remember our discussion on that?

Mr. Lefebvre: Quite well.

Mr. Cafik: What is done in England in this regard?

Mr. Henderson: I do not think I can answer that Mr. Chairman. Chances are they do the same as we do because we have pretty well copied what they have done.

The Chairman: It might be a good suggestion Mr. Henderson to make some inquiries into what other countries do in this regard. It would be rather interesting to know.

Mr. Henderson: I would be happy to do that Mr. Chairman, but this, too, will come up at the time that you discuss the draft act because we take occasion make provision for it, I think. Am I not right in that?

The Chairman: Yes.

Mr. Henderson: I think so.

The Chairman: We shall proceed to Paragraph 29.

Third Report 1966-67—presented to the House on June 28, 1966

29. *Salary of the Auditor General.* The Committee noted that whereas the salaries paid to the senior deputy ministers and others were substantially increased with effect from December 1, 1965, no proposal had been made to the House by the Government to adjust the salary of the Auditor General whose salary is fixed pursuant to section 65(2) of the Financial Administration Act.

In order to render the Auditor General independent of the Executive in this regard, the Committee recommended that section 65(2) of the Financial Administration Act be amended to provide that the Auditor General shall out of the Consolidated Revenue Fund be paid a salary not less than the highest amount being paid to a senior deputy minister in the public service of Canada.

Comment by the Auditor General: On January 26, 1967 the Minister of Finance advised that:

> To relate the salary of the Auditor General to that of a group of senior officers whose salaries are determined by the Governor in Council would be tantamount to transferring from Parliament to the Governor in Council the right to set the Auditor General's salary. Bearing in mind the nature of the Auditor General's Office, in my view there is merit in having the legislation continue to specify the amount of salary rather than have it to be determined in relation to that of a group of senior executive officers.

The above letter has not yet been considered by the Committee.

Mr. Henderson: Paragraph 29, Mr. Chairman, I do not know whether I am the person to discuss this. This has to do with the salary of the Auditor General and these were the views of the Committee at the time. I can only tell you that like a lot of other people I am hoping something will be done about it, but the rest of it I must leave it with you.

Mr. Cafik: Do you want the adjustment upwards or downwards there?

The Chairman: At the discretion of the Committee, I think we will move on from that.

Mr. Lefebvre: For the information of the Committee, maybe I should know this but I do not, are you appointed for a certain length of time Mr. Henderson, or is it at the pleasure of the Governor in Council...

Mr. Winch: No, he is appointed by Parliament.

Mr. Lefebvre: By Parliament, but how long is the period?

Mr. Henderson: Until retirement age.

Mr. Lefebvre: There is no set payment for your office.

Mr. Henderson: There is in some countries. In the United States it is for a term of 15 years certain and in some other countries for five years.

The Chairman: You might be interested in the portion of the...

Mr. Cafik: This appointment is not made by Parliament, is it?

The Chairman: I will answer your question...

Mr. Henderson: It is made by the government of the day, but once appointed...

The Chairman: Here is the Act which spells it out. It is quite short and to the point.

> 65. (1) The Governor in Council shall by commission under the Great Seal of Canada appoint an officer called the Auditor General of Canada to hold office during good behaviour until he attains the age of sixty-five years, but he is removable by the Governor General on address of the Senate and House of Commons.
>
> (2) The Auditor General shall out of the Consolidated Revenue Fund be paid a salary of thirty thousand dollars per annum.
>
> (3) The provisions of the Public Service Superannuation Act, except those relating to tenure of office, apply to the Auditor General.

Mr. Winch: Could I ask one question here? In view of the fact that a specific amount enforced there, have you had any increases or are you still getting the same as you originally got? While others go up, you still have to stay at the rate?

Mr. Henderson: I would prefer to have Mr. Long answer that question. He has got some working papers out here. I do not think I should speak on that one.

Mr. Lefebvre: What year was your first appointment?

Mr. Henderson: 1960.

Mr. Lefebvre: 1960.

• 1020

The Chairman: Mr. Long.

Mr. Winch: Do you mean it is not a fair question to ask if he has had an increase?

The Chairman: Mr. Long will give us the answer.

Mr. Long: Yes, Mr. Winch, there have been I think three increases in the Auditor General's salary since it was first established at $15,000 back in 1924. This is the problem here that the increases do come along eventually, but because they have to be approved by Parliament there is delay and they drag behind.

Mr. Winch: Have there been any increases since 1960?

Mr. Long: The salary was set at $25,000 in 1963. There has been one increase since then.

Mr. Lefebvre: And that was when?

The Chairman: Do you know when it was?

Mr. Henderson: That was 1965. It was moved to $30,000 at a time when...

Mr. Long: No, February 23, 1967 there was an act to provide for the revision of certain salaries fixed by statute.

Mr. Winch: You are in the same spot as M.P.s, only we can increase our own salaries and we do not do it.

The Chairman: There was a time that our Auditor General was being paid a salary that was lower than Deputy Ministers of the Crown and that went on for, I do not know how long, but it is still just even. Mr. Long, what is the highest Deputy Minister's salary?

Mr. Henderson: They are up over $40,000, they have gone ahead now.

Mr. Long: Those increases have not as yet, as far as I know, been implemented the increases that were announced last January. I do not think there has been anything through to implement them yet. The thing here is that if you look back at 1924 the Auditor General's salary was $15,000. At that time the Deputy Minister of Finance was $10,000, the Clerk of the Privy Council was $6,000, the Under-Secretary of State for External Affairs was $8,000. At the present time the Auditor General's salary is $30,000 and I think there are four deputies who receive slightly in excess of that, including the Deputy Minister of Finance, the Clerk of the Privy Council, the Under-Secretary of State for External Affairs. Looking at the papers here which were prepared for this Committee about 1965, these other salaries had been revised nine times, the Auditor General's had been revised twice.

Mr. Winch: The Auditor General was originally the highest paid.

Mr. Long: By far the highest.

Mr. Winch: By far, and now he is the lowest.

Mr. Long: I would not say the lowest.

Mr. Winch: Well, he is pretty close to the lowest.

The Chairman: Mr. Bigg a question.

Mr. Bigg: I understand the Auditor General's duties keep on increasing. Is there any extra remuneration, for instance, for representing us at the United Nations?

The Chairman: Mr. Henderson.

Mr. Bigg: In salary that is.

Mr. Henderson: If there is, Mr. Bigg, it has not been made evident to me yet. This is a very sizeable undertaking and not an inconsiderable responsibility. I took it on basically, as I told you, because I thought it was a good thing. The government asked me to take it on. I thought it was a good thing for Canada. I thought it would be an excellent thing for my staff and it is proving out that way. It is also, as you well know, it is not without its strenuous moments and there is a great deal of travelling involved, more than I bargained. But the first year of these things is always, perhaps, the toughest. So I hope there might be some development one of these days along these lines.

The Chairman: Mr. Cafik.

Mr. Cafik: What kind of, I hate to be too prying on this thing, but it is a rather interesting subject always to talk about other people's salaries. What kind of expense arrangements do you have?

Mr. Henderson: All of my staff salaries, their time costs plus their expenses, are reimbursed to my appropriation here in Ottawa by the United Nations. By tradition the Auditor General does not charge for his time but he is reimbursed for his expenses, for his travelling expenses and his living expenses, so I recoup that overhead so to speak to my office. My office is not out-of-pocket doing this work except for my time.

Mr. Cafik: I was thinking more specifically of your own travel expenses within the Department, for instance, mileage allowances, per diems when you are travelling, and this sort of thing. How is this set up?

Mr. Henderson: We all work in the United Nations on...

Mr. Cafik: I am not speaking about the United Nations, I am talking about your over-all functions.

• 1025

Mr. Henderson: My over-all function is straight out-of-pocket expenses.

Mr. Cafik: Whatever they may be?

Mr. Henderson: Yes.

Mr. Bigg: It is not a per diem allowance?

Mr. Henderson: I do not have a per diem allowance. When I travel on business for the Government of Canada it is the expenses, as you say, whatever they may be, supported by vouchers just the same as other people put in.

Mr. Cafik: Others other than M.Ps you mean.

Mr. Henderson: Well, I did not say that but.... In the United Nations they have a schedule of per diem rates depending on the countries where you happen to be and all of us try to contain ourselves within that.

The Chairman: All right. Mr. Lefebvre.

Mr. Lefebvre: Mr. Long mentioned when the Auditor General was receiving $15,000 per year I think back in 1924 some of the high officials in government were getting $8,000 I believe, the Clerk of the Privy Council, is that correct?

Mr. Long: The Clerk of the Privy Council was receiving $6,000 on March 31, 1924.

Mr. Lefebvre: What is the difference now between the two salaries?

Mr. Long: I am not sure of the top salary. It is $31,080 or $32,000 something like it, just slightly over the Auditor General's salary.

Mr. Lefebvre: For the Clerk of the Privy Council as compared to $30,000 for the Auditor General.

Mr. Long: Yes.

The Chairman: It would appear, gentlemen, that from what we have been told the man is doing a really sizeable job and the responsibilities of the Auditor General its beyond me to understand why he would not get a salary comparable to a top deputy minister. I think this would be...

Mr. Winch: Mr. Chairman, obviously Mr. Henderson cannot speak on this. It is a matter for our Committee and we will accept the position. I think we should make a further recommendation that the Auditor General of all of Canada is entitled to be a senior civil servant as far as salary is concerned. Mr. Henderson cannot comment on it. It is up to our Committee to do that.

Mr. Lefebvre: It would be helpful if we had the figures from other countries comparing

the salaries of their deputy ministers with their auditor generals. It might help the Committee quite a bit.

The Chairman: That is a good thought. I do not know, Mr. Henderson, whether you would not care to answer this question but has this matter been discussed with the Minister of Finance or the President of the Treasury Board? If you do not want to answer do not feel...

Mr. Henderson: I do not mind answering it, Mr. Chairman. The Minister of Finance was good enough to say to me in our last chat not very long ago—I have fairly frequent meetings with the Minister in order that we might keep each other informed as to what is going on, at least I keep him informed what I am doing—He was good enough to say that it is the government's intention to revise my salary but beyond that I do not know just what the timing or when it is likely to take place.

Mr. Winch: It requires legislation.

Mr. Henderson: It requires a submission, of course, to the House so am in quite a different category. I think my own predecessor was placed on the stage, or perhaps it was his predecessor, in the history books where the government did increase his salary by Order in Council and he was obliged to return it with thanks and then criticize them for it.

Some hon. Members: Oh, oh.

Mr. Winch: After what we heard yesterday from the House Leader do not anticipate legislation before June 27th.

Mr. Bigg: I do not think there is any parellel for the present job in Canada but perhaps private industry in Canada might be a better guide, for instance, we do not expect to pay our Auditor General like a Latin American republic perhaps that has no money. This is a progressive young democracy of ours. What is the pay, shall we say, of the senior accountant in the Bank of Montreal, which I do not think by the way in duties is anything like the responsibility of our auditor. Could we have those figures, find out for say the top three banks of Canada what their top accounting men get?

Mr. Henderson: They are higher, Mr. Bigg. There are salary studies made by The Canadian Insitute of Chartered Accountants and Ontario Institute, by some of the larger firms which reflect considerably higher salaries both in my own profession, and in the top jobs of comptrollers of corporations. I do not think any of us are under any illusion about that, we do not expect that in the public service.

• 1030

Mr. Bigg: No, I do not mean that but I think at least for the Committee's satisfaction we might show we are justified in asking for...

Mr. Henderson: I would be happy to find ou out some figures and furnish them to you if you wish, Mr. Chairman.

The Chairman: Now, gentlemen, we will move on. Paragraph 30 we will skip for the time being because I think we will take a separate meeting to discuss this proposed draft of an act setting up the Office of the Auditor General at a later time. Now Paragraph 31.

Mr. Henderson: This was a recommendation in the name of the Committee, Mr. Chairmam, whereby you had interested yourselves in the Australian arrangements and here, of course, it is a statutory arrangement which has considerable merit, I may say very considerable merit, because not only does the Standing Committee meet on time but is recommendations are dealt with very promptly by the government. They do not have any outstanding recommendations I find.

Mr. Cafik: Mr. Chairman, a question on that. In Australia is it only the Public Accounts Committee that is constituted in this manner or are other standing committees?

Mr. Henderson: I understand it is only the Public Accounts Committee. I could be wrong on that but that was the burden. I remember of a talk we had with the High Commissioner of the day; we could check that for you.

Mr. Cafik: I think it would be very important to check that out because this implies that it is strictly Public Accounts because of the nature of the Committee and I think that is probably true.

Mr. Henderson: It would be a good idea, do you not think? It has got some merit.

Mr. Cafik: Well, yes, I am not arguing against the point I just want to know what force to give the Australian experiment and you cannot tell until you find out what they do with other committees.

The Chairman: When we study the draft act, Mr. Cafik, this will come under discussion then, too.

Mr. Winch: I believe there is a great deal to be said for this recommendation. The Public Accounts Committee has a very responsible job to do. As we exist at the present time, even in the furthering of studies our Committee can and does, with all due deference, change from day to day and week to week and I personally believe, and I am speaking now from a long experience on Public Accounts, we should have a continuity of membership that shall not change from day to day or week to week, nor change from session to session, but be able to operate for the length of the parliament no matter whether it is one to five years. Now just from that angle alone I think there is a great deal to be commended in this recommendation.

The Chairman: We can go further than that, Mr. Winch, and say that we should have an office, a public accounts office, a permanent staff, and operate the year round throughout the recess, similar to what they do in the United Kingdom. I understand the United Kingdom's Public Accounts Committee have a staff of 25 people, or in that neighbourhood, and it is a large committee working all the time and doing a tremendous job. I think we have to give a lot of thought to branching out in this.

Mr. Winch: With the situation on elections and so on, what has happened? Here we are now within a few days of one year since the last election and we have not yet got down to the 1968 report. We are still dealing with matters of 1965 and 1966 and 1967. If there were this different arrangement, then it could function on a year-round basis and be always up-to-date, instead of being four, five and six years behind.

The Chairman: Mr. Winch, there is just one little change has to be made and I think the Committee on Procedure and Organization has arrived at the point where they are willing to consider it and maybe put it into force. It is that the day that the Auditor General tables his report in the House it is automatically referred to the Public Accounts Committee. Now if that is done we will be able to get on with our work. Our committee members are appointed for the duration of parliament now, they took that recommendation from our Committee and put it into force. We are just asking for one other aspect and that having been done we will be in business the day it is referred to us, the Committee is set up and away we go. Mr. Lefebvre?

Mr. Lefebvre: I think this time it was referred to us the day after it was tabled, I believe.

The Chairman: Yes. It was pretty prompt.

Mr. Bigg: Another change is that we could operate between sessions if necessary, when we are behind in our work I think that might be discussed.

• 1035

Mr. Cafik: Well do we have that power now?

Mr. Bigg: No. All committees of the House die with the session is my understanding.

Mr. Cafik: What happens now if you do not formally close the session, which I gather is not going to happen?

Mr. Bigg: Well then it is not closed, that is all. We could operate if it is not closed.

Mr. Henderson: Mr. Chairman, I would like very much to see the Committee take a very strong position on this because, as Mr. Winch pointed out, there is such a big backlog here that it is really not surprising that the executive has paid so little attention to the recommendations of the Committee. I mean, why worry when you have so much stacked up. Therefore, if you could just get this machinery up to date it would mean you would be doing a tremendous service not only to me in expediting my work in giving you slimmer reports than this, you would also be playing it much more fairly in my view with the Public Service of this country who after all open up their accounts, their books, to me and then by reason of the responsibilities I have they get criticized they are in the headlines. It is months, it is sometimes years before they have a chance to come and state their side of the case to you. If that could be brought about sooner, if each report could be cleared up each year it would be a tremendous achievement. I think one of the keystones, if I may say, to parliamentary control of public spending is the activity of this Committee.

Mr. Winch: And the morale of the Public Service.

Mr. Henderson: And the morale of the Public Service.

Mr. Cafik: One point, I think the recommendations generally are good. I have not had a chance to give it an in-depth study, but it looks like a good recommendation. The thing that constantly amazes me about the committees here in the House of Commons is that they are always complaining about not having a sufficient back-up staff to do their job properly and so on, and since I have been elected I have not seen any limitation in what you can have if you ask for it. It seems to me that one of the big weaknesses of this Committee and all the committees is perhaps we are just victims of the past to such an extent that we are afraid to break out into the open and get what we want in order to do the proper job. I think that we have access to all the professional people probably that we would ever want if we went to the House and said, "We want somebody to help us study this problem, we want somebody to help us study that problem." All the committees seem to be afraid to try and use the power that they have, or to exercise it. I can recall, giving an example, in an External Affairs Committee where we come back from a trip in Europe and many of us on the steering committee felt we should take another trip to be knowledgeable in the field of North American defence and the Chairman and others who have been around for a long time thought that we cannot do that because the public would say: "What are they doing, two places inside of a month." Well, who cares where you go or what you do, it is the job you do that is important.

I think the real lesson we have to learn in these committees is to ask for the professional help we want from the Auditor General or from other outsiders if and when we need them. We would build up a real committee structure that would function and would work.

The Chairman: All right, Mr. Cafik, that refers to all committees, but particularly to our own. In this line, Mr. Henderson, if we were caught up-to-date and had a clean sheet, what would be the possibility of getting your report to the House a little sooner than we get it? It is about a year when we get your report.

Mr. Henderson: There would be a very good possibility indeed because we would not be having to turn out such a big report.

The Chairman: That would be a tremendous help you see . . .

Mr. Henderson: We find ourselves in a difficult jam when this Committee starts meeting in the fall, right when we are writing our next report. This has, unfortunately, happened in the last two years. Then of course my own staff situation. You must remember that I continue to be quite short of men. This is a perennial complaint of mine, but it is still true today and with the increasing workload we have we are spread pretty thin; therefore, I have a lot of planning to do. The general proposition is if you get up-to-date we are up-to-date.

Mr. Lefebvre: I think some of this backlog we will have to agree is due to the frequency of elections that have been held in Canada since 1962, I would imagine, because when I came in here in 1965 we were in our third election in about three and a half years and we were studying reports of the Auditor General, I believe, back to 1963. There is no way we can legislate all year on this, but if there are elections every two years we are going to run into the problem of backlog. Probably this will be the first time in about ten years that we will be able to catch up is in the present Parliament, but if the next Parlia-

• 1040

ment has a minority government and another election—We can put in new rules all we want but if we have elections every year or two years the same problem is going to arise no matter what rule changes you make.

The Chairman: All right now we skip paragraph 32 and we go to paragraph 33.

Mr. Cafik: Mr. Chairman, on paragraph 31, before we leave it, it is about the committees. With an enormous amount of work that is in front of us I think we still could gain a great deal if we began to set up subcommittees perhaps looking into certain departments and break the whole Auditor General's report out into categories of four or five types of departments and perhaps approach it in a subcommittee way for the background work and bring it before the major committee say once a month or once every two months. I think you would really get some work done. These people then could get the kind of assistance they need to go into each grouping of problems that you have outlined in your report.

The Chairman: In order to get caught up, we might have to do that.

Mr. Cafik: I think we should anyway. I think we would do a better job aside from

doing more work, because you would have smaller committees and I think, better attendance in the subcommittees and you would do a tremendous job that way.

The Chairman: You know, we could sit during the summer recess and get caught up if it was agreeable, but I do not think we can get agreement on that.

Mr. Lefebvre: Not much comment there, was there?

The Chairman: No.

Mr. Bigg: Mr. Chairman I think we could be done though in say, even one week if you did nothing else but go at the report. Two hours are not very long but if you have . . .

The Chairman: Mr. Bigg, that is a good thought. I think there is some move afoot that we are going to come back one week before the House opens for committee work. If we did we would have a solid week on this.

Mr. Bigg: We could get one year's report, perhaps, out of the way.

The Chairman: Well, it has to be done one way or another. Paragraph 33.

Fifth Report 1966-67—presented to the House on October 19, 1966

33. *Possible loss of revenue when goods lose tax-exempt status.* The Committee noted the manner in which the Customs and Excise Division of the Department of National Revenue places on owners and importers the onus for reporting any duty or tax which might become payable on non-tax paid equipment or goods. The Department maintains no control on such goods and consequently it is possible for equipment or goods to lose tax-exempt status without this coming to the attention of the Department, in which case there would be a loss of revenue to the Crown.

The Committee urged the Department to strengthen its procedures wherever possible so as to minimize any possible loss of revenue to the Crown.

Comment by the Auditor General: On January 9, 1967 the Minister of National Revenue advised that:

> Exemptions are provided in the law for certain goods when purchased or imported for specified uses, farm use, for example. It is impossible to follow through every tax exempt sale or duty free importation to ensure that the goods are never used for a taxable or dutiable use, and therefore Revenue officials must accept certificates from taxpayers, importers, and purchasers, which are assumed to be given in good faith, that the goods are to be used as certified. Our investigation service, police agencies, and our audit system at times discover unreported diversions. In such cases we take action to recover duty and tax. Our experience is that such diversions are not widespread. The alternative to the system as it exists would be a tariff and tax structure in which there were no exemptions of the kind in question.
>
> With regard to the discussion which took place at the Committee hearing of June 2, 1966, concerning certain equipment which is eligible for entry under tariff item 696(1), now number 69605-1, where such equipment is imported under rental or lease arrangements, to ensure compliance with the provisions of section 104 of the Customs Act, the relative documents are referred to the Customs and Excise Investigations Service and a good control is thereby maintained.
>
> The Committee may be assured that the Department is aware of the necessity to strengthen its controls wherever possible to preclude loss of revenue to the Crown.

This letter has not yet been considered by the Committee.

Mr. Henderson: On this one we did not feel the reply from the Minister added anything, Mr. Chairman. It repeated what was said in evidence and this was the straight urging from this Committee to strengthen its procedures. As you see, it maintained no control. It admitted it contained no control. An assurance has been given that it is aware of the necessity to strengthen its controls wherever possible. I think, if my memory serves me right, we felt that was half an answer; we wanted something more positive. I will ask Mr. Long to say a word on that if he remembers.

The Chairman: Before Mr. Long begings, this is a case where an article is imported as a farm implement duty-free, but then it is used for dutiable purpose later on and then the Tax Department have to assess the tax on it. Is it a matter of keeping control of that item or does it get lost in a shuffle? What is the problem? Mr. Long.

Mr. Long: As far as we are aware, the Department has no systematic method of see-

ing that goods that enter into consumption on a tax-free basis because of the place or purpose for which it is being consumed does in fact attract duty if that use should change. It is a difficult problem for them to do that. I think when the Deputy Minister was here he did refer to what was supposed to have been quite a famous case where television sets bought for a hospital ended up in employees' homes. Certainly when goods are transferred from an untaxed purpose to a taxable purpose there is a danger that the tax is not going to be paid on them and the Department reply does not add anything to what you were given at the time the Deputy Minister was before you and at the time you made this recommendation.

The Chairman: Mr. Lefebvre.

Mr. Lefebvre: Is this a case, Mr. Long, of the amount of money not being sufficiently large to warrant adding extra staff to keep an eye on these goods? Is this about what we can summarize from the experiences?

Mr. Long: I do not think you can assume that the amount is not always large. There could be large amounts involved. I would say again this recommendation was made after you discussed the matter with the Deputy Minister. The Department does not seem able to demonstrate it has any assurance at all that things which go into a use which is taxable become tax paid. There can be and probably is a short fall of revenue there.

• 1045

Mr. Lefebvre: Is this a case, Mr. Long, of the amount of goods brought into this country that are not taxable. Have we a figure on this?

Mr. Long: We do not have Mr. Lefebvre...

Mr. Henderson: We do not keep books that way.

Mr. Long: I doubt whether...

Mr. Lefebvre: What I am trying to get at is if we have no idea of what is coming in we do not even know whether we can make a recommendation that anything, say, of a taxable amount over $1,000 should be followed right through to see that it does go into an area which is in effect eligible for the exemption or something of that nature. What do you think?

Mr. Long: To set a limit like that would be quite a sensible thing to do but I think the Department should be able to give you information on what percentage of these cases $1,000 would catch or whether you should make it $500 or $2,000.

Mr. Lefebvre: Yes, yes.

Mr. Long: We would not be able to tell you this. This is the kind of thing that in a test audit we do not get an over-all picture—we just cannot get an over-all picture of. It is only when we happen to land on these particular transactions in our test audit that they come to our knowledge.

Mr. Lefebvre: Is there any department of government that this Committee could ask for the amounts of money involved and then ask them to break it down into different categories of under $500, over $500, over $1,000 and so on?

Mr. Long: This is the Department of National Revenue, Customs and Excise Division.

Mr. Lefebvre: They do not keep the figures in order to give us these?

Mr. Long: They could probably, if you gave them advance warning, over a period of a year, say, keep track of all these special cases that occurred during that year and make a report to you.

Mr. Lefebvre: Mr. Chairman could we ask for this and then probably by the time we do get the figures we will know if we are talking about something that is really worthwhile which it probably will be but we will have figures to prove it?

The Chairman: All right. This will be discussed with the Deputy Minister, Mr. Labarge to see if such information could be readily available without involving too much work for the Department. Mr. Bigg and then Mr. Mazankowski.

Mr. Bigg: It seems to me just while we are on this point—something leaps to my mind—that if it is a question of getting revenue, I see no reason why at the time of entry the person receiving these goods tax-free should not sign a sort of lien on goods to the Crown unless they are accountable within a certain length of time. You could have a moratorium even up to ten years. The Crown could come and say, "Where is the television set which is being used for charitable purposes or else you owe us $300." If they had disposed of it or sold it or anything they then automatically

owe the Crown an extra $300 customs duty and that is it. If they still have it they owe nothing and it would be a question of spot checking now and again. I think that the abuse would die in its tracks. At the end of so many years from the date of the entry the paper could state right on it. "This lien dies three years from June 6, 1969." That is it. Otherwise, it is collectible and is checked against your social security card.

The Chairman: I might say that the Deputy Minister reported to the Committee and said:

> The Committee may be assured that the Department is aware of the necessity to strengthen its controls where possible to preclude loss of revenue to the Crown.

I think we have impressed upon him the necessity of doing such.

Mr. Bigg: It certainly can be done if they want to do it.

The Chairman: Mr. Mazankowski.

Mr. Mazankowski: Yes, Mr. Chairman, how are these evasions uncovered right now? Is it through a system of spot checking or is there any formal routine or any method?

The Chairman: Mr. Henderson, I think can answer that, or Mr. Long.

Mr. Long: The explanation is given here on page 17:

> Our investigation service, police agencies, and our audit system at times discover unreported disversions.

I think this is about the extent of it.

Mr. Mazankowski: The odd spot check then, in other words, is that it?

Mr. Long: More or less an accidental finding, I think, in the course of normal work.

The Chairman: All right? Same Department, paragraph 34.

34. *Drawback paid on goods destroyed after release from Customs.* The Committee was concerned to note that it had been the practice of the Department of National Revenue (Customs and Excise Division) to recommend to the Governor in Council that duty drawbacks or remissions be made on goods "destroyed in Canada at the expense of the owner under Customs supervision" when section 22(6) of the Financial Administration Act, as amended, directs that: "No tax paid to Her Majesty on any goods shall be remitted by reason only that after the payment of the tax and after release from the control of customs or excise officers, the goods were lost or destroyed."

The Committee is of the opinion that the Department should adopt a stricter attitude towards requests for refunds and remissions based on circumstances which lie outside of normal business practice.

Comment by the Auditor General: On January 9, 1967 the Minister of National Revenue advised that:

> The Committee's comments on this subject have been noted by the Department.

I am not aware of any further developments in this matter.

Mr. Henderson: Here the Committee gave its opinion that the Department should be stricter towards requests for refunds and remissions. The Minister replied in the sentence that is quoted by saying that comments had been noted by the Department. That is all the reply we have had. We think there is a general area here for tightening up the practices around refunds and remissions. You have only to note the Auto Pact case that has been in my last three reports which resulted in the $80 million worth of remissions, and which was publicized last week, to understand that I was not criticizing the validity of the thing at all, I was concerned with the lack of internal control surrounding the determination of the figures. That was absent. That was the whole burden of that. This whole situation, I think, needs a thorough going over and I hope that can take place as soon as we have an opportunity.

Mr. Winch: May I ask a question, Mr. Chairman? I do not know about the other members but I have received much correspondence on this matter. Is it your intention, Mr. Henderson, to give us a breakdown on this $80 million remission by Order in Council to the automobile firms? It is most serious and I want to ask whether or not at a future time we are going into this specifically?

The Chairman: Mr. Winch, when we finish the follow-up report which I had hoped would have been today—however, we are not going to finish it—maybe the Committee when we move into the 1968 Report would like to take that as the first item of the 1968 Report and have the officials from the department here and Mr. Henderson.

Mr. Winch: I want to mention it, Mr. Chairman, because I am absolutely convinced

that not only this Committee, but the general public, want an explanation of that 80 million remission. They want to know what it is all about and why.

The Chairman: I think there are explanations and the Committee should get them. If it is the wish of the Committee we can have that as our first subject.

Mr. Winch: On the surface, sir, it is an outright disgrace unless there is good explanation, and if there is then it should be given.

The Chairman: I think we have to hear all the facts before we make any assumption one way or another.

Mr. Winch: I say, that is the impression now. Therefore, we should have complete information on it.

The Chairman: We will take that...

Mr. Henderson: It goes back for three years now that I have been reporting on that. It involves the relationship, I think, since 1967 with Studebaker, $2 million to Studebaker. Then it had its origin in the 1966 Report when I started this. You have not examined the 1966 Report, you have not examined 1967 so you can take all three years together.

Mr. Winch: Is my memory not correct, that there was supposed to be some adjustment made on Studebaker?

The Chairman: Yes, I think so. I think you are right.

Mr. Winch: I seem to remember that.

The Chairman: Well, gentlemen, if it is your wish at the next meeting we could finish this report and then the following meeting we could take that matter up with the Department of National Revenue, have the officials here and the Committee may ask all the questions they like.

Mr. Bigg: Is there anything about going down to see the *Bonaventure* again?

The Chairman: No, that is a subcommittee.

Mr. Henderson: You see I think the Committee would prefer if the Minister of National Revenue, instead of just noting the comments were to say that they will not repeat this particular case, again, that is really what you want to hear. That is why we have left it in the 'no action yet' category.

The Chairman: Paragraph 35.

35. *Tax exemptions for particular Groups.* Parliament from time to time grants exemptions from sales tax and/or other taxes to institutions such as hospitals or schools and groups of consumers such as loggers, farmers, etc. In the course of discussions with departmental officers and the Auditor General, there were indications that in some cases the benefits of such tax exemptions are enjoyed by those whom Parliament had not intended to assist. The Committee is aware that special exemptions increase the complexities of administering the tax law but, nevertheless, it feels that the laws must be administered so as to ensure that exemptions granted by Parliament are applied only in the way Parliament intended.

The Committee urged the Customs and Excise Division of the Department of National Revenue in its administration of special exemptions always to see to it that the benefits from these exemptions go to, and only to, those for whom Parliament intended them.

Comment by the Auditor General: On January 9, 1967 the Minister of National Revenue advised that:

> The reference is apparently to the discussions which took place at the Committee hearing on June 2, 1966, concerning certain percentage arrangements which the Department has with some manufacturers who sell relatively small articles, such as, oil filters, for both taxable and non-taxable purposes, but who do not know at the time of sale where each article will end up. Based on experience and records the percentage of total sales going in to taxable and non-taxable use is established and the taxpayer pays tax on this basis. In accepting this formula method of establishing the amount of tax payable, the Department ensures that sufficient revenue is collected, but due to the impracticability of requiring a complicated series of certificates through the distribution chain it has to be assumed that the end user gets the benefit through reduced prices of the exemption provided.

This letter has not yet been considered by the Committee.

• 1055

Mr. Henderson: Tax exemption for particular groups. That is perhaps the same thing you have been talking about.

The Chairman: Yes, the same thing.

Paragraph 36.

36. *Loans and advances representing Grants to Crown Corporations.* The Committee again criticized the practice of treating amounts paid to a Crown corporation, which did not have means to repay them, as loans and advances rather than expenditures of the Crown. The Committee was disturbed to learn that not only had the financing in this manner of the National Capital Commission not been reviewed by the Department of Finance as requested by it (see item 18) but the practice had been continued and further extended by the Department of Finance in 1965 when the House was asked to approve loans aggregating $14,250,000 to the Canadian Broadcasting Corporation to finance capital requirements which in the past were financed by grants charged to budgetary expenditure.

The Committee again expressed the opinion that expenditures of this type are not loans or advances which can or should be regarded as revenue-producing assets but are in fact grants and should be charged directly to budgetary expenditure in the Public Accounts of Canada. The Committee noted the undertaking of the Department of Finance to review and discuss the accounting treatment involved with the Auditor General and expects the latter's report thereon in due course.

Comment by the Auditor General: The Department of Finance has not yet reviewed and discussed with the Auditor General the accounting treatment involved.

Mr. Henderson: This is the question of money being advanced to Crown corporations whose financial position will never render it possible for them to repay the money unless you continue to give them another grant; therefore, they should be treated as budgetary expenditures rather than as loans and described on the balance sheet of Canada as assets.

The Department of Finance was instructed to review this and to discuss with me the accounting treatment involved. This has not yet been done.

Mr. Winch: My only comment, Mr. Chairman, is that we have gone over this year after year. We have always been in agreement that when an advance is made which they know is not going to be repaid it should be wiped out and put into grants. Of course, I only have to refer, Mr. Chairman, to Oromocto where not only do we know it is not going to be repaid but we have to advance the interest on the interest which is an absolutely ridiculous situation. I completely agree with the decision of the previous committees on this matter.

The Chairman: Then it would appear that this one would be listed under disagreement.

Mr. Henderson: Oh, yes.

The Chairman: Paragraph 37.

37. *Advances to Canadian Corporation for the 1967 World Exhibition.* The Committee took note of the circumstances under which the Government of Canada is purchasing securites issued by the Canadian Corporation for the 1967 World Exhibition and guaranteed by Canada and by Quebec. It noted that since the initial grants of $40 million, of which $20 million was provided by Canada under the Canadian Corporation for the 1967 World Exhibition Act, were fully paid over to the Corporation in 1965 the Corporation's needs have been financed almost exclusively by issuance of these securities, all of which have been purchased by Canada.

The Committee recommended that amendments to the existing legislation be placed before Parliament and the Legislature of the Province of Quebec so that the additional grants required can be made by the parties concerned, namely Canada, Quebec and the City of Montreal. The Committee directed the attention of the House to the fact that unless these additional grants are provided, the Corporation's presently estimated total requirement of $143 million (less $40 million already provided by Canada, Quebec and Montreal) will have been financed by loans from Canada and the Corporation will be burdened with the cost of additional interest and at the conclusion of the Exhibition will not have the cash resources necessary for payment of its indebtedness to Canada.

Comment by the Auditor General: On May 1, 1967 the Minister of Finance wrote to your Chairman informing him that he believed that the action was completely justified and he intended to continue the present arrangement until after the conclusion of the Exhibition. On May 9, 1967 the Minister of Trade and Commerce wrote to your Chairman informing him that the deficit was only an estimate and

> it seems to me undesirable to seek legislation to authorize a grant of an indeterminate sum. Should the legal officers of the Crown rule that further statutory authority is necessary the practical approach

may well be to await the final outcome of the Corporation's activities so that a specific proposal may be made to Parliament.

Mr. Henderson: Number 37 is advances to Expo. With the passage of time since you dealt with this you have more information leading up to 1968, of course, and I do not know whether the affairs of Expo would be subject to any examination by this Committee or not, Mr. Chairman, but the disposition of this still has to be made, finally. These are again in the same category of loans made, repayment of which is just not possible, therefore, the budgetary deficit is understated by that amount. That is what it means.

Mr. Winch: Could I ask for an explanation, Mr. Chairman? I am going by the publicity that was given by the press when your information came to light which was challenged by Expo. Can you give us any information on this?

Mr. Henderson: I do not think the facts were ever challenged by Expo, Mr. Winch. It was that they viewed it in a different light.

Mr. Winch: Well, that is a nice way of putting it.

Mr. Lefebvre: That is not what I read. It was just as Mr. Winch mentioned. I think it was Mr. Shaw who made a statement the day after.

Mr. Henderson: The only criticism I saw of Mr. Shaw was in one of the Toronto papers as I was on my way to Geneva in which he said that he felt I was too strict. I do not know how strict an Auditor General has to be but that is what he said.

Mr. Lefebvre: Well, maybe we could invite him to the Committee some time, Mr. Chairman.

Mr. Winch: I will say this, any time as an Auditor General you are not strict you will find yourself in trouble, I think with this Committee.

Mr. Henderson: That has been my feeling!

The Chairman: We will be discussing Expo thoroughly later on, the whole deal, and we will no doubt be having some officials before the Committee. There have been a lot of things we should look into and I think at that time this will be taken care of.

Paragraph 38, now we switch to the agricultural area.

38. *Prarie Farm Emergency Fund.* The Committee believes it is important that the matters referred to by the Auditor General in paragraph 46 of his 1964 Report and paragraph 52 of his 1965 Report be rectified and recommended that approrpiate legislation be introduced as soon as possible. It requested the Auditor General to keep the matter before the House and the Committee.

Mr. Henderson: We continue to watch the Prairie Farm Emergency Fund and I must say there is progress here, Mr. Chairman. The department of Agriculture has been very good about following up this matter. It is not an easy one but I think I am able to report that our experience is considerably better with this Prairie Farm Emergency Fund.

The Chairman: We now come to Number 39.

39. *Repairs and alterations to Canadian Coast Guard Ships.* The Auditor General, in paragraph 85 of his 1964 Report, drew attention to an instance where a ship repairer commenced operations under a contract involving a consideration of $43,346 but the work actually performed under the contract amounted to $130,851 before the ship was returned to service.

The Committee appreciates the problem faced by the Department of Transport when ships for which certain repairs have been contracted for require additional repairs, the need for which is not evident until the ship is opened up.

The Committee also appreciates the danger pointed out by the Auditor General that a shipyard could deliberately bid too low for the repairs specified in order to get the ship into its yard, and then recoup any loss sustained by including excessive profits in charges for the carrying out of the additional work that is found to be required after the ship has been opened up. The Committee feels that everything possible should be done to assure the Canadian taxpayer that the tender system in the case of ship repairs is working to ensure that costs of these repairs are not excessive, and it discussed with departmental officers various ways in which this continuing problem might be overcome.

The Committee recommended that, in addition to all other methods which the Department might be able to employ in controlling the cost of extras, ship repair contracts be drawn up to provide that when extras are

involved they shall be undertaken on a cost-plus or a modified cost-plus basis, the profit to be limited to the percentage of profit realized on the original contract price, with a proviso that no loss be suffered on the extras and with the entire contract subject to cost audit by government auditors.

Comment by the Auditor General: On January 13, 1967 the Deputy Minister of Transport advised that:

> The system of handling extra costs within the Shipbuilding Branch, i.e. to establish, each year, charge-out rates which include fixed overhead and 10% profit in individual repair establishments, appears to the Department to provide the degree of financial control the Committee has in mind. This control is administered by field supervisors who negotiate the number of man hours and cost of material to be used in each extra work order.
>
> The system now in use has been developed by representatives of the Department who have had experience with cost plus, target price and firm price contracts and they are of the opinion that although there are inherent difficulties in contracting for ship repairs, this method is the best of the various types of contract arrangement available for this specialized kind of work. We believe that the great problem with ship repair, and one for which no solution has been found, is its unpredictability and the form of the contract can contribute only partly in minimizing repair costs.

The above letter has not yet been considered by the Committee.

Mr. Henderson: Repairs and alterations to Canadian coast guard ships. Here the Com-

• 1100

mittee had some quite strong and definite views about the opening up of ships. I do not know whether we need to spend too much time on this. I actually quoted this one, I think, or drew it to your attention at the time of one of our *Bonaventure* meetings. As I recall we asked one of the officials of Davie Shipbuilding as to the feasibility and they gave us their views.

The Chairman: They were not in accordance with ours.

Mr. Henderson: They were not in accordance with the views of the Committee on the feasibility of this and I may say neither is the Deputy Minister of Transport.

The Chairman: I think, Mr. Henderson, the subcommittee in their dealings with this consultant engineer who is a ship expert, will put this question to him and ask him for his advice and suggestions and he might be able to report something favourable to the Committee.

Mr. Henderson: That would be very helpful. It might have benefit.

Mr. Cafik: At some of our hearings on the *Bonaventure* I made three basic recommendations to the Department at that time in connection with work arising, additional work on ships, and they at least at that time agreed with the recommendations that I made; they were not exactly the same as this, but they were designed to overcome the same problem of somebody bidding low for a job, and with the work arising, of course, really putting the screws to you. I think when we go back through the Minutes we will find what those recommendations were and they might be useful at this time.

The Chairman: Paragraph 40.

40. *Cost of Salvaging Sunken Vessel.* The Committee is of the opinion that costs of recovering a sunken vessel, the oil cargo of which was a threat to waterfowl, marine life and coastal property, should be the responsibility of the owner of the vessel and recommended that the Department of Transport take immediate steps to introduce the necessary legislation so that the Crown may be protected from such costs in future.

Comment by the Auditor General: In paragraph 159 of my 1967 Report, I advised that the Department had suggested that amendments to the Canada Shipping Act be introduced during the 1967 Session which, among other things, would provide for the recovery of the cost of removing a wreck which has a

potential source of pollution. No amending legislation has yet been passed.

Mr. Henderson: Paragraph 40 is a situation that I understand the Department of Transport will soon be amending. I do not know whether the amending legislation has been introduced but I believe it is in the course of preparation, Mr. Chairman, so we will probably be able to write that off.

The Chairman: We will have to stop at paragraph 41. It is eleven o'clock and another committee wants this room. I think all the announcements have been made and with that we will adjourn the meeting.

The Queen's Printer, Ottawa, 1969

HOUSE OF COMMONS

First Session—Twenty-eighth Parliament

1968-69

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: Mr. A. D. HALES

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 41

THURSDAY, JUNE 5, 1969

Public Accounts, Volumes I, II and III (1966 and 1967)
Reports of the Auditor General to the House of Commons (1966 and 1967)

WITNESSES:

(*See Minutes of Proceedings*)

20367—1

STANDING COMMITEE ON PUBLIC ACCOUNTS

Chairman: Mr. A. D. Hales

Vice-Chairman: Mr. T. Lefebvre

and Messrs.

Bigg,	Guay (*Lévis*),	[1]Noël,
Boulanger,	Guilbault,	Noble,
Cafik,	Harding,	Rodrigue,
Crouse,	Leblanc (*Laurier*),	Tétrault,
Cullen,	Major,	Thomas (*Maisonneuve*),
Flemming,	Mazankowski,	Winch—(20).

(Quorum 11)

Edouard Thomas,
Clerk of the Committee.

Pursuant to Standing Order 65 (4) (b),
[1]Mr. Noël replaced Mr. Laflamme on June 4, 1969.

MINUTES OF PROCEEDINGS

THURSDAY, June 5, 1969.
(46)

The Standing Committee on Public Accounts met this day at 9:43 a.m., the Chairman, Mr. A. D. Hales, presiding.

Members present: Messrs. Bigg, Cafik, Crouse, Flemming, Hales, Lefebvre, Mazankowski, Noël, Rodrigue, Winch (10).

Witnesses: Mr. A. M. Henderson, Auditor General of Canada; Mr. G. R. Long, Assistant General.

The Committee questioned the witnesses concerning the following items of the Auditor General's follow-up report:

41—Cost of Abandoned Design Plans for Ferry Vessel;

43—Inadequate Control of Stores at Northern Locations;

45—Salaries and Wages Paid for Work not Performed;

47—Proposed Removal Allowance;

48—Central Mortgage and Housing Corporation—Appointment of Auditors;

49—Central Mortgage and Housing Corporation—Reports of the Auditors;

50—Central Mortgage and Housing Corporation—Statement of Net Income;

51—Reconstitution of Financial Structure of the National Harbours Board;

54—Parliamentary Control of Expenditure.

The Committee agreed to accept a copy of a letter from the Canadian Broadcasting Corporation dated March 31, 1969 as an appendix to this day's Proceedings. (*See Appendix S*)

After discussion, the Committee agreed to begin the review of the Auditor General's Report for the fiscal year ended March 31, 1969 at its next meeting and, in particular, those paragraphs dealing with the Customs and Excise Division of the Department of National Revenue.

At 10:53 a.m., the Committee adjourned to the call of the Chair.

Edouard Thomas,
Clerk of the Committee.

20367—1½

EVIDENCE

(Recorded by Electronic Apparatus)

Thursday, June 5, 1969

•0942

The Chairman: Gentlemen, we will proceed with the Follow-up Report. We are on page 21, paragraph 41, which has to do with designs for building of ferry vessels and so on concerning the Departments of Transport and National Defence chiefly.

Mr. Henderson, would you like to comment now?

Mr. A. M. Henderson (Auditor General of Canada): Mr. Chairman, this is paragraph 41 on page 21 of the Follow-up Report.

41. *Cost of Abandoned Design Plans for Ferry Vessel.* The Committee discussed with officers of the Department of Transport and the Canadian National Railways the additional payment of $20,000 which had to be made to the architects who were preparing plans for a ferry vessel to operate between Newfoundland and the mainland.

In the opinion of the Committee this additional expenditure resulted because the Department and the C.N.R. had not come to an agreement as to whether the ferry vessel was to be a full icebreaker or simply an ice-strengthened ship, and emphatically stated that the Department should ensure in future that agreement is reached before architects are asked to proceed with the preparation of plans.

Although the Treasury Board had approved payment to the architects of the final amount of $130,000 for the preparation of these plans, the Board had not been advised that this represented an increase of $20,000 over the amount which the architects had originally agreed to accept for the assignment.

The Committee feels very strongly that the Treasury Board must be given all facts when it is being requested to approve of contracts, and it urged the Department to see that future submissions to the Board are complete in this respect.

The Committee, recognizing that the ferries operated by the Canadian National Railways on behalf of the Department of Transport are in effect rail links, recommended that consideration be given to the assuming by the Railways of responsibility for the procurement of ferry vessels as is done with respect to rolling stock requirements.

Comment by the Auditor General: On January 13, 1967 the Deputy Minister of Transport advised that:

> Consideration has been given by the Department to the suggestion that CNR should assume responsibility for procurement of ferry vessels. The conclusion has been reached that this would be uneconomical because it would require the establishment of a sizeable CNR organization which would specialize in procurement of vessels without, at the same time, relieving the Department of the need for a technically competent Shipbuilding Branch. It should be mentioned that the procurement of ferry vessels is quite different from the acquisition of rolling stock. Railway cars are standardized whereas ferry vessels are individually designed to meet the particular requirements of the service for which they are needed and each one is, in a sense, unique.
>
> Everything possible is done to ensure that agreement on a design is reached before architects are asked to proceed with preparation of plans. Nevertheless, the Department recognizes that changing conditions sometimes make later alterations necessary and there is then the difficult choice between acknowledging the new requirements as being important enough to justify the additional cost of making changes on the one hand; or proceeding on the basis of the original design, recognizing that it may not meet the new conditions as well as it could or should.
>
> The Department agrees that Treasury Board should have all the necessary facts when it is being requested to approve contracts and follows this course. In addition to the submissions themselves, departmental files are available to Board staff, who frequently examine detailed

aspects of submissions which are being considered; frequent discussions with this staff take place as well.

The above letter has not yet been considered by the Committee.

Here the Committee expressed some views following their hearing of witnesses from the Department of Transport about an additional payment that had to be made to architects who were preparing plans. The Committee's views are set down. It was a case where the Treasury Board in this instance had not been given all of the facts when it was being requested to approve the contracts. The Committee also recommended that consideration be given to the assuming by the railways of responsibility for the procurement of ferry vessels as is done with respect to rolling stock.

The Deputy Minister of Transport replied on January 13, and the text of his letter is at the top of page 22. You will see that he seeks to shed more light on the points raised by the Committee and indicates the Department's agreement that the Treasury Board should have all the necessary facts when it is being requested. Although it indicates a degree of disagreement, this might be one, Mr. Chairman, that you would like to hold over pending the return of the officials from the Department of Transport. You will doubtless wish to hear from them in connection with some of the cases in the 1968 Report. This would perhaps be the best way to...

The Chairman: Are there any questions? Mr. Crouse.

Mr. Crouse: I have one question, Mr. Chairman, and it is not directly applicable to the item before us but is by way of information for the Committee. I wonder if the Audi-

• 0945

tor General could inform the Committee about the procedure that is followed by CNR-operated ferry boats with regard to insurance? This question is prompted by the discussions the Committee had relative to the lack of insurance so far as refits on the *Bonaventure* and the hydrofoil are concerned.

I wonder if the Auditor General could tell us if ferry boats, and there are quite a number of them, operated by the CNR, for example, are insured or does the government carry its own insurance on CNR-owned and operated ferry boats?

The Chairman: Mr. Crouse, Mr. Henderson does not audit the books of the CNR but he might have some observations.

Mr. Henderson: I would be happy to obtain that information, Mr. Chairman, if I might do so and bring it before the Committee at a later meeting. I would have to communicate with them to ask that information.

Mr. Crouse: I think this would be of interest to all Committee members and if it is agreed I would like to suggest that the Auditor General secure this information for the Committee.

Some hon. Members: Agreed.

The Chairman: All right. I think we could say about this paragraph 41 that the Deputy Minister of Transport took into consideration our recommendations and he agreed that designs should be reached before architects are asked to proceed with the preparation of plans and also that Treasury Board should have all the necessary facts when they are being requested for money. I think it remains for the Committee to see whether our suggestions are followed and whether or not other cases come before the Committee where the Department has once again failed to watch these things that we have brought to their attention.

We will now consider paragraph 43 which concerns inadequate control of stores at northern locations.

43. *Inadequate Control of Stores at Northern Locations.* Following consideration of the situation disclosed in paragraph 104 of the Auditor General's 1965 Report, the Committee stated that it regards this matter as being of the utmost importance and urged the Department of Indian Affairs and Northern Development to establish adequate controls on all stores in the North with the least possible delay.

Comment by the Auditor General: This matter is again dealt with in paragraph 77 of my 1967 Report to the House in which I state that there has been an improvement in the situation at Fort Smith and that corrective action has been or is being taken at Yellowknife. At Frobisher Bay, a program to identify and segregate surplus or obsolete stores and to consider what economical disposal action should be taken was to be implemented late in 1967.

I have recently been informed that: at Yellowknife, a warehouse building has been erected to provide adequate and secure stor-

age for stores inventories, which have been moved to the building and the records updated; at Frobisher Bay, all available expendable items have been identified and taken on ledger charge and the warehousing locations have been reduced from eleven to four; and, at Inuvik, inventory holdings have been reduced to about $65,000 by transferring surplus stock to Fort Smith and all items have been brought on ledger charge and stock locations re-organized.

It is my intention to keep this matter under review and to report further thereon to the House.

Mr. Henderson: Mr. Chairman, this subject is again dealt with at some length in my 1968 Report. In my comment which appears at the top of page 23 of the Follow-up Report I indicate the progress the Department has been making. However, there still remains a great deal to be done and that is all enumerated in detail in my 1968 Report.

Mr. Winch: Mr. Chairman, in order to save duplication of discussion I suggest that we wait until we deal with the 1968 Report.

Some hon. Members: Agreed.

The Chairman: All right. Paragraph 44 is crossed off. Paragraph 45 deals with salaries and wages said for work not performed in connection with the Canadian Broadcasting Corporation.

45. *Salaries and Wages paid for work not performed.* The Committee reviewed the practice of the Canadian Broadcasting Corporation in making payments to employees for scheduled hours during daily or weekly tours of duty in excess of actual hours of attendance, noting that such payments aggregate $450,000 per annum. The Committee considered that public funds should not be disbursed for work not performed and that managements of Crown corporations have a responsibility to ensure that the taxpayer's money is not used for non-productive work of this nature. The Committee recommended that such payments be eliminated by the management as and when the present union agreements come up for renewal.

Comment by the Auditor General: This matter was again dealt with in paragraph 60 of my 1967 Report to the House in which I pointed out that some of the union agreements were due to be renewed in March and June 1968 but that we had been advised by the corporation that "this situation is largely due to circumstances beyond the realm of collective bargaining" and "the practice of early release of staff will be reviewed to explore ways of holding personnel to their scheduled tours of duty". The union agreements have not yet been renewed.

Mr. Henderson: This situation, Mr. Chairman, continues to prevail. The Committee as you see recommended that such payments be eliminated "as and when the present union agreements come up for renewal." The Canadian Broadcasting Corporation has been following this matter up. They are, I think, as anxious as the Committee is to make a better deal with the unions.

I have here a letter dated March 31, 1969, addressed to me by the Vice-President of Finance of the Canadian Broadcasting Corporation in which he explains that they have been having discussions with the union but the union is not prepared to go along with the recommendation of the Corporation which in turn is reinforced by the recommendation of the Committee.

It is a rather interesting letter and it might be that you would perhaps care to have it tabled and printed as part of the evidence for reference. This matter will come up again in my 1968 Report. Would you care to have the letter read to you?

Mr. Winch: I am just going to make a suggestion, Mr. Chairman. I think this matter is important in view of what the Auditor General has just said, and also in view of the fact that it does come up again in the 1968 Report. I believe that because we in the past have felt this way and apparently no progress has been made with the union that we deal with it on the 1968 Report, but that we ask a union representative to come before us and to explain why they object.

Mr. Cafik: Mr. Chairman, in regular contracts between business firms and unions I am sure that this problem also occurs, does it not, Mr. Henderson?

Mr. Henderson: It is a fairly common problem, I think, Mr. Cafik. It does come up in one shape, manner, or form. It is part of the negotiation really.

Mr. Cafik: I want to base this on my own experience if I can. I would like to find out exactly what we are talking about. For instance, if you have a large plant with a

• 0950

production line and if for some reason or another there is a breakdown of equipment on that production line and we will say 100

ment have to go home, normal union agreements would call for a certain number of hours that they would have to be paid following the breakdown to compensate them for having to leave in the middle of the day. Is this the type of thing we are talking about?

Mr. Henderson: No, not really. That is more or less a per occasion situation that you are describing. This, however, is a continuing built-in proviso to pay wages for work that is not performed.

Mr. Cafik: Would you like to explain to me exactly what you mean by that?

Mr. Henderson: Mr. Long has here a schedule that sets down some of the detail. Would you like him to just follow up.

The Chairman: All right.

Mr. G. R. Long (Assistant Auditor General of Canada): Mr. Chairman, the thing here is that the hours scheduled and paid are 40 hours per week. The hours that the men actually work are somewhat less than that. We have some examples here. Here is a case where on December 6 in the year that this was done there was eight hours scheduled and no work was done. Another case occurred on December 17 where 8 hours scheduled. They were required to work 3.5 hours and were paid for 4.5 hours, from which nothing was obtained by the employer.

Mr. Cafik: What type of employees are these?

Mr. Long: There are technicians, make-up artists, and so on working with the film crews.

Mr. Cafik: Are they on the job and available for that full period of time?

Mr. Long: I do not think so necessarily. They can be sent home.

Mr. Cafik: But they are available for work during that period?

Mr. Long: Their work has been scheduled, yes.

Mr. Cafik: And they are under contractual arrangement to be available for 40 hours in a given week?

Mr. Long: That is right.

Mr. Cafik: And in actual fact they might perform 30 hours, 20 hours, or 10 hours in actual productive work? Is that what you are talking about?

Mr. Long: The rest is non-productive, yes.

Mr. Henderson: Perhaps if I were to read quickly the last two paragraphs of the Vice-President's letter, it might shed some light on this.

The Chairman: All right.

Mr. Henderson:

> As noted in previous correspondence and discussions the problem relating to the payments dealt with in your report is primarily the Corporation's and could not be worked out in negotiations for union agreements. These payments could be considered as resulting from union agreements but in fact they are a premium the Corporation is paying for the flexibility needed in the assignment of manpower in broadcasting, having regard to its present studio facilities, the availability of artists, the exigencies of actuality broadcasts, the entity of each of the programs produced which require the creative ability from each individual of a team of specialists and which cannot be changed when the program is produced without an adverse effect on the final products.
>
> The Corporation is seriously concerned and is doing everything possible to improve the situation through closer attention to scheduling and closer adherence to the schedules established. It is presently planning the setting up of new Operations Control Centres who will have the responsibility of developing more sophisticated scheduling practices which should result in increasing the efficiency of operations at the production centres and reducing correspondingly the volume of idle time that has to be paid for.

Mr. Crouse: Mr. Chairman, is this practice one that is followed by the CBC throughout the entire length and breadth of the Corporation, or is it just one that is followed, say, in Toronto or in Ottawa or in Montreal?

Mr. Henderson: No, this is a standard Corporation practice existing in its union agreements, Mr. Crouse, as we understand it.

Mr. Crouse: Applicable to all areas of production by the CBC across Canada?

Mr. Henderson: Yes.

Mr. Cafik: As this letter would indicate, it is more of a management problem than anything else.

Mr. Henderson: That is correct, but so long as I am required to bring before the Committee instances of money paid for work not performed, it is under that heading that I have commented on it to the House.

Mr. Cafik: Have you related this or do we have any knowledge of what the practice is, we will say, of other TV networks in the United States or Canada?

Mr. Henderson: I would have to refer to the Minutes and Proceedings when this matter was given in evidence before us. We had the President, the Vice-President, and the various officials before the Committee in the discussions which preceded this recommendation. I think I should in all fairness make reference to that before I answer.

• 0955

Mr. Cafik: I would make on observation before I conclude my remarks. I am not trying to justify this practice, but I myself have a full-time artist in Toronto, or at least I call him one. I pay him full-time because he is available full-time. He is a very competent and capable person. In fact, he might work half a month for a few months of the year or he might work full-time at other times when we are very busy. We find it necessary to do this because of the calibre of the man and we cannot hold him otherwise. That is not because of the union contract. I raised the roof with my own management, if we do not use him to the full degree, but sometimes we cannot. I think you find that kind of thing with people of this type.

Mr. Henderson: In this case these people, of course, are on an hourly basis. That is to say, they punch cards and it is a complete matter of record. That is how the problem arose in the first instance. It is different from paying someone an annual salary and then you let him have two months off or you let him stand by.

Mr. Cafik: The technique is a little different, but I think the net results are possibly the same.

The Chairman: Mr. Lefebvre.

Mr. Winch: Mr. Chairman, that is the reason why...

The Chairman: Excuse me, just a moment.

Mr. Winch: ...we perhaps should have the union representatives explain this.

The Chairman: Mr. Lefebvre.

Mr. Lefebvre: Mr. Henderson, in checking this over I remember when we looked into this last year, I believe it was. Is there anything in these figures that are contrary to the agreement between the union and the CBC?

Mr. Henderson: No, sir, they are in accordance with the union agreements.

Mr. Lefebvre: I was just thinking of this. If it is in part of their agreement then I think it is a bit beyond the scope of this Committee. If it is according to Hoyle, you might say, I do not know if it is this Committee, or the Committee on Broadcasting, Films and Assistance to the Arts which should look into the contract of the CBC to compare it with that of other networks.

Mr. Henderson: That was why the Committee asked the Corporation, Mr. Lefebvre, if when the next time the union agreements come around there could be some better handling of this matter or treatment of it. They have been unable to achieve that and that is the reason the Vice-President of Finance wrote this letter. For a fuller explanation, I do not know if you would like to have it on file or to hold it pending...

Mr. Lefebvre: I am trying to figure out if it should be this Committee that looks into this or the Committee charged with Broadcasting, Films and Assistance to the Arts to see that the CBC and the contract they have with the union is one that will give a better control on things such as this. Then if they go over that, I think it is up to you to bring it to the attention of this Committee. This is just a suggestion.

The Chairman: Will we file this letter as an appendix?

Some hon. Members: Agreed.

Mr. Flemming: If we file the letter I guess that probably disposes of it, Mr. Chairman, but my comments were going to be these. It seems to me that it is the volume and the amount of money involved in this item that is of great importance to the Committee. It may be necessary occasionally to have technical people standing by, but the point is how many and to what expense? I consider that this is surely an item which should justifiably

attract the Committee's attention on account of its volume. I might say that $450,000 is not just exactly peanuts.

While I agree that sometimes in the interest of performance possibly the stand-by to some extent of these people with particular knowledge and particular skill is required, yet a point I think the Committee has to investigate is how much is required, to what extent, where it takes place, and what makes up this amount of nearly $500,000?

• 1000

The Chairman: Thank you, Mr. Flemming. I think it is quite evident that it is a matter that management is responsible for. I think it is a matter of improper scheduling and it is a case of having more of these people around than are necessary, and management has to tighten up in this respect. I think it is up to our Committee to look into.

Mr. Winch: Mr. Chairman, may I just add one point here because I would not want what I have already said to be misunderstood? I was not making any comment on payment of standby. My interest in getting perhaps greater clarification was due to the wording:

> ...in excess of actual hours of attendance...

So my reading was that $450,000 was not for stand-by, but for not being in attendance. It was on that basis that I was looking at it and not on stand-by.

The Chairman: Right.

Mr. Cafik: This will be brought up in the next report, is that correct?

Mr. Henderson: The matter comes up in the 1968 report which also includes some other paragraphs on the Corporation, and it might be that you could deal with them by inviting some witnesses from the Corporation.

The Chairman: Paragraph 47 deals with proposed removal allowances with the Department of National Defence.

Mr. Bigg, you were very interested in this when it was discussed. Mr. Henderson, will you bring us up to date?

Mr. Henderson: You will remember that this proposal was made which in turn became a Committee recommendation. However, the Deputy Minister of National Revenue, Mr. Armstrong, whom you recall as being before us on the *Bonaventure* matter, feels that it is not a practical one. In his letter, at the top of page 24, he sets out the reasons.

It may be that you would wish to defer examining this until you have Mr. Armstrong back, unless you have any comments, Mr. Bigg.

Mr. Bigg: I still do not agree with the explanation because having lived under these conditions for about 25 years I know that the bureaucratic answer is not in complete line with the facts. In a great many cases the service personnel and the members of the Mounted Police would be delighted to save the government money and themselves considerable loss in personal furniture and so forth if they were allowed to take a lesser cash settlement and have an auction sale and refurnish their house at the other end.

The moving chokes them from one end of the country to the other. For the Mounted Police personnel, the shaking up of their furniture is certainly not a good thing and they should have an auction sale and take three-quarters of the cost of moving and absorb that themselves. They are the best judge of their own personal affairs, and I cannot agree with the explanation given. That is all.

Mr. Henderson: We are generally in agreement with you, Mr. Bigg, and obviously I think it would save money. However, there is the question, in fairness to Mr. Armstrong, of the administration of this in order to prevent possible abuse. I think that is what he is really saying in his letter.

The Chairman: The question that comes...

Mr. Bigg: There is a possible abuse in any case.

Mr. Henderson: That is true.

Mr. Bigg: There is a great deal of chance of abuse the way it is. The unnecessary shipment of furniture can be done at government expense. A man can buy a piano in Halifax and because his children are not playing the piano he can move it to Vancouver and resell it. It can be done quite easily.

An hon. Member: Nobody would do that.

Mr. Bigg: No, nobody would do that, but they do it. There is one specific case of a grand piano, and I think this could be documented, which was shipped home from Western Germany—a grand piano—and to my understanding nobody in that particular military family played any musical instrument.

Mr. Henderson: The Committee could consider reiterating this in its next report, Mr. Chairman.

Mr. Bigg: And this was shipped by air freight. That is just one little example. I think that the thing could certainly be tightened up as far as any abuse of people taking cash and not having any furniture to be moved. The house could be examined. Certainly in cases of the Mounted Police the inspecting officer knows whether or not he is a married man and whether he has household furniture. They have to have in some cases two estimates anyway. They inspect the amount of equipment and they go ahead and pay perhaps $2,000 to move that furniture.

All I suggest is that if they gave the serviceman $1,500, the government would save $500 in cash and everybody yould be happy.

The Chairman: Mr. Bigg, you have set out a pretty glaring example here for the Committee. If you have facts to back up your statement about a grand piano having been brought to Canada by air freight, I would like you to get the particulars and open it up in this Committee.

• 1005

Mr. Bigg: Of course, I have the same difficulty which we had with the *Bonaventure*. The papers are destroyed. This is personal knowledge. I happen to have helped load the piano, and of course, I do not have pictures or documents. However, from personal experience, I know these things occur and I am giving the Committee...

Mr. Henderson: Mr. Chairman, may I make a suggestion here?

Mr. Wynch: Before you do that, be very careful because Mr. Bigg is now part of the conspiracy.

An hon. Member: You are now working for the taxpayer.

Mr. Henderson: I welcome that. I wonder if it would not be fairer and perhaps acceptable to the Committee were I to speak to Mr. Armstrong, give him this exchange this morning, and invite him to write a letter to the Chairman or to me giving his further up to date thoughts on this?

The Chairman: Mr. Cafik.

Mr. Henderson: This letter is two years old now.

Mr. Bigg: The point that I disagree with is the fact that we cannot oversee this question of abuse from the one end. I certainly think that any cursory examination of the household effects of the serving member could be done. It is done anyway when they are making estimates. I do not see great abuses; in fact, it is quite the contrary. I think that the abuses come the other way; that is, the taxpayer is being taken for the ride and not the serviceman.

Mr. Henderson: It may be that Mr. Armstrong in reconsidering it now two years after he wrote this letter would share some of these views. I think it would be constructive and I would be glad to speak to him.

The Chairman: Mr. Cafik.

Mr. Cafik: Mr. Chairman, it seems to me that abuses such as bringing grand pianos by air freight to Canada would not be too prevalent.

The Chairman: I hope not.

Mr. Cafik: I would think that if a person could get his hands on some money there would be more of an inclination. This type of person you are describing could just borrow a grand piano for a couple of days and a pile of other furniture and if they were there during the survey he could get himself some money in his pocket that he would not normally deserve.

Mr. Bigg: There is such a thing as averages, although I ...

Mr. Henderson: There is no doubt about that.

Mr. Bigg: We heard about that—being a little bit pregnant and that sort of thing. However, there is such a thing as averages and there is nothing to stop us as legislators from saying that the average soldier's household shall not consist of more than ...

An hon. Member: One grand piano.

Mr. Bigg: ...8,000 pounds of household furniture. Have a scale that for up to 8,000 pounds he will be given $X and over 16,000 pounds he will be given nothing, or something of that nature. You will not be moving the coal of Alberta to Nova Scotia to compete in the coal business.

Mr. Lefebvre: Let us hope most of them play five ends and not the grand piano.

The Chairman: It is plain to see that we have further discussion on this and Mr. Henderson is going to ask Mr. Armstrong for an up-dated view on this, because the Committee is not in a position to agree with him at this point.

Mr. Cafik: I am not in agreement necessarily with the recommendation either. I just want to point that out. I think that there are some difficulties involved in it. I think basically it is a good idea but I think it has weaknesses in terms of administration that one would have to look into very carefully before he drew a conclusion. If you had a fixed sum that you might give to a husband and wife and you add some more for each child or something in terms of moving allowance, you might be able to do it that way. However, in terms of making surveys and giving 90 per cent of real costs, I do not think that is practical at the moment.

Mr. Bigg: Pardon me, but on the record I suggested that this was optional. The government can go ahead with the wasteful way they are doing it or they can offer the serviceman, according to their own figures, X number of dollars and he will be allowed to move so much furniture. It will be a savings to the government of 25 per cent. This is an option only to the serviceman. He can go ahead on the government's say so at $2,000 or he can take the government option of $1,500 and save his drapes and the shaking up of his furniture.

I have made a personal survey of this thing with literally dozens of servicemen and they are nearly all in agreement, particularly their wives, that this would be much more satisfactory than the wasteful way in which they are handling the servicemen's furniture in this manner.

Mr. Cafik: I think you have a point. I think it needs to be looked into. However, this par-

• 1010

ticular recommendation is not saying specifically what you are saying.

Mr. Bigg: No, but the evidence before the Committee was quite definitely this at that time, I believe.

The Chairman: The one thing about it is that companies do this sort of thing all the time in moving their staffs from place to place. I think they have a pretty good system and I think we should compare that with the way in business.

Mr. Cafik: Generally it is a fixed allowance. For a family they give you $X and it does not matter if you live in a 35-room house or in a two-room bungalow, you get the same amount of money.

The Chairman: All right, gentlemen. I think we have had enough time on it. It will certainly be looked into. Mr. Winch.

Mr. Winch: I do agree that we should get further information because we may be facing within the next two or three years the extraordinary expense of moving around 8,000 families from Europe to Canada, so now is the time to have something specific laid down.

The Chairman: That is a very good thought. Mr. Winch. The sooner we look into this the better.

Mr. Henderson: I will speak to Mr. Armstrong, Mr. Chairman, and ask if he could update the Committee on this matter.

The Chairman: All right.

Mr. Henderson: Paragraph 48 is next and it concerns the Central Mortgage and Housing Corporation.

48. *Central Mortgage and Housing Corporation—Appointment of Auditors.* The Committee strongly reiterated its previous recommendation that the Auditor General of Canada should be the auditor or a joint auditor of all Crown corporations, agencies and public instrumentalities owned or controlled by the Crown wherever they may be and that he report thereon to the House. The Committee therefore recommended that the Auditor General of Canada be appointed the auditor or joint auditor of Central Mortgage and Housing Corporation.

Comment by the Auditor General: No comment on this particular recommendation has been received. In this connection I would draw your attention to the comments made by the Minister of Finance which are given under Item 29 "Accounts not examined by the Auditor General" and to his conclusion that these bodies should be audited by public accountants and not by the Auditor General.

This stemmed from your hearing of witnesses from Central Mortgage and Housing Corporation which led to your recommending, as you had in the case of the other Crown corporations, that the Auditor General be the

auditor or joint auditor in particular of this Corporation. I suggest to you that we have already covered this at the last meeting when we were dealing with that general principle.

The Chairman: Fine.

Mr. Henderson: Paragraph 49 is next.

49. *Central Mortgage and Housing Corporation—Reports of the Auditors.* The Committee is of the opinion that it is entitled to be furnished with copies of all reports made by the external auditors of any Crown corporation and requested that the Minister responsible for Central Mortgage and Housing Corporation instruct the Corporation to make these available to the Committee for the fiscal years ended December 31, 1963 and December 31, 1964 and to do so without further delay.

Comment by the Auditor General: On April 26, 1967 your Chairman wrote to the Minister of Labour requesting copies of all former reports made by the external auditors of Central Mortgage and Housing Corporation. The Minister replied to your chairman on November 10, 1967 to the effect that former reports "should be regarded as purely for management purposes. A continuation of the practice of treating them as confidential enhances their value since the auditors are less likely to be inhibited in their presentation of information." Accordingly the Minister declined to make these reports available to the Committee. This letter was referred to in the meeting of the Committee on March 7, 1968 and it was left that your Steering Committee would consider it and report back to the Committee.

At the time Central Mortgage and Housing were before the Committee, you learned about reports which the external auditor of Central Mortgage and Housing Corporation had made to the minister responsible and you requested copies of these reports.

As indicated at the top of page 25, you, Mr. Chairman, wrote to the Minister of Labour asking for copies of all such reports and he replied to the effect that they should be regarded as purely for management purposes and that continuation of the practice of treating them as confidential—he wrote to you—"Enhances their value since the auditors are less likely to be inhibited in their presentation of information." Accordingly, he declined to make these reports available to the Committee. My last record is that the steering committee had this matter under consideration. That is all the information I have on this.

The Chairman: Mr. Winch.

Mr. Winch: Mr. Chairman, this matter was very thoroughly discussed by a previous committee. Personally, I see no reason, at the moment at any rate, to change our minds. On the basis that the federal Treasury has to advance hundreds of millions of dollars annually to Central Mortgage and Housing for the carrying on of its work and in view of the fact that it is a public money that must be made available to Central Mortgage and Housing from the federal Treasury, which is usually done by loans by the government, quite honestly I believe that this Committee, even if it is on a confidential basis, is entiteld to know the type of information that was requested.

Otherwise, I cannot see any general use in discussing Central Mortgage and Housing. I feel that it is impossible for the Auditor General and this Committee to know exactly what is going on. I think that we are entitled in view of the money involved to have this information even if it has to be on a confidential basis for our own understanding and information.

The Chairman: Yes. I might say just before you ask a question, Mr. Cafik, that this was the first Crown corporation that the Public Accounts Committee had before them that was not audited by the Auditor General. We may be doing this quite often with other corporations and we might run into this same problem when we have them before the Committee. We had this Corporation, not audited by the Auditor General, before us as sort of a trial run as it were and we may, as I say, be doing more of it. So just think about that angle of it too. Mr. Cafik.

Mr. Cafik: Has the Auditor General seen these reports?

Mr. Henderson: No, sir.

Mr. Cafik: Do you have the right to see them?

• 1015

Mr. Henderson: I do.

Mr. Cafik: If you do exercise that right to see them, do you then have the power to answer questions in respect to them presented by this Committee?

Mr. Henderson: I am the servant of the Committee and if the Committee directs me to procure these reports I will so request them

and I will be prepared to discuss those before the Committee to the extent that I deem advisable, Mr. Cafik. That is the way I operate with respect to all of my reports to the House.

I do not think the members of the Committee at all would wish to ask for or to distribute information which might be prejudicial, shall we say, to the competitive position of the Corporation or something that would be contrary to the national interest. I do not know what would be in these reports. Chances are they are purely internal administrative documents. It is impossible to say until you see them.

Mr. Cafik: I would just like to pursue a general point, Mr. Henderson. Is all the information that you have available to you available to this Committee as well, or do you from time to time yourself have to refrain from giving us information because of its being either of a classified type or because you are forbidden to do so because of some regulation or another?

Mr. Henderson: I would not expect that the Committee would deem that I should give them classified information or that I should give them information which would be harmful in any way to the Corporation. It is my responsibility, traditionally, to give the House information that in my opinion the House should have. That by no means embraces all the information that comes my way.

Mr. Cafik: All right. That is fine.

Mr. Henderson: I think you will agree with that. I would hope that the external auditor of this Corporation might be invited to come before the Committee to explain in perhaps a general way what his comments are.

The Chairman: Mr. Lefebvre.

Mr. Lefebvre: If we were to ask questions of Central Mortgage and Housing or some other crown corporation that came before the Committee for which you are not a joint auditor and they felt that they did not have to give this information to the Committee, but then we questioned you on the same items and you had seen them, in this way you would then provide the information, I understand, to the Committee. Is that correct?

Mr. Henderson: I would put it to you this way, Mr. Lefebvre, that if I were a joint auditor...

Mr. Lefebvre: No, if you were not, as in the case of Central Mortgage?

Mr. Henderson: Then I would not have access in the normal course to that information at all, would I? If I were joint...

Mr. Lefebvre: No, let us leave it that you are not a joint auditor. You said that you could see any and all reports even though you are not a joint auditor. Is that correct?

Mr. Henderson: I have that right of access according to the legal opinions and the way that the law is set up, but as I explained at the last meeting I have refrained from exercising that on a point of ethics, unless this Committee were to so instruct me.

Mr. Lefebvre: All right. Suppose we make a motion some day that we are not satisfied with the answers we are getting from a Crown corporation for which you are not a joint auditor, there is nothing to stop us from making a motion asking you, as the Auditor General, to examine these reports and then to come back to the Committee and have us question you? Is that correct? There is nothing to stop us from doing that?

Mr. Henderson: No, sir, not at all.

Mr. Lefebvre: Then I leave that as a suggestion for the Committee, that on a later date...

Mr. Henderson: However, as I suggest, you have to accept my judgment about the extent to which I disclose the detail of those, because my first approach after looking at the reports would be to have a discussion of their contents with the external auditor and with the president of the corporation.

I would not expect them to find anything in those reports of a serious or derogatory nature for this reason: If it were, you would, I think, have found the external auditor qualifying his certification of those accounts. He has not done that. Therefore, I think the description here that they are internal management reports indicates that.

• 1020

Mr. Lefebvre: What I was getting at, Mr. Chairman, is the fact that crown corporations have the people of Canada as their shareholders and we are representing the people of Canada. So the shareholders of any corporation have a right to know what is going on in the corporation for which they hold shares. At any annual meeting of any corporation you have a right to go and ask questions.

Mr. Henderson: They do not always get the detailed answers they would like.

Mr. Lefebvre: No, but I think it is coming to a point where they have been forced into giving answers.

Mr. Henderson: There is a greater...

Mr. Lefebvre: I am just suggesting that if at a future meeting we find we are not getting the answers we require, Mr. Chairman, maybe this suggestion of mine should be looked into.

The Chairman: Just to refresh our memories on this particular case, I am trying to think why it was that we demanded these reports. Was there something at that meeting with Central Mortgage and Housing that we were not satisfied with?

Mr. Henderson: Your next follow-up item has to do with the failure of this Corporation to disclose what today is standard detail repecting salaries and expenses. I think it was probably in that connection that you were interested.

I am sorry, myself, that this refusal has come to the Committee because it perhaps creates a problem where no problem really exists. I said as much to the Comptroller of the Treasury when he telephoned me to ask my views about whether this should be made available. I thought it would be a very appropriate thing to do and I so stated because I do not believe, personally, there would be anything in these reports which would be of any serious nature. Otherwise, in accordance with the standards of the profession to which I belong and this external auditor belongs he would have so stated in his certification of the accounts.

Mr. Winch: Perhaps I have a suspicious mind but when somebody refuses information I start to wonder why.

The Chairman: Mr. Flemming and then Mr. Mazankowski.

Mr. Flemming: Mr. Chairman, I think we had at the last meeting a bit of a discussion, did we not, in connection with this particular matter. As I remember it was the opinion of the Auditor General that without adding very substantially to his staff he could accept the position as joint auditor of these Crown corporations and as joint auditor could audit their statements to a certain degree to satisfy himself. I believe if he were satisfied the Committee would be also.

If he is appointed complete auditor then it certainly involves a lot of staff, but as I remember, and I am sure the Auditor General can refresh our minds if I am little bit wrong, I believe that he recommended that without adding very substantially to his staff he could accept the appointment of joint auditor.

Mr. Henderson: That is correct.

The Chairman: Mr. Flemming, I think what you are saying is that this is a good argument why the Auditor General should be a joint auditor for all Crown corporations.

Mr. Flemming: That is right.

The Chairman: Mr. Mazankowski.

Mr. Mazankowski: Mr. Chairman, perhaps my question has been answered but I was wondering why we had singled out Central Mortgage and Housing Corporation in paragraph 49, when we had dealt with it generally under paragraph 27 which covered all Crown corporations. Was there some suspicion that...

Mr. Henderson: No, not at all. That was due to the fact that you wanted to examine the corporation of which I was not the auditor. Am I not correct?

The Chairman: That is right.

Mr. Mazankowski: I see.

Mr. Henderson: Mr. Chairman, I think that was the reason you called them.

Mr. Lefebvre: Perhaps, Mr. Chairman, we could leave this until we get a crown corporation for which Mr. Henderson is not the joint auditor, and if we are not satisfied with the answers we could deal further.

The Chairman: I think that is a good suggestion. Mr. Cafik.

Mr. Cafik: Mr. Chairman, has there been any precedent for a Crown corporation such as Central Mortgage and Housing where they have given these external audit reports to this Committee?

The Chairman: Not to my knowledge.

Mr. Cafik: This is the only case where we have requested it?

Mr. Henderson: In the case of the corporations of which I am the sole auditor where you have examined them in depth, and the CBC, Canada Council, National Harbours

Board, St. Lawrence Seaway Authority are the four that come to mind, I make internal management reports on all of the Crown corporations. A summary is contained, of course,

• 1025

in my report to the House of those things on which I think the House should have information. I do not put everything in.

When the Corporation comes before this Committee, it has been my practice or your Chairman's practice—usually he has asked me—to ask the president of the corporation you are examining, and/or the Minister because he always has a copy, if he has any objection to the tabling of these long-form reports in the interests of facilitating the discussion in the Committee. Before the witnesses are called these copies are distributed. There you have the total picture.

Out of deference to the management I have always felt and this Committee has agreed that they should have that because, inevitably, I may be touching on things which might set them at a competitive disadvantage or something of that kind.

So far this has gone along extremely smoothly. It contributes to the orderliness of our discussion if we go right through the balance sheet items and the statement of income items and you see my comments and suggestions arising in the course of my routine work. The purpose of the report is to put it at the disposal of the people who can do something about it, namely the management.

The Chairman: All right. Mr. Crouse.

Mr. Crouse: Mr. Chairman, may I comment just on one item? Mr. Lefebvre referred to this matter and suggested that we wait until a corporation comes before the Committee which is not audited by the Auditor General. I submit, Mr. Chairman, with deference to Mr. Lefebvre, that this is exactly what we are talking about right now; namely, the Central Mortgage and Housing Corporation.

The Minister's letter on page 25 states:

> A continuation of the practice of treating them as confidential enhances their value since the auditors are less likely to be inhibited in their presentation of information.

I question to whom the value is enhanced since, as has been stated by Mr. Lefebvre and Mr. Cafik, we are directly the servants of the people who are the shareholders in this corporation. It is to Parliament and to us, collectively, that the Corporation comes from time to time for increases. As Mr. Winch has said those increases are in the hundreds of millions of dollars.

Therefore, I am inclined to agree with Mr. Winch and others on this Committee who have stated their reservations about Crown corporations and their refusal to divulge information to us. I would like to know, for example, if the president of that corporation is receiving $40,000 or $50,000 or $60,000 a year, and if he is receiving a salary of this kind and it suddenly goes up another $10,000, I would like to know, as one of the representatives of some 65,000 people in Nova Scotia, who it was agreed that this man should have this increase.

We hear about these things sometimes via the press or leaks one way or another that there has been a raise or this type of salary is being paid. I am not questioning their entitlement to this type of salary. What I am questioning is what authority makes this decision, because in the final analysis these people get their working capital, you might say, at the expense of the Canadian taxpayers.

They have these enormous funds to almost manipulate and today these funds at present interest rates of 8 per cent or more are really providing enormous strength to the people in charge of these corporations, I think, Mr. Chairman, that we should not pass over this item too lightly.

The Chairman: It will not be forgotten.

Mr. Lefebvre: I just want to make a comment on what Mr. Crouse said. I believe Mr. Henderson stated this morning that he does not believe there is anything in these statements that Central Mortgage and Housing . . .

Mr. Henderson: I do not know what is in them. I have not seen them but I do not think there would or the auditors would have already taken action.

Mr. Lefebvre: I think you said that you did not believe there was anything in it that would be harmful in any way. This is why I suggest that the next time we question one of these companies and we feel some of the information that we desire is not being given to us, then we should charge Mr. Henderson with furnishing them to the Committee.

The Chairman: Mr. Cafik.

Mr. Cafik: Mr. Crouse brought this point up. I had looked at it earlier but he has put it

in a different context. On top of page 25 I will quote again from where he did:

> A continuation of the practice of treating them as confidential enhances their value since the auditors are less likely to be inhibited in their presentation of information.

• 1030

Mr. Henderson, as an auditor and having read that statement, do you think that the auditors would prepare a different kind of report than they would otherwise if they thought it was coming to this Committee?

Mr. Henderson: No, sir, I do not.

Mr. Cafik: You would consider this statement then made by the Minister, I presume, to be an invalid observation?

Mr. Henderson: I suggest to you that we are all entitled to our views on these matters and that is his.

Mr. Cafik: I presume that you think that auditors, because of their professional capacity and so on, would make the same kind of report regardless of to whom it was going? That is the point I am trying to make.

Mr. Henderson: Yes, sir.

Mr. Cafik: I am glad to hear you say that.

The Chairman: Would the members of the Committee agree to have your Chairman write to the Minister responsible saying that we have discussed this at some length, the Committee fails to accept their reasons, and we are wondering if they have given this further thought or would they give it further thought and provide this information to the Committee?

Mr. Winch: I think you should also add, Mr. Chairman, that this will carry on to paragraph 50 which I think very closely ties in with our discussion at that time. Although the opinion was expressed in their later financial report they did not include this, which I understood they had agreed to include. Am I correct there, Mr. Henderson?

The Chairman: Just a minute. Agreed to include what?

Mr. Winch: In your letter what was in paragraph 50, because paragraph 50...

Mr. Henderson: I think as a matter of fact they have now given effect to what is in paragraph 50 in their financial statement of December 1, 1968. So I think you can perhaps say to the Minister that you are glad to note that they have included that.

Mr. Winch: Then paragraph 50 is out then as far as...

Mr. Henderson: Yes, I think so.

Mr. Winch: Thank you.

Mr. Henderson: We now come to paragraph 51.

The Chairman: Excuse me, Mr. Bigg has his hand up.

Mr. Bigg: I think, Mr. Chairman, in rare cases perhaps there might be classified information but this Committee is not going to ask for any classified information that is going to embarrass the security or safety of the Cabinet. I think that might be merely a screen behind which uncertainties might hide. If it is the Minister himself who has outlined the areas in which this type of information was withheld we would be quite happy not to have that kind of information. However, when it is merely an overspending of money or the misappropriation of Canadian taxes, that is the kind of thing we are looking for only.

The Chairman: All right. Mr. Cafik.

Mr. Cafik: Just one question. Everybody throws around this term "national security" and so on. I may be naive, but I cannot understand how national security is at all affected by the operations of Central Mortgage and Housing. Possibly it is, but I cannot believe it. In fact, I doubt if there are very many areas, even in defence, that our security would really be affected. When you get down to Central Mortgage and Housing it is an absurd screen to hide behind, I think.

Mr. Bigg: I was not being the devil's advocate. I was merely agreeing with you from a different angle. This excuse should not be used as a complete reason for not giving us information which is valid for our purposes. It is just inconceivable to think of that.

The Chairman: Mr. Noël.

[*Interpretation*]

Mr. Noël: Mr. Chairman, I think that Crown Corporations are creations of the government, that is of Parliament. And we are here in a Committee which is a creation too of Parliament. We have the powers to scrutinize and ask questions to Crown Corporations which are also responsible to Parliament. I think it is possible for the Auditor General to

ask all the questions that the Committee must ask of these Crown Corporations. I think that, as a serious Committee, we should analyze the financial statements which are not examined in the House of Commons or in the Special Committees, such as for instance, the financial statement of the CNR, which is scrutinized by the Committee on Transport and Communications. But all the other Crown Corporations could be scrutinized by the Public Accounts Committee, and we would have the advice of the Auditor General who must or should inquire about certain facts that could be brought up in this Committee. And I think that this is the procedure we should follow, unless there is another similar procedure that might be proposed by the Minister of Finance or the Treasury Board, or by the auditor himself.

[*English*]

• 1035

The Chairman: Mr. Noël, I think you have brought up a good point there. A lot of these Crown corporations never appear before any other committee in the House. You mentioned the CN as being one that goes before the Committee on Transport and Communications. However, think of all these other Crown corporations which are never asked to appear before any committee of the House.

I really feel that they should appear before this Public Accounts Committee, and I think if we ever get caught up with our work we should endeavour to go into all these Crown corporations that are not audited by the Auditor General. We would be doing a real service to this country if we did. If we do that and follow that procedure then we are going to have their audited statements in order to scrutinize their operation.

Mr. Noël: That is right.

The Chairman: All right. Paragraph 50 is handled.

Mr. Henderson: Gentlemen, there are only two more outstanding ones. Paragraph 51 concerns the reconstitution of financial structure of the National Harbours Board. I have no further information on that than is stated here. This is a matter which you will be encountering again in my 1968 Report. It is a very long subject and perhaps you would wish to leave it over to that.

51. *Reconstruction of financial structure of the National Harbours Board.* The Committee is concerned that there appears to be little prospect of the National Harbours Board being in a position to meet its principal and interest obligations and recommended that the financial structure of the Board be reconstituted. In this connection it was pleased to receive assurances that this matter was to be dealt with by the Department of Finance and the Board within the next twelve months.

Comment by the Auditor General: In paragraph 244 of my 1967 Report to the House I mentioned that in November 1966 the Department of Finance submitted recommendations to the Board as to how the financial structure of the Board could be reconstituted and that the implementation of these recommendations was still under study.

Finally there is paragraph 54, Parliamentary control of expenditure.

54. *Parliamentary control of Expenditure.* The Committee expressed the opinion that there is a weakening of parliamentary control when Parliament is unable to take the time to examine in detail the amounts being requested as interim supply particularly when these exceed the normal one-twelfth for each month for which interim supply is requested. It considers it unfortunate that the parliamentary rules do not provide for immediate consideration of the Estimates after they are presented to the House so that the proposed spending can be approved and interim supply would not be required so extensively. It feels that the rules could and should be changed in this regard in order not only to strengthen parliamentary control of public funds but to give the Executive the clear mandate it deserves in the discharge of its heavy responsibilities.

The Committee submitted the following recommendations designed to strengthen parliamentary control of public expenditures in the future:

1. (a) that the business of the House be so arranged that consideration of the annual main estimates by the various committees of the House and by the House itself be completed within three months of the tabling of these estimates; and

(b) that when consideration of all or part of any year's main estimates has not been completed by the commencement of the fiscal year to which they relate, thus making interim supply a necessity, the first interim supply bill include provision for a period of one, two or three months up to a date three months from the end of

the month in which the estimates were tabled.

2. That there be no change in the Treasury Board's procedure whereby it is the agency which determines the Government's overall cash requirements in stated areas, e.g. salary increases. However, once this determination is completed and the individual departmental needs established, the Committee believes that the additional amount required by each department should be made to Parliament for its consideration and appropriation in the usual manner.

Comments by the Auditor General: I am not aware of any action having been taken yet on this matter.

These were views expressed by the Committee. Two of the cases here have been taken care of following your examination of the Estimates earlier in the session of this Committee. Regarding your second recommendation, the procedure is something that you have raised and already dealt with so I do not think it is necessary perhaps to take any time on that.

That completes then the review of the follow-up material Mr. Chairman.

The Chairman: Mr. Henderson, I was wondering if you or Mr. Long would be good enough to give the Committee a new up-to-date summary of each item in the Follow-up Report and put it under the category as before—No Action, Executive has Indicated Disagreement—Implemented, Not Implemented, or Soon to be Implemented.

Mr. Henderson: We would be happy to prepare that Mr. Chairman, and if we give it to the secretary, may I suggest that it could perhaps be printed in the Minutes and Proceedings. Would that be your view?

The Chairman: Agreed?

Some hon. Members: Agreed.

Mr. Lefebvre: Today's Minutes and Proceedings?

Mr. Henderson: As soon as we can get it. It will take a little time to just throw it together but we can do that and then categorize them as the Chairman suggested. They could then be printed in the proceedings of this meeting if you wish.

Mr. Lefebvre: May I ask one thing? If it is too late for today's Proceedings, could you send an advance copy to the members of the Committee.

Mr. Henderson: Yes, sir, very readily.

The Chairman: I think you will find that this summary will look a great deal better. There has been a lot of action taken.

Mr. Cafik: May I suggest that you do not put this into the Minutes of this meeting but issue the thing, because there maybe corrections, changes, or discussions which may have to be corrected before it goes into the minutes?

The Chairman: I think maybe that is better.

Mr. Winch: May I make a suggestion?

The Chairman: Mr. Winch.

Mr. Winch: As it is now almost 10.40 a.m., may I suggest that we do not start today on the 1968 Report but that it be the first order of business at our meeting on Tuesday.

Then may I follow that up, sir, with a suggestion also. I hope the members will not mind if I open up what I have in mind this way. I have had the privilege of being a member of this Public Accounts Committee now for almost 16 years, and over the years in committee we have always had year by year a discussion of major importance, and that is the actual position and status of the Auditor General and his branch.

May I point out that every year to my memory it has always been brought to our attention that the Auditor General is understaffed. My understanding now is that there are 220 on staff and—I will explain just what I am after now—that in years back we were always still understaffed, still 25.

Also, Mr. Chairman, there is the entire picture, I think it would be helpful before we actually get going into the 1968 Report, although there are various items, if we could have a compendium with an opening statement from the Auditor General on the present situation on his staff and on his shortage.

• 1040

In addition, if my information is correct...

The Chairman: Mr. Winch, I am sorry to interrupt, but I think you have been a mind reader. I think Mr. Henderson more or less wanted to do this before we open the 1968 Report. He has a short announcement here in this regard dealing with the very thing that you brought up.

Mr. Winch: Just in case it is not there, may we have a comparison of the responsibilities and the moneys that have to be investigated by the Auditor General with the staff he has, perhaps with a comparison of other countries...

The Chairman: Mr. Winch, I think this will be in Mr. Henderson's remarks. If you would bear with Mr. Henderson for about 5 or 10 minutes we will have an introduction which he wanted to make before getting into the 1968 Report and then we will adjourn.

Mr. Winch: It is just because I have been here so many years that I had this in mind, and you did too, sir.

The Chairman: Yes, but I think it will cover your thoughts. I do not know what...

Mr. Winch: If it does not cover something I had in mind may I then ask a question?

The Chairman: I will be surprised if he does not.

Mr. Henderson: Mr. Chairman, time is, I admit of the essence and unfortunately I have to return to New York tonight for meetings tomorrow, on Saturday and through next week and I shall not be back in this Committee. I think you have my timetable, there, sir.

The Chairman: June 19.

Mr. Henderson: June 19. I believe you intend to take certain items of the 1968 Report next week. You have in mind entering on that and it was just my thought to cover the introductory section of my 1968 Report to introduce it, so to speak. If you bear with me I will do the best job I can in the next 20 minutes or else, I am in the unfortunate position that that will have to be put forward until about June 19 while you go on with some of the meat of it. Now whichever way we follow, what I have to say will undoubtedly lead to discussion and questions, I do not have to tell you how very much I regret that I have these obligations with the United Nations, which you in turn have been so very considerate and helpful with, that is what prompted me to produce a timetable whereby I shuttle back and forth. What is your wish?

The Chairman: If there is going to be discussion, Mr. Henderson, would it be fair for you to make this report and then not be able to discuss it. I think you would rather give it on June 19 and...

Mr. Henderson: I think it would be more constructive if in giving it we could then have the discussion. I would like to suggest that we plan on that.

The Chairman: Does it deal with some of the things that Mr. Winch...

Mr. Winch: I think, Mr. Chairman, this is of major importance and I most certainly think it would be wrong to have a statement now which we could not follow through in discussion until June 19.

The Chairman: Mr. Cafik?

Mr. Henderson: I would be back on the 17th, but I have been asked to address the staff of the Comptroller General of the United States in Washington Tuesday the 17. I had planned to be here but this is the first time they have done Canada the honour of asking its Auditor General to speak to them and to hand out the diplomas. They have a staff of about 4,000 down there.

Mr. Winch: While you are down there will you check up on the relationship between their staff and their responsibility and yours?

Mr. Henderson: I have a pretty good idea of that, Mr. Chairman, I will be happy to enlighten the Committee. So I am coming back the night of June 18 to be with you on June 19 and we could perhaps embark on that then. You could, therefore, commence your work on the 1968 Report with the items you want to discuss next week.

The Chairman: Mr. Cafik?

Mr. Cafik: Mr. Chairman I think we should leave this item and I think the conclusion you are coming to is the right one. However, for this subsequent meeting when you will be giving us your report and comments in this regard, I think it might be useful at least if you gave us the major headings that you intend to talk about...

Mr. Henderson: I will be very happy to that.

Mr. Cafik: ...for our guidance. I certainly would like to give some thought to these matters before they are actually brought forward. If you will spell that out for the Minutes today, it will be helpful I think.

Mr. Henderson: I propose to deal with the scope of the audit which is Paragraph 6 in my 1968 Report; that is, how we carry out our work. I have certain things I wish to say in

that regard. I do not think we need to spend very much time on the form and content of

• 1045

the estimates because we did have, I think, eight meetings with the staff of the Treasury Board and as you are familiar the revised estimates were brought up.

I have some information I would like to give you regarding our International Work and Relationships.

Mr. Cafik: Is that a paragraph in your report?

Mr. Henderson: Yes, sir, that is on page 5, paragraph 8.

Mr. Cafik: Okay.

Mr. Henderson: I thought you might have some questions, so I have taken the liberty of trying to ancitipate some of those. It will give you some idea of the work of the reports that Canada is submitting currently to the Secretary General of the United Nations, which range all the way from a complete study of its computer requirements in New York and Europe in a 200 page report, down to management studies of the major agencies.

I then would like to speak about my own Office of the Auditor General which would meet the points I think Mr. Winch is referring to.

Mr. Winch: When could I ask one question? You say your own office, on the points I have already made—You tell me if I should not ask this question—will you be making any comment on something I have noted which was raised briefly, as far as your own position is concerned. A bit further, I have noted that although your assistant is the Assistant Auditor he does not have the status of a deputy minister. Has this been taken up and will you be making any comment on a matter like that?

Mr. Henderson: Yes, I intend to speak about that. This, of course, Mr. Winch is caught up by the fact that Mr. Long while he does have the title of Assistant Auditor General is not in the position of being an assistant deputy minister. The position has been created, however, by the Treasury Board but there are certain signing powers and what not and his position would be greatly enhanced if it could be regularized and we propose to do bring that up as and when we discuss the draft act.

Mr. Winch: You will be commenting on this, will you?

Mr. Henderson: Yes.

Mr. Winch: Thank you, I think it is rather important, Mr. Chairman.

Mr. Henderson: It is extremely important, sir, and I appreciate your mentioning it.

There are a number of aspects in connection with my office that I feel I should report to you and on which I should like very much to invite your comments. Then I should like to say something about the Control of Public Expenditure which is covered in paragraph 10 of my 1968 Report where, as you will recall, I wound up suggesting that government organization might be examined at periodic intervals. I sought in that section to try to get, as best I could, to the bottom of what I think is troubling you, to put it that way, in all of our work and all of our reports to the House. There are several ways of going at this, as we all know, but I think a good discussion on that would be extremely helpful because in all these meetings we go into this matter at intense length, you have witnesses before you, and I feel you would probably have some comments. Perhaps you sharply disagree with some of the things I have said in the paragraph 10 but I think if it stimulates the discussion between us in the interests of the control of public expenditure then I think it is all to the good. I believe that you would share that view. Having said what I have in the introduction of my 1968 Report, Mr. Chairman, if I could add something to that and you might study it and we could have the benefits of your thoughts, it would be altogether very constructive.

Those are the headings briefly that I propose to deal with on a basis, I hope, where we might have some discussion as we move through it. Does that seem a sensible course.

The Chairman: A very sensible arrangement, I think. We have the headings which you are going to talk about. It gives the Committee a chance to read over those paragraphs and give us time for discussion which we would not have had this morning. I am sorry that it could not have been arranged, however, the 19th will be...

Mr. Henderson: I think it is an achievement to have concluded the Follow-up Report the way you have. It certainly will help us when we come to the preparation of our next report, our 1969 report.

The Chairman: All right, gentlemen.

Mr. Winch: I take it, Mr. Chairman, that it is understood that until June 19 when we commence next Tuesday on the report of 1968, we will not touch paragraphs 6, 8, 9 and 10.

The Chairman: That is right. According to the Committee's suggestion last Tuesday, we were dealing with paragraph 34 in the follow-up which had to do with the request for refunds and remissions by the Department of National Revenue and it was mentioned that the remissions of the car pact were one of the big items, and that we should look into that. I suggest that we do that next Tuesday and have the officials of National Revenue here.

I would like to warn the Committee now, which I will also at the beginning of that meeting next week, that I will not allow any discussion about the policy of the Canada-United States Agreement on Automotive Products. We will not be going into that, whether it is good, bad or indifferent. I do not want any discussions on that. We will simply deal with how the Department handles the remissions whether they are keeping good books or whether they are remiss in some of their procedures and things like that. This is the scope that our Committee is to look into but I warn you in advance that I am not going to permit any partisan talk on the Car Pact.

Mr. Lefebvre: Mr. Chairman, will we have witnesses here from the Department?

The Chairman: Yes.

Mr. Henderson: This is paragraph 148 of my 1968 Report and there are similar paragraphs in my 1967 Report and 1966 Report. While I have updated it substantially in my 1968 Report, you might like to make reference to what was stated in the two previous years.

The Chairman: Page 87, paragraph 148, and it is a very complicated matter, so I hope you will do considerable study and research and be prepared to ask lots of questions. We will have the Deputy Minister, Mr. Labarge, if he is available, and his officials present.

If there is nothing else the meeting is adjourned.

APPENDIX S

CANADIAN BROADCASTING CORPORATION

Vice-President, Finance
Ottawa

March 31, 1969

Mr. A. M. Henderson
Auditor General
Justice Building
Ottawa 4

Dear Mr. Henderson:

Re: Salaries and Wages Paid for Work not Performed

On November 25 your office advised us that as in previous years your report to the House of Commons would include a comment on the above subject and supplied a draft of the paragraph.

At its 109th meeting held January 27, 1969, the Finance Committee of the Board of Directors discussed the draft paragraph and noted the reference to the Public Accounts Committee's recommendation that such payments be eliminated as and when the union agreements were renegotiated. They have suggested that I communicate to you the Corporation's unsuccessful bid in the recent union negotiations to eliminate the subject payments.

With reference to the foregoing I wish to inform you that taking into consideration the recommendation of the Public Accounts Committee, the Corporation in negotiation with NABET union proposed the reduction of hours in the minimum tour of duty, modifications to the posting of schedules and change of starting time provisions which would have had the effect of reducing, to a considerable degree, the amount of salaries paid for work not performed. These proposals were pursued unsuccessfully through the negotiations, then to the Conciliation Board (see extract of Corporation's Brief to Conciliation Board) without success. Indications were that the recommendation favoring the Corporation's position would not be forthcoming from the Conciliation Board and the Corporation's proposals were used as quid pro quo against other proposals by the union for increased penalty payments.

The other major union involved in the incidence of non-productive payments was IATSE, now CUPE. Due to the atmosphere and problems surrounding the bargaining table during the negotiations with this union, and the unsuccessful attempt in getting the NABET Conciliation Board to accept the aforementioned proposals, the Corporation deemed it not practical to bring forth proposals for the elimination or reduction of the subject payments.

As noted in previous correspondence and discussions the problem relating to the payments dealt with in your report is primarily the Corporation's and could not be worked out in negotiations for union agreements. These payments could be considered as resulting from union agreements but in fact they are a premium the Corporation is paying for the flexibility needed in the assignment of manpower in broadcasting, having regard to its present studio facilities, the availability of artists, the exigencies of actuality broadcasts, the entity of each of the programs produced which require the creative ability from each individual of a team of specialists and which cannot be changed when the program is produced without an adverse effect on the final products.

The Corporation is seriously concerned and is doing everything possible to improve the situation through closer attention to scheduling and closer adherence to the schedules established. It is presently planning the setting up of new Operations Control Centres who will have the responsibility of developing more sophisticated scheduling practices which should result in increasing the efficiency of operations at the production centres and reducing correspondingly the volume of idle time that has to be paid for.

Yours sincerely,
V. F. Davies

The Queen's Printer, Ottawa, 1969

APPENDIX B

CANADIAN BROADCASTING CORPORATION

Vice-President, Finance
Ottawa

March 31, 1969

Mr. A. M. Henderson
Auditor General
Justice Building
Ottawa 4

Dear Mr. Henderson:

Re Salaries and Wages Paid for Work not Performed

On November 25 you drew attention to the fact that previous years reports to the House of Commons would include a comment on the above subject and supplied a draft of the paragraph.

At its 108th meeting held January 27, 1969, the Finance Committee of the Board of Directors discussed the draft paragraph and noted the reference to the Public Accounts Committee's recommendation that such payments be eliminated as and when the union agreements were renegotiated. They have suggested that I communicate to you the Corporation's unsuccessful bid in the recent union negotiations to eliminate the subject payments.

With reference to the foregoing I wish to inform you that taking into consideration the recommendation of the Public Accounts Committee, the Corporation in negotiation with MARBET union proposed the reduction of hours in the minimum tour of duty, modifications to the posting of schedules and change of starting time provisions which would have had the effect of reducing, to a considerable degree, the amount of salaries paid for work not performed. These proposals were pursued unsuccessfully through the negotiations, then to the Conciliation Board (see extract of Corporation's Brief to Conciliation Board) without success. Indications were that the recommendation favoring the Corporation's position would not be forthcoming from the Conciliation Board and the Corporation's proposals were used as quid pro quo against other proposals by the union for increased penalty payments.

The other major union involved in the latest negotiations was CUPE. Due to the subsequent and the production attempt in getting the MARBET Conciliation Board to accept the aforementioned proposals, the Corporation deemed it not practical to bring in its proposals during the elimination or reduction of the subject payments.

As noted in previous correspondence and discussions the problem relating to the payments dealt with in your report is primarily the Corporation's and could not be worked out in negotiations for union agreements. These payments could be considered as retaining from union agreements but in fact they are a premium the Corporation is paying for the flexibility needed in the assignment of manpower in broadcasting, having regard to its present studio facilities, the availability of artists, the exigencies of actuality broadcasts, the entity of each of the programs produced which require the creative ability from each individual of a team of specialists and which cannot be changed when the program is produced without an adverse effect on the final products.

The Corporation is seriously concerned and is doing everything possible to improve the situation through closer attention to scheduling and closer adherence to the schedules established. It is presently planning the setting up of new Operations Control Centres who will have the responsibility of developing more sophisticated scheduling practices which should result in increasing the efficiency of operations at the production centres and reducing correspondingly the volume of idle time that has to be paid for.

Yours sincerely,

V. K. Davies

HOUSE OF COMMONS

First Session—Twenty-eighth Parliament

1968-69

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: Mr. A. D. HALES

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 42

TUESDAY, JUNE 10, 1969

Public Accounts, Volumes I, II and III (1966, 1967 and 1968)
Reports of the Auditor General to the House of Commons
(1966, 1967 and 1968)

WITNESSES:

(*See Minutes of Proceedings*)

20369—1

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. A. D. Hales

Vice-Chairman: Mr. T. Lefebvre

and Messrs.

Bigg,	Guay (*Lévis*),	Noble,
Boulanger,	Guilbault,	Noël,
Cafik,	Harding,	Rodrigue,
Crouse,	Leblanc (*Laurier*),	Tétrault,
Cullen,	Major,	Thomas (*Maisonneuve*),
Flemming,	Mazankowski,	Winch—(20).

(Quorum 11)

Edouard Thomas,
Clerk of the Committee.

ORDERS OF REFERENCE

TUESDAY, October 29, 1968.

Ordered,—That the Public Accounts Volumes I, II and III for the fiscal year ended March 31, 1966, laid before the House on January 9, 1967, and the Report of the Auditor General thereon, and the Public Accounts Volumes I, II and III for the fiscal year ended March 31, 1967, laid before the House on January 22, 1968, and the Report of the Auditor General thereon, be referred to the Standing Committee on Public Accounts.

WEDNESDAY, April 16, 1969.

Ordered,—That the Public Accounts Volumes I, II and III and the Abridged Version for the fiscal year ended March 31, 1968, laid before the House on January 14, 1969, and the Report of the Auditor General thereon, laid before the House on March 26, 1969, be referred to the Standing Committee on Public Accounts.

ATTEST:

ALISTAIR FRASER,
The Clerk of the House of Commons.

20369—1½

MINUTES OF PROCEEDINGS

TUESDAY, June 10, 1969.
(47)

The Standing Committee on Public Accounts met this day at 9:40 a.m., the Chairman, Mr. A. D. Hales, presiding.

Members present: Messrs. Cafik, Crouse, Flemming, Guay (*Lévis*), Hales, Leblanc (*Laurier*), Lefebvre, Major, Mazankowski, Noël, Which (11).

Also present: Messrs. Deakon, Gray, Roy (*Timmins*).

Witnesses: Mr. R. C. Labarge, Deputy Minister (Customs and Excise) and Mr. A. R. Hind, Assistant Deputy Minister (Customs and Excise), Department of National Revenue; Mr. G. R. Long, Assistant Auditor General; Mr. E. A. McIntyre, Director General, Mechanical Transport Branch, Department of Industry, Trade and Commerce.

The Committee undertook the study of paragraph 148 of the Auditor General's Report (1968)—Concessions made to motor vehicule manufacturers—and questioned the witnesses concerning their statements made this date.

Mr. Winch moved, and

Agreed,—That the report of the Sub-Committee on Agenda and Procedure, tabled at the meeting of June 2, 1969, be approved.

Moved by Mr. Lefebvre, and

Agreed,—That the Sub-Committee on Agenda and Procedure be authorized to adjourn from place to place and that the Clerk of the Committee and necessary staff accompany the members.

At 11:00 a.m., the Committee adjourned to the call of the chair.

Edouard Thomas,
Clerk of the Committee.

MINUTES OF PROCEEDINGS

TUESDAY, June 10, 1969.

(47)

The Standing Committee on Public Accounts met this day at 9:40 a.m., the Chairman, Mr. A. D. Hales, presiding.

Members present: Messrs. Cadh, Crouse, Flemming, Guay (Lévis), Hales, Lebianc (Laurier), Lefebvre, Major, Massicotte, Nesbitt, Which (11).

Also present: Messrs. Deakon, Gray, Roy (Timmins).

Witnesses: Mr. R. C. Labarge, Deputy Minister (Customs and Excise) and Mr. A. R. Hind, Assistant Deputy Minister (Customs and Excise), Department of National Revenue; Mr. G. R. Long, Assistant Auditor General; Mr. E. A. McIntyre, Director General, Mechanical Transport Branch, Department of Industry, Trade and Commerce.

The Committee undertook the study of paragraph 148 of the Auditor General's Report (1968)—Concessions made to motor vehicle manufacturers—and questioned the witnesses concerning their statements made this date.

Mr. Winch moved, and

Agreed,—That the report of the Sub-Committee on Agenda and Procedure, tabled at the meeting of June 3, 1969, be approved.

Moved by Mr. Lefebvre, and

Agreed,—That the Sub-Committee on Agenda and Procedure be authorized to adjourn from place to place and that the Clerk of the Committee and necessary staff accompany the member.

At 11:00 a.m., the Committee adjourned to the call of the chair.

Edouard Thomas,
Clerk of the Committee.

EVIDENCE

(Recorded by Electronic Apparatus)

Tuesday, June 10, 1969

• 0940

The Chairman: Gentlemen, please come to order. This morning we will be dealing with paragraph 148, page 87, in the 1968 Auditor General's Report. The title of the paragraph is "Concessions made to motor vehicle manufacturers." I think we will follow the usual procedure and hear from the Auditor General's Department and then from the Department of National Revenue, but before doing so I would like to introduce the gentlemen who are with us this morning. On my immediate right is Mr. G. R. Long, Assistant Auditor General; Mr. J. M. Laroche, Audit Director, Office of the Auditor General; then we have Mr. Raymond Labarge, Deputy Minister of National Revenue; on his right, Mr. A. R. Hind, Assistant Deputy Minister. Mr. E. A. McIntyre of the Department of Industry, Trade and Commerce is with us this morning; Mr. Grey may be here later, if he is not already here. Yes, Mr. Rod Grey is here. We have another Mr. Gray with us as a Committee member this morning, Mr. Gray from Essex West.

I might say that Mr. Henderson is unable to be with us this morning because he is in New York helping to audit the books of the United Nations. As I have said before, this is Canada's year to lend their aid and support in auditing the United Nations' books. Mr. Long, his deputy is here and I am going to ask him to make some introductory remarks.

Mr. G. R. Long (Assistant Auditor General): Mr. Chairman, the subject of this audit paragraph has been carried in the Auditor General's report for the last three years, and in order that the Committee members might perhaps find it a little easier to follow, I have summarized the story from the first time we brought it up in the report in 1966.

For many years the Canadian Government has been taking steps to promote greater production in the automotive field. In 1936 the British Commonwealth Content Regulations were formulated under the Customs Tariff. Under these regulations, manufacturers of motor vehicles enjoyed comparatively low import duties if the Canadian and other British Commonwealth content of their production was not less than certain established percentages. As was reported in paragraph 106, page 63, of our 1966 Report, one vehicle manufacturer failed to meet the terms of the specific British Commonwealth production requirements for the 1962 and 1963 models, while another manufacturer who ceased production early in 1966 and who was subsequently identified in the House of Commons as Studebaker Company of Canada Limited, failed with respect to the 1964 models. Because these manufacturers had been permitted to import certain parts free of duty, their failure resulted in their owing a total of $2,394,000. No demands were made on the manufacturers for payment and subsequently under section 22 of the Financial Administration Act, the Governor in Council remitted 94 per cent of the duties in the case of the 1962 models, 84 per cent in the case of the 1963 models and 100 per cent in the case of the 1964 models. The total amount remitted as is shown in paragraph 119, page 66, of our 1967 Report, was $2,203,000 and the balance of $191,000 was paid by the manufacturers.

The British Commonwealth Content program is now of interest to the major vehicle manufacturers only in the event that they fail to meet the conditions of the Motor Vehicles Tariff Order 1965 and are required to pay duties and taxes on imports made under that Order on a duty-free basis. There were no transactions under this program in the year 1967-68.

• 0945

On October 22, 1963, the Governor in Council, by Order in Council P.C. 1963-1/1544 under Section 22 of the Financial Administration Act, remitted duties on motor vehicles and parts for use as original equipment to the extent that Canadian content credit was earned by greater exports in two designated periods, November 1, 1963 to October 31, 1964 and November 1, 1964 to January 17, 1965

over the base period November 1, 1961 to October 31, 1962. These conditional remissions at times resulted in deferment of payment of duties, a practice which we reported to the House of Commons, paragraph 70 of our 1964 Report, as being contrary to Sections 22 (1) and 79 of the Customs Act. The Customs Act was subsequently amended to permit free entry of goods subject to regulations by the Governor in Council, that was Chapter 16 of 1965. As was pointed out in our 1966 Report, paragraph 106, four manufacturers were indebted to the Crown at March 31, 1966 as a result of excessive importations in one or both of the designated periods. In our 1967 Report, paragraph 119, we were able to show the amount of this indebtedness as being $1,346,000, all of which was paid. This program was superseded by the Motor Vehicle Tariff Order 1965 and the only transactions now taking place under it are amendments to import entries dated prior to January 17, 1965.

On January 16, 1965, Canada and the United States of America entered into an agreement concerning automotive products.

The Motor Vehicle Tariff Order 1965 was approved by Order in Council P.C. 1965-99 of January 16, 1965. This order permits the duty-free import of completed automobiles, buses and specified commercial vehicles when imported by a manufacturer of the same type of vehicles and the duty-free import of most parts imported for use as original equipment for vehicles to be produced in Canada. The Order established a base period of August 1, 1963 to July 31, 1964. To earn entitlement to free importation of vehicles and parts, a manufacturer must obtain in future similar yearly periods a total Canadian value in production costs equal to or greater than that obtained in the base period and the dollars sales ratio of Canadian-produced vehicles to total sales of vehicles for consumption in Canada which is equal to or greater than the ratio in the base period but not less than 75 per cent. It should be noted that in this order there is a requirement for only a nominal increase in the Canadian value in manufacturing costs in any one year, but if a manufacturer fails to maintain the total Canadian value of his manufacturing costs or the sales ratio of Canadian-produced vehicles, he loses all entitlement to duty-free import for that year. In other words, a minor cutback in Canadian production or an increase in sales in Canada of foreign-built automobiles by the manufacturer could result in a substantial amount of duty being payable by him at the year-end.

On March 31, 1966 an estimated $7.1 million was owing to the Crown under Motor Vehicle Tariff Order 1965 because of failure of three manufacturers to meet the required conditions. This amount included an estimated $2.4 million owing by the Studebaker Company of Canada Limited who had failed to meet the required conditions because of importation by them of Volkswagen Automobiles.

When the Studebaker Company of Canada Limited failed, the Department did not demand payment of the duties owing but instead sought from the Department of Justice an opinion as to the legal position with respect to the importation of 10,918 Volkswagen automobiles, that figure includes 3,275 which had been imported under the previous program which had been previously approved. In November 1966 the Department of Justice expressed the opinion that Studebaker was not, in fact, the importer of such automobiles. This meant that Studebaker was not then selling these vehicles in Canada and removal of them from its net sales ratio figure resulted in Studebaker meeting the requirements of the program so its indebtedness to the Crown of $2.4 million was cancelled by the Department.

• 0950

However, this also meant that the Volkswagen automobiles had been permitted to enter Canada without payment of the duty and the sales tax attributable to the duty amounting to $2,188,000. No demand was made on Volkswagen Canada Limited for payment of this amount and it was remitted by the Governor in Council under section 22 of the Financial Administration Act on October 23, 1967 (P.C. 1967-23/1621). Following cancellation of the $2.4 million indebtedness of Studebaker, there remained an amount of $4.7 million owing by two other manufacturers at March 31, 1966.

In paragraph 119 (page 67) of our 1967 Report, there is outlined how another manufacturer anticipating that he might fail to meet the requirements of the Order in the period January 1965 to July 1966, because domestic sales were running too high in relation to production, entered into agreements with his dealers whereby deliveries during part of this period would be on consignment, with payment to be made in full on August 2, 1965, one working day after July 31, the close

of the production year. This arrangement, which was inconsistent with the practice followed at the beginning of the year, served to keep the recorded domestic sales within the desired ratio and the manufacturer avoided becoming subject to several millions of dollars in customs duties.

This same manufacturer failed to meet the requirements of the Tariff Order for the period August 1965 to July 1966 and as a result, owed an estimated $38.6 million at March 31, 1967. A further failure to meet the requirements in the succeeding period has, since March 31, 1968, increased this manufacturer's liability to something in excess of $75 million. The amount of $43.6 million recorded as owing by 14 manufacturers at March 31, 1968 is thus increased to an amount in excess of $80 million since that date. This amount and any other amount which may become owing up to July 31, 1968, has been remitted by Order in Council P.C. 1969-172 of January 28, 1969 providing the companies concerned had met new lower requirements set out in the Order in Council. As far as we are aware, with minor exceptions involving duties of $170,000 all companies failing to meet the requirements of the Motor Vehicle Tariff Order 1965 have met the new low requirements as set out by Order in Council P.C. 1969-172.

Currently there are 35 vehicle manufacturers and approximately 500 parts manufacturers authorized to import under the Tariff Order. Sometimes parts so imported are diverted to use as replacements and when this happens, the importer is required to pass an amending entry paying the duty for which he would have been liable if the item had initially been imported under the appropriate tariff item. We pointed out in our 1968 Report that since the inception of the program in January 1965 the records of most vehicle manufacturers have been audited only once by the Investigations Branch of the Department, and that only about 125 of the 500 parts manufacturers have been audited by that Branch.

As members of the Committee are aware the Auditor General has found it necessary to point out in his reports that (a) there are still no records available giving the amounts of customs duty involved or even the total value of the imports for which the manufacturer must account, (b) the Department does not always receive adequate information on which to assess the importer's progress in meeting the conditions of the program, (c) delay in verifying the manufacturers records continues because of lack of sufficient pressure by the Department on the manufacturers to submit the required annual statements by the due date and, (d) departmental policy is now to record amounts due by manufacturers who fail to qualify for the tax exemptions they have had, only when the amount is finally determined, rather than establishing an estimated amount as soon as it is known that an amount is receivable. The total of the accounts receivable at March 31, 1967 has therefore been established on a basis different

• 0955

from that used at March 31, 1966.

The Auditor General's recommendations with regard to this matter are summarized on page 89 of our 1968 Report as follows:

> If the policy of assistance to the automobile industry is to be continued in the present form, it is essential that the administration be tightened up, that an adequate system of accounts be installed and that information flow into the Department promptly and continuously. The Department should obtain and maintain the initiative in assessing and collecting the taxes due the Crown. If necessary, penalties should be imposed to ensure that the industry provides promptly the information required for settlement of the accounts. If these steps are not taken, the importers may benefit from concessions beyond those to which they are entitled and, as a result, losses of revenue to the Crown will occur. It is a fact that since the inception of the Motor Vehicles Tariff Order 1965, on January 18, 1965, not one cent of duty has yet been collected from any company for failure to meet the conditions of the Order.
>
> The term "manufacturer" is defined in the agreement dated January 16, 1965 between Canada and the United States of America and includes only those motor vehicle manufacturers who have met certain specified conditions, which are those set out by Canada in the Motor Vehicle Tariff Order 1965.
>
> However, it is not possible to determine that the motor vehicle manufacturers have met the conditions specified until their performance is known and Canada is not, in our opinion, obligated to permit duty-free importation by any manufacturer until he has met these conditions. Consequently, in order that the

procedures applied will ensure an effective check on the revenues of the Crown, we believe that all duties and taxes should be collected at the time of importation and that benefits or incentives provided should be made available to the manufacturer only when evidence is produced that the required conditions have been met.

I think that sums up the situation, Mr. Chairman.

The Chairman: Thank you, Mr. Long. Mr. Labarge we would like to hear your side of this problem.

Mr. R. C. Labarge (Deputy Minister, Customs and Excise, Department of National Revenue): Mr. Chairman, it is a much longer historical account than what we were dealing with under 148. However, the basic points are made in this summarization as far as we can determine.

I should make it clear that the Department of National Revenue is an administrative department charged with such things as the bookkeeping for entries, the verification of the duties and taxes owing, et cetera, but not for the policy. It is not responsible for remissions.

The points that are made in the last paragraph of the Auditor General's Report have been made in other in instances where it would appear that cash on the barrel head is the way custom should act. We have had to make amendments in our law in other instances where, for instance, we have received and accepted post dated cheques as payment. It is an administration which should be able to keep up with the times, and not bottle up the process of importation and exportation.

If I may I would like to give a little bit of background about the Customs Tariff and the Customs Tariff Act, because there seems to be an impression that the sole purpose of the Tariff is to collect duties. Now both the Tariff and the Customs Act are instruments of economic policy. Among other things they protect domestic industry, the health of plants, fish, animals and man, in this country. They encourage the growth of domestic industry and export and they also provide revenue. Revenue is adjustable, as we have

• 1000

seen in the last budget, for economic objectives. So far as these aids are concerned for the promotion of the growth of domestic production or exports the act is replete with different and varying tariff rates, based on these objectives.

We have drawbacks and we have both conditional and unconditional exemptions, which are for the lifetime of the article, provided it is put to a particular use, and which are based on a meeting of conditions over a specific period of time. Conditional exemptions go back a long time before the automotive program, believe me. They exist from the beginning of the history of customs, and are limited to particular goods used for particular purposes. Their purpose is to assist the user by reducing his costs for either social or economic reasons, and they are also in the nature of incentives in other circumstances.

In the case of the automotive manufacturers in Canada, conditional advantages in lower rates and exemptions go back, as Mr. Long has pointed out, as far as four years ago. The present automotive pact and its incentives are but a continuation of the those which were put in forty years ago. In the development of these automotive incentives it first took the form of refunds of duties paid on imports, at the time of the exportation of the automotive product. This form of refund or assistance was challenged on the export markets on the grounds that it constituted a subsidy, and therefore, the goods would be liable to the application of countervailing duties when they were imported into that country. If you cannot refund, then how else can you make assistance available by the relief of the duties? You can do it by way of a complete exemption on the importation, rather than a refund of the duties on subsequent performance. Therefore, the only available alternative was an exemption in the tariff, and this exemption that is now there for the signing of the Canada-USA Automotive Pact was placed on the tariffs made conditional on the number of objectives or criteria which had to be achieved by those availing themselves of the free entry within a specified time.

Now we will be coming to, in some detail perhaps, the problems of a running account of potential liability and what kind of a problem this presents. But I should say that in terms of the collection and the assessment of the duties that cannot be of any use during the course of the year of manufacture because

• 1005

the condition has to be met at the end of the year. As you know with the fluctuations in

manufacturing imports versus domestic manufacturing, adjustments can even be made—depending on how close a person is to a particular aspect of the criteria—within the last 24 hours. There goes a whole year's work of running a sort of current assumed liability down the drain. We will go into some of this at a later point.

And now I think that on the technical side, and with more elaboration of the basic principles that I have been outlining, I would ask Mr. Hind to follow through with his expertise.

Mr. A. R. Hind (Assistant Deputy Minister, Customs): Mr. Chairman, Mr. Labarge has made some remarks of a general nature and I will now get down to specific points which have been raised by the Auditor General. I am really concerning myself with the 1968 report, because I was of the view that this was the report that we would be examining today. I will be as brief as I can, but I think in justice to the members we ought to be given an opportunity to say something on each of the points which have been developed by the Auditor General in his report.

It would appear that the Auditor General is of the view that computation of the liability should not be left until the end of the year, but that each entry, at time of presentation, should be made out in such manner as to show the potential duty and tax liability, in the event of failure to meet commitments. This means that instead of one line on the entry for each imported article as at present, three lines, with appropriate computations, would be required. This is due to the fact that if the manufacturer fails to meet the Automotive Pact requirements, he could fall back on the concessional items in the tariff relating to Commonwealth content, and only if he failed to meet these second requirements would he be liable for the full amount of duty. This, given initial failure, there would be two different liability figures.

The three lines mentioned above would be required for each article on the invoice, and invoices, in many cases, consisting of several pages, usually cover a number of articles. When one considers the hundreds of thousands of entries passed by and on behalf of manufacturers, the tremendous amount of additional time and labour which would be involved becomes immediately apparent.

When this suggestion was discussed informally with the Department of Justice, a senior officer remarked that its implementation would *not* be practicable.

The one advantage of such a scheme is that the Department would know at any given moment, approximately how much a manufacturer owes in the event of failure. The word "approximately" is used advisedly, as the liability would have to be reduced by the amounts of duty and tax paid, by and on behalf of the manufacturer, throughout the year on parts diverted to a use other than that contemplated for free or concessional entry.

The position taken by the Department is that the tremendous expenditure of time and effort which would be required to complete the entry as suggested is not warranted in the light of past experience. Since the introduction of the Automotive Schedule in 1936, the first case of failure was in 1962. Since that time, there has been a certain number of other failures, but in each instance the liability was either settled by payment of duty and tax, or was forgiven, or is likely to be forgiven, either partially or in full, by Order in Council action.

Indeed, if it were decided that this additional information must be shown on the entry, it could be argued that similar action should be taken in respect of the scores of so-called "end use" items which are in the tariff and where the importer is allowed to clear the goods duty free or at preferred rates, conditional upon the goods being used in a certain manner.

• 1010

And in this connection I might mention farming use, mining use, logging use, hospital use, school use, and so on and so forth. Diversion to a different use immediately creates a liability to the Crown and the amount of the liability could depend upon the nature of the diversionary use.

The Auditor General has given details of instances where certain manufacturers have experienced difficulty in meeting their commitments under various automotive programs. It should be explained that in all these instances the companies have either paid in full the amounts owing, or the liability has been partially, or fully waived, or is likely to be waived, by Order in Council. It is the Department's view that the addition of the further information on the entry, as now suggested, would not have affected the situations or their resolution in any material sense.

In this connection, it might be mentioned that in addition to a number of separate Orders in Council which were passed to remit duty in respect of individual cases, a general Order, P.C. 1969-172, was passed on January 28, 1969, which remitted the duty payable on all but a few—when I say few it is either three of five—companies which had failed to meet the requirements of the Automotive Pact. The remission covers all activities up to July 31, 1968. In respect of the few companies not covered by the general remission order, separate submissions are currently being prepared to forgive the duty payable.

In this report, as well as in the one for 1967, the Auditor General contends that motor vehicle manufacturers should not be allowed to enter vehicles and parts duty free under the Motor Vehicles Tariff Order 1965; rather, that they should be required to pay duty, and subsequently claim refund at the end of the year, when it can be shown that the conditions attaching to the tariff item have been met. This item is one of a great many conditional provisions in the Customs Tariff extending free entry or concessional rates, and it has been the practice of the Department, for as long as can be remembered, to grant the preferred treatment on the strength of an undertaking that the conditions will be met. To do otherwise, would be to delay and, in some cases deny, the concession which the legislator intended.

In any event, this particular point was referred to the Department of Justice, that is, whether or not free entry is permissible under the tariff. The Department of Justice, in a subsequent written opinion, confirmed National Revenue's position and practice.

The report questions the Departmental procedures relative to the Motor Vehicles Tariff Order 1965. In this connection, it should be remembered that this is a very large program, under which literally hundreds of companies, both large and small, are entitled to import certain goods duty free.

In a program of this magnitude, there are bound to be problem areas, but the Department is doing its best to meet and resolve these difficulties. We are constantly on the alert for weaknesses and as they come to light, remedial action is taken. Since the inauguration of the Plan, procedures and practices have been changed and the administration strengthened, all with a view to protecting the revenue. Steps have been taken to ensure that importers are aware of their responsibilities under the law, and investigations and audits are conducted in appropriate circumstances and pressure is maintained on vehicle manufacturers to submit the year end reports as promptly as possible. In turn, these statements are audited as rapidly as circumstances permit.

The Department is aware of the importance of the program to the economy of the country and is striving to make it a success, contingent, of course, on the provisions of the Plan being observed, and the revenue of the country protected.

As point (a) in paragraph 148 on page 87—that is of the 1968 Report—the Auditor General states that "there are still no records available showing the amount of customs duty involved or even the total value of the imports for which the manufacturer must account". While it is true that there is no central record of the amount of duty involved at any one time, the basic documents from which this information can be computed are available, and arrangements have been made for their quick retrieval should this be neces-

• 1015

sary. It has already been explained above whey the detailed computation of duty has not been felt necessary, at time of actual entry.

In the matter of total value of imports under the Automotive Pact, this information is available from DBS records, although it is not broken down by importers.

Point (b) of the same paragraph, paragraph 148, states that "the Department does not always receive adequate information on which to assess the importers' progress in meeting the conditions of the program". Such information would be of no practical use to National Revenue, as interim progress is not the criterion for free entry; rather, it is the results for the year as a whole. These are, indeed, received by us and are subsequently audited.

The mere fact that in the first one, two or three quarters of the year a manufacturer may appear to be headed for failure does not necessarily mean that he will fail, as there is still the balance of the year during which by an adjustment of his importing or manufacturing practice, he can correct a situation and meet the requirements for the production year.

Point (c) of the paragraph states that the "delay in verifying the manufacturers' records continues because of lack of sufficient pressure by the Department on the manufacturers to submit the required annual statements by the due date". As a result of Departmental efforts, there has been an improvement in this area, most reports being received within a reasonable time. For example, for the last production year, out of a total of 46 manufacturers under the Order complete reports have been received from forty companies. The remaining six producers are small, and the reasons of non-receipt are varied. For example, one company experienced a fire, others are awaiting "Canadian value-added" certificates from suppliers, and still others are operating with limited and untrained staff. A deadline has been set for the filing of reports in these six cases, failing which the benefits of the itmes will be denied to the companies involved.

Point (d) states that "departmental policy is to record amounts due by manufacturers who fail to qualify for the tax exemptions they have had only when the amount is finally determined, rather than establishing an estimated amount as soon as it is known that an amount is receivable". It is questionalbe whether one should go to a great deal of trouble and expense to estimate the amount of duty owing prior to audit, as it could well be that the audit will show no failure at all, or a liability quite different in amount from the estimate.

Consequently, the Department determined and reports the liability only after the audit has been completed and the failure has been confirmed. Thank you Mr. Chairman.

The Chairman: Thank you Mr. Hind. We will open the meeting for questions, and I would remind the members that the Chair will not accept questions on policy. We are not here to discuss the policy of the Automotive Pact, whether it is good, bad or indifferent. We are here to discuss the administration of the Automotive Pact and how the duties and taxes have been collected or remitted. I will accept questions for that provisions. Mr. Winch.

Mr. Winch: Mr. Chairman, I have two immediate questions. The first is directed to Mr. Long. In his historical review Mr. Long did not hesitate to name the the Studebaker Company of Canada Limited and the Volkswagen on certain matters affecting tariffs and their position with the Department of National Revenue.

That being the case, I would like to ask Mr. Long if he will now give us information prior to the Order in Council, P.C. 1969-172 as to the names of the companies and the amounts which in the view of the Auditor General was payable to the Government of Canada.

The Chairman: Mr. Long.

Mr. Long: Mr. Winch, you will, perhaps, recall that we have said a number of times in the Committee that it is not our policy to release names. We have them, if the Committee instructs me to release them I will. The reason that I mentioned Studebaker and Volkswagen was that those names became known when they were released in the House

• 1020

of Commons. I thought that it was only fair to members of the Committee to make this as simple as possible because those names were very well known.

I do not believe that it is up to the Auditor General, and as a matter of fact, it is contrary to the policy of the Auditor General to name persons or companies in the Report, that otherwise are not publicly known. Members of two departments are here and if they feel that the names should be released I am sure that they are in a position to do so.

Mr. Winch: Mr. Chairman, may I say I think this is rather an important matter. When we have the names of companies and amounts that vary from around $700,000 to a couple of million; when we are also advised, without naming, that there was a company which was, in the view of the Auditor General's Department, concerned with a matter of $75 million, which was the figure you gave, then I most certainly think that this is information that this Committee is entitled to have.

The Chairman: Mr. Winch, you have directed it to Mr. Long. He does not feel that he should give those names without the Committee's demanding that be give them. Mr. Labarge, what stand do you take on this? Would you care to give these names?

Mr. Labarge: I think it is universally known that any information taken from a Customs' document under a section of our Act may not be conveyed to other parties.

Mr. Winch: I believe, sir, that we have certain authority in this matter.

The Chairman: Mr. Cafik.

Mr. Cafik: Mr. Chairman, it seems to me that, particularly at this stage of our inquiry in this regard, the name of any company is not really important, in my opinion, to the public interest. I think what is important is to determine what all the relevant facts are, whether this money is owing and so on. Having made that determination, I think one might later consider what company it might be, but at this particular moment I do not think it is relevant to the inquiry, or that it is needed.

Mr. Winch: Mr. Chairman, may I therefore add, as Mr. Cafik said, that perhaps it can be left to a later date. I would like to just say, very briefly, that my reason for the question—and I think this is why it is important—is that as, under the Order in Council, vast sums of money have been forgiven, and one study as to whether or not it should be given, is to know the relationship between this and the profits declared by that company, as to whether or not they were in a position that they had to have this. Do you get my point there, Mr. Cafik?

I believe that eventually we will have to come to this, but I am prepared to drop it, at the moment. I do insist, sir, from my personal point of view, if there is to be a thorough understanding and knowledge as to this forgiveness of $80 million, of which I understand $75 million was to one company, then their profit status should also be known at the same time.

The Chairman: Are there any other views on this question?

Mr. Major: I agree with Mr. Winch, Mr. Chairman.

Mr. Cafik: Mr. Chairman, I will say one last word. I think Mr. Winch has agreed to let this wait until a later point. I do not think the profits of a company or anything else at this moment have anything to do with the question.

Mr. Winch: The forgiveness of $80 million? I do.

Mr. Cafik: Just a minute.

The Chairman: Wait now.

Mr. Cafik: First of all, we have to find out what the facts are. I am not walking into this Committee or anywhere else presuming that all the facts and impressions that are created particularly in this report and this particular item are necessarily right. That is why we are discussing it. Let us find out the facts, let us find out what it is all about and then discuss that point later on, when we know.

Mr. Winch: I am quite agreeable to that, but I want Mr. Cafik and yourself, sir, to understand that I am not going to forget the issue.

The Chairman: Before you leave that matter, and I am at the Committee's wish on this matter. I think that according to the audit guide if the Committee wants Mr. Long to give all of these companies' names and the amount of remission he is obliged to give it. Perhaps you wish to leave it for the time being until we have further discussions before. I am at your wish on this matter.

• 1025

Mr. Lefebvre: I do not think anything would be gained by going after this particular item of information at the present time. I think we should make up our minds after we have heard the evidence, whether or not we are first of all in complete agreement with this paragraph of the Auditor General's report. We could continue our investigation if we find that this would add something to it. We could reconsider it at a further date.

The Chairman: It appears to be the wish of the Committee that the names should not be tabled at the moment. I would simply say as your Chairman—I will reserve my remarks until later. I will accept your second question, Mr. Winch.

Mr. Winch: I have many, but I will restrain it to two. Mr. Deputy Minister, I was most interested in Mr. Long's remarks to the effect that the Department of National Revenue had not conducted an investigation of the books relative to this matter of tariffs of the majority of companies. Could we have a more detailed explanation of how you operate when you have not conducted, what Mr. Long has stated, an audit of the companies concerned?

The Chairman: Mr. Labarge.

Mr. Labarge: I think Mr. Hind gave some figures on that, did you not, Mr. Hind?

I gather you are talking, about these 500. That has improved to something in the neighborhood of 250 to 275. The results of these have resulted in our discovery that these people have been fairly competent in their operations and where there has been a diversion, it

has not gone into the automotive program. In other words, there has been a free entry but it has been put to some other use. We have collected the duties and taxes and are continuing this, but the potential in terms of revenue is comparatively small, but we will get there.

Mr. Winch: May I ask a supplementary on this? Of the approximately 200 which have not been studied, have they been forgiven under PC 1969-172?

Mr. Labarge: No, this is only in respect to diversions. Most of these people are suppliers to the larger automotive companies.

The Chairman: Mr. Labarge as I understand the question, Mr. Winch wanted to know that of the 500 parts manufacturers in Canada since 1965 when the tax was instituted, you have, up to now, audited about half of them, 250 in three years' time.

Mr. Labarge: Yes.

The Chairman: When do you propose to audit the other 250?

Mr. Winch: And also what is their position under this Order? I am not quite sure of that yet. Will it take you another three years to audit the remainder of 250?

Mr. Hind: Mr. Chairman, we must remember the purpose of auditing is merely to determine that the goods are put to proper use. In practically all cases, duty free entry is enjoyed by these more than 500 suppliers, simply because they either, in turn, sell them to vehicle manufacturers as original equipment, or they use them to fabricate another part which they, in turn, sell to manufacturers.

The only reason for an audit is to make sure that the importer sells these components for original equipment purposes. In other words, the audit is to uncover those cases where the goods are used other than for original production use, for instance, service or replacement. We are using our manpower to the best possible advantage.

This work is done by what we call our investigational staff who have many other

• 1030

functions, and this is one of many of them. As they find time to go in and audit the records of these companies, they do so. I must say that the Department has done what I consider to be a good educational job in bringing their responsibilities to the attention of importers. We have issued several bulletins which are fully explanatory. They spell out the requirements for free entry, and what must be done in cases of diversion. We have sent our local port people in to discuss these matters with every importer who imports under the automotive program, and periodically they go in to keep these people on the rails.

Now the audit that is mentioned in the Auditor General's report relates to the official audit which is conducted by a headquarter's staff.

The Chairman: Mr. Hind if a manufacturer imported 1,000 mufflers, duty free, and when they arrived at his plant he said: "Put 500 of them in the stock room and they will go out on replacement orders", the Committee wants to be assured that the tax is being paid on those 500 that went into the stock room.

From what you said, only 250 of these companies have been audited up to date, so it would appear that you might be a little bit behind in your audit.

Mr. Hind: When you speak of manufacturers, Mr. Chairman, one must remember that there are, perhaps, only 35 companies that qualify as manufacturers. I believe we have made an audit of every one of them. The balance of these people can be large, but usually they are smaller in stature.

Mr. Winch: They are importers, are they not?

Mr. Hind: Yes, sir, importers and manufacturers.

The Chairman: Are you satisfied, Mr. Winch?

Mr. Hind: I am sorry, manufacturers of parts, not of vehicles.

The Chairman: Mr. Gray.

Mr. Gray: Mr. Hind, is this audit that you are talking about a post audit?

Mr. Hind: Yes sir, Mr. Chairman.

Mr. Gray: Prior to this audit, is there an obligation on the companies in question to report either to yourself or the Department of Industry exactly what they do with the parts and so on?

Mr. Hind: Mr. Chairman, there is a responsibility on the part of the importers to report

what we call diversions of these parts. In other words, to report those cases where the parts, which were brought in duty free, cease to qualify for freedom from duty because they were not used as original equipment parts.

Mr. Gray: So that the only source of information about these parts is not this audit, which you have been describing for us, but in addition to this and prior to the taking place, there is a regular flow of information in which the firms in question are under a legal obligation to make both to yourself and also I gather to the Department of Industry, which in turn keeps records of production.

Mr. Hind: Yes, sir, there is a legal obligation on the part of the importers to report these diversions. We think that we have them pretty well educated to do this. Now it is true that we have not, as yet, got around to visiting all of them, but we are doing this as quickly as we can, consistent with the other responsibilities that lie on the investigational staff.

Mr. Gray: But you are not depending—just to conclude—on this post audit for your information. You would also have a regular flow of information.

Mr. Hind: Oh yes, sir. I am sorry I did not make that clear, Mr. Chairman.

These amending entries, as we call them, which means an entry which comes forward to pay duty and tax, are regularly coming through voluntarily by the importers. In other words, they do not wait until an audit is completed. The only purpose of the audit is to ensure that they have reported all the diversions.

Mr. Gray: You say "voluntarily". Are they not under an obligation to the Customs Act to do so?

Mr. Hind: Yes, sir, they are.

Mr. Gray: And obligation to the law?

Mr. Hind: Well I think I was correct in saying that with this initiative on their part, based on the initiative of our Department to keep them informed as to what their obligations are, these audits on the whole have shown very little owing to us by way of duties and tax by these people at the conclusion of the audit.

The Chairman: Mr. Gray.

Mr. Gray: What you are saying is that using modern techniques of probability analysis and so on, it would appear that the voluntary reporting is complete and accurate.

Mr. Hind: Right.

Mr. Mazankowski: A supplementary, Mr. Chairman.

The Chairman: Mr. Mazankowski.

• 1035

Mr. Mazankowski: I have a supplementary to Mr. Hind. How do you in fact verify the ultimate destiny of, say a muffler? If 1,000 mufflers came in, how would you verify as to whether the mufflers were installed on a car, or whether they were sold as replacement parts?

The Chairman: Mr. Hind.

Mr. Hind: Mr. Chairman, this information is forthcoming only from the motor vehicle manufacturer. In other words, the importer brings in the muffler, and sells them to the manufacturer. The manufacturer in placing the order, stipulates on it whether the mufflers are for original equipment use, or repair, or replacement use. Now should the manufacturer find himself short of replacement mufflers, he then immediately notifies the importer that "X" number of mufflers, which were brought in for original equipment use, were diverted to service use and therefore the importer is required to present, voluntarily, an entry to customs accounting for the duty payable.

Mr. Mazankowski: When does he pay that duty?

Mr. Hind: I believe that we ask him to pay this duty periodically, not as each entry is forthcoming. I am not sure whether it is on a monthly, or a quarterly basis, but it is periodically and regular.

Mr. Mazankowski: In other words, this is on an honour system.

Mr. Hind: It is on an honour type basis until such time as our investigators go in and go over their books and make a study of what has been done.

The Chairman: This just brings up the point I think, Mr. Hind, that it is important that these other 250 manufacturers be audited. It has been in operation now for three years and I think it is time they were all

covered. However, I think it is well to talk about these things. Mr. Lefebvre and then Mr. Noël.

Mr. Lefebvre: Mr. Chairman, if I could ask the witness a question, we heard some statements this morning—it is quite difficult to absorb everything—but as I understand the Canada-United States Agreement on Automotive Products which was signed on January 16, 1965, had as its main purpose the elimination of tariffs and other barriers to trade between Canada and the U.S. To qualify as a manufacturer under this Agreement, the 1964 model production year was used as a floor and certain criteria were set up.

Now from the Dominion Bureau of Statistics, which I have some figures from, I understand that during the years which we are talking about, production in Canada increased by a total of 76 per cent; 153 per cent on commercial vehicles, and 61 per cent on passenger cars. Employment increased 21 per cent from 69,000 to 83,000 which created 14,000 new jobs. Investments by the companies involved increased by $825 million.

It is apparent to me that this has been a tremendous boost to Canada. Among the criteria used to set up the Agreement, in order to qualify as a manufacturer, in what areas do these various companies fall down on? Millions and millions of dollars have been involved here in new money in Canada. I would just like to know if you could elaborate on that a bit.

Mr. Winch: $80 million.

Mr. Lefebvre: Look at the boost in the economy.

The Chairman: I would be careful here gentlemen. We are just treading on dangerous ground across the table. I think the question is, on what areas do they fall down on their commitments?

Mr. Lefebvre: Perhaps I could add to this and help you. A new Order in Council was set up which was parallel to the original agreement of 1965. After the experience of three years came in, it was found that there were some areas where, probably, we had been a little too stiff in the original agreement. Is this the reason?

• 1040

The Chairman: Mr. Labarge.

Mr. Labarge: In entering the question of which criteria are most important. I think this would involve the Department of Industry. There are technical requirements with respect to Canadian content to the ratio of their exports to production.

Mr. Lefebvre: Mr. Chairman, I think this would be very important to...

The Chairman: Mr. Lefebvre, I will address your questions to Mr. McIntyre of the Department of Industry, Trade and Commerce.

Mr. Lefebvre: It would be helpful to this Committee...

The Chairman: Perhaps be can tell the Committee in what areas the companies fell down on their commitments.

Mr. McIntyre: Mr. Chairman, I am quite prepared to answer it, but would it not be helpful to the members of the Committee to have a short resume of what, the auto agreement is and what it is trying to achieve, so that we can measure those factors in relation to it.

The Chairman: If you do not mind, Mr. McIntyre, this might be a good point to start the next meeting. We will now go along with a fee questions and at the start of the next meeting will have a summary from you.

The Chairman: Mr. Cafik.

Mr. Cafik: Mr. Chairman, could I point out that I do not know what the gentleman has in mind, but if he has some written statement in this regard I think it would be valuable to have it prior to the next meeting. I suggest that he makes it available to the members prior to the meeting.

The Chairman: Is the Committee agreed?

Some hon. Members: Agreed.

Mr. Leblanc (Laurier): Yes, because in the notice of meeting we see that we have Mr. E. A. McIntyre as a witness. I think it would be good to hear what he has to say and then maybe the questioning would be different.

The Chairman: Mr. McIntyre agrees.

Mr. McIntyre: Mr. Chairman. When you were talking to me I realized that we would be addressing ourselves to paragraph of 148, so I took the liberty of preparing the documents which cover all aspects of the formation and build up of the agreement, together with the latest DBS statistics that we have. I have made enough of these documents for

every member of the Committee. I felt this might be helpful to you in trying to really determine in your own minds what is the Automotive Agreement and what is it, in your mind, not accomplishing. Therefore, only address my remarks to a very quick rundown of what the Agreement is with respect to the particular paragraph, if that has your approval.

Mr. Winch: Mr. Chairman, a little while ago you said "Do not involve us in the policy", because our investigation is only $80 million.

Mr. Gray: But you have to know all the facts to decide where the $80 million was from. You said that yourself, sir.

Mr. Winch: If we are going to lead into policy then I would most certainly like to discuss the policy angle.

Mr. Leblanc (Laurier): We will know that after we have heard Mr. McIntyre's statement.

Mr. Winch: I am interested in hearing him.

The Chairman: Proceed, Mr. McIntyre.

Mr. McIntyre: Gentlemen, as has already been said by Mr. Long, and to some extent by Mr. Labarge, the Canada-U.S. Automotive Products Agreement is the culmination of a series of attempts which first started around the mid-thirties to improve the economic position of the Canadian automotive industry and the role it plays as a function of Canada's economic development. In the early sixties the Bladen Commission outlined the need for the industry to play a more important role in the national economy. Among many other things, the Bladen Commission felt that the automotive industry was not making enough contributions to the economy and it was, if you like, withdrawing too much from the economy. As a result the government of the day introduced a limited duty free plan which has already been referred to for automatic transmissions and engines. A year later they expanded this to another plan covering automobiles and parts.

Because of certain complaints from the United States on this latter, the two countries entered into discussions from which arose the Canada-United States Automotive Products Agreement. There is a copy of this Agreement in the document which I have for you, Mr. Chairman. I do not know whether or not you want this now, but there is a copy there for you.

The Chairman: Maybe you would table it, would you?

• 1045

Mr. McIntyre: Yes.

The Chairman: You may proceed.

Mr. McIntyre: This program has been in effect for some three and a half years and has affected a complete change in the Canadian economy. I would like to expand on some of the figures which have already been quoted from DBS because these figures do not always tell the whole story because of differences in classifications.

First of all, Canada's exports have gone from about $200 million in 1964 to over $2.4 billion in 1968, which is an increase of about 2,400 per cent. Two way trade between the two countries has increased from $818 million to about $5.3 billion and is still rising. Employment has risen from about 69,000 to the order of 100,000 in direct labour, and probably an equal number in indirect.

This industry has announced over 100 new plants in this period, and the expansion of some 185 plants through a huge capital expansion program which is just short of $1 billion.

The Agreement, of which as I say you will have a copy, was intended to open up the North American market for automotive products within which the full benefits of specialization could be achieved, and which both countries could participate on a fair and equitable basis. I point out that while the achievements to date are impressive—we should all be proud of what management and labour in Canadian industry has accomplished—you should realize that there is still a considerable amount of restructuring and growth required to make us fully competitive in the North American market and achieve the objectives outlined here.

The Agreement, as you will see, provides for the duty free treatment to imports of specified products of both countries. Each country has included certain conditions to protect its industrial interest. Canada, for a number of economic reasons, has limited participation under the Agreement to vehicle manufacturers.

The price of admission for a Canadian manufacturer was that he had to meet a number of conditions. These conditions have been very briefly touched on; he had to be a manu-

facturer, that is to say, he had to have a certain ratio of what he made to what he sold in Canada, he had to have a certain Canadian content—it must not go below what it had been in 1964, and was required to assure the government that as he expanded he would increase his Canadian content in house, and or from Canadian suppliers along certain levels.

In addition the big members of the industry were required in the year 1968, over and above all of this, to increase their total Canadian content by an additional $260 million. If he fails to do these, he is not a manufacturer. These conditions, which vary from manufacturer to manufacturer, were chosen to encourage growth investment, employment and export at as high a rate as was considered reasonable at the time. In the initial years of the program, we found that not only had we been too rigid in establishing some of our conditions—I do not think this is particularly unusual—but we completely misjudged the time required to restructure manufacturing plants of this size.

A new production facility for cars or major parts involves huge amounts of capital, and from one to two years to complete, during which time efficiency and productivity temporarily falls off which jeopardize the company's chances to meet one or other of the particular agreement conditions. In order to determine whether a company meets the definition of a manufacturer on an annual basis we encouraged the industry to limit itself to that type of restructure which could be put in place and produce within a year. Fortunately, many of our companies saw the need for and took the chance necessary to restructure in such a large way as to take full advantage of the opportunities provided by the Agreement.

• 1050

In doing this a number of companies ran into difficulties which have been referred to, and I will go over these for you. The Department worked closely with industries facing this type of difficulty.

The industry came to us and we went to them in order to work with them, and I am pleased to say that in many cases the difficulties were overcome. In every case, however, we are satisfied that the manufacturer met the objectives of the agreement in full measure, not necessarily by the means we originally envisaged, but by compensating for their temporary shortcomings in meeting one condition by far greater achievements in meeting another.

In the case of the companies mentioned in the Auditor General's report over the period to July 31, 1968, not only do these companies meet their overall objectives, but as a group they exceeded their undertakings by more than the $260 million target set for the entire industry.

As we are responsible for the administration of the agreement, it was essential that we look at what would have happened had we taken the rigid attitude and levied the duty. To have levied the full tariff penalty would have reduced investment. I think that is obvious and would have resulted in a staggering loss in employment, which we estimated in our analysis to be 2,000 to 3,500 jobs. It would substantially reduce our export trade, and in addition, it would have put five expanding Canadian-owned companies out of business with a severe affect on the suppliers of these companies.

The Motor Vehicle General Order PC 1969-172 has the effect of changing the definition of a manufacturer on two counts. One, where the original conditions were, as we said, too rigid or abnormal and the other is that it limits this redefinition to the start up period ending on July 31, 1968. These companies which have done more than, in my personal opinion, fully meeting the objectives qualify as manufacturers during this period.

I have no hesitation in saying that this action is in the best interests of the national economy, and that some of the companies are currently planning further expansion which will further increase employment and trade. These would not have occurred if we had not had the first expansion. We see no problem whatsoever for these manufacturers fully complying with the conditions of the program, as they now exist.

The Chairman: Are you finished Mr. McIntyre?

Mr. McIntyre: Yes. Would you now like me to direct myself to the particular types of problems which...

The Chairman: No. Please answer Mr. Lefebvre's question.

Mr. Lefebvre: Yes.

Mr. McIntyre: I think I hit them in general terms. This is a very large program involv-

ing large companies who produce thousands of vehicles and employ several thousand people. It involves small companies who produce less than 100 vehicles and employ less than 50 people.

Mr. Winch: May I ask a supplementary?

The Chairman: I have two at once. Mr. Winch and then Mr. Cafik.

Mr. Winch: That is a most interesting statement. Could I ask that with the presentation you have made and the future as you see it, do you—because you gave us your personal opinion—personally see a requirement for another PC 1969-172 in the future, or do you feel that the automobile industry will be in a position that the original understanding on tariffs can be carried forward?

Mr. McIntyre: All right. As a personal

• 1055

opinion I would say the following: I am satisfied with the rates of growth which we are now experiencing. I see no reason why my industry cannot compete and continue to restructure to compete with the American, German, Japanese and Italian markets. If so, it would require no such Order-in-Council in the future. However, in an attempt to answer the question, one or two things come into play which are beyond both my control and the control of the company.

One of them is, gentlemen, we have entered into a trade agreement. We have not only increased our mutual trade north and south, with all the liability that brings in tariffs and responsibilities, but we are very dependent much more so than ever before on actions in the two countries.

The one which does affect us considerably and makes it difficult for my industry to meet the conditions which we have laid down for them is where there is for some reason, a labour situation in another country over which I have no control. Since I trade freely into that country, I am very dependent upon the conditions there. Even today, I am watching certain companies very carefully because of the effect that strikes south of the border are having upon us, but I think my first question was still a fair one.

Mr. Winch: Do I definitely understand that it is your belief, as well as your hope, that in the future the industry will not require an indirect federal subsidy such as this $80 million? You do not think it will be required in the future.

Mr. McIntyre: I do not see this as a subsidy whatsoever.

The Chairman: This is a rather hypothetical question and I think we ought to skip that.

Mr. Winch: $80 million is not hypothetical, Mr. Chairman.

The Chairman: No. We will get back to that Mr. Winch. Mr. Cafik.

Mr. Cafik: Thank you Mr. Chairman. I appreciated hearing Mr. McIntyre's statement today and was quite impressed with it. Would he indicate if there were any unusual circumstances, particularly with the one company for roughly $75 million, that caused their inability to fulfil the agreement which might be stated? For instance, were there any things like strikes—if there were I think that that would be understandable—or changing in plant facilities and this type of thing? Are there any specifics that you can give us on this regard which would make it more understandable?

The Chairman: Mr. McIntyre.

Mr. McIntyre: Yes. Every company in Canada has faced the problem of trying to build itself over a very very short period of time in order to compete, or try to compete, with the established American companies which are generating the kind of capital required continually to bring their plants up to date and be competitive with the most modern around the world.

The degree to which you have to do this—and a large company is obviously greater than it is on a small company—but relatively speaking they all have to face the same thing. In many of our medium sized companies, for example, the kind of capital investment that is currently going into these plants is as much as 5 to 10 times the equity of the company. That is pretty unheard of.

This is the kind of expansion that is necessary to take place if, indeed, you are going to compete in this kind of market. The benefits if you succeed are very great in employment, in higher technological types of manufacturing, the scale of production, all of which help the level of your worker, the level of output, and the respect which you have on world trading circles. The company in question...

Mr. Winch: It is American owned. Is it not?

Mr. McIntyre: Yes.

Mr. Winch: Does it employ Canadians? It is an American owned company and that is an important thing since you spoke about American competition.

The Chairman: All right. Gentlemen, we must adjourn here in a minute so let Mr. McIntyre finish. It is 11 o'clock.

Mr. McIntyre: All companies, all large companies...

Mr. Winch: ...are American owned.

Mr. McIntyre: ...undertook to restructure

• 1100

to take full advantage of the agreement. In so doing the kind of restructure into which they entered could not possibly have been done within a period of a year.

The Chairman: I think we will close on that point, Mr. McIntyre. I am sorry, but time is up. We have two motions I want to pass just before you leave, if the Committee so agrees. First, moved that the report of the subcommittee on agenda and procedure, tabled at our meeting on June 3, 1969, be approved.

Mr. Lefebvre: What are you talking about? I cannot agree...

The Chairman: The point is that a number of reports were to be prepared. You remember that this subcommittee was to prepare three reports for the House; it was to hire a consultant engineer and at least two of its members were to visit the *Bonaventure* separately. Therefore, it was moved that the report of the subcommittee on agenda and procedure tabled at our meeting of June 3, 1969, be approved. We all approved it at that time.

Motion agreed to.

The Chairman: The other one was, if you so agree, that the subcommittee on agenda and procedure be authorized to adjourn from place to place and that the Clerk of the Committee and the necessary staff accompany the members. This was brought about by the subcommittee's suggestion that two members of the subcommittee go with the consultant engineer to visit the *Bonaventure* and check out some of the evidence that was given.

Motion agreed to.

The Chairman: Gentlemen, the meeting is adjourned. We will continue with the same subject on Thursday morning.

The Queen's Printer, Ottawa, 1969

HOUSE OF COMMONS

First Session—Twenty-eighth Parliament

1968-69

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: Mr. A. D. HALES

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 43

THURSDAY, JUNE 12, 1969

Public Accounts, Volumes I, II and III (1966, 1967 and 1968)

Reports of the Auditor General to the House of Commons (1966, 1967 and 1968)

WITNESSES:

(*See Minutes of Proceedings*)

20569—1

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. A. D. Hales

Vice-Chairman: Mr. T. Lefebvre

and Messrs

Bigg,	Guay (*Lévis*),	Noble,
Boulanger,	Guilbault,	Noël,
Cafik,	Harding,	Rodrigue,
Crouse,	Leblanc (*Laurier*),	Tétrault,
Cullen,	Major,	Thomas (*Maisonneuve*),
Flemming,	Mazankowki,	Winch—(20).

(Quorum 11)

Edouard Thomas,
Clerk of the Committee.

MINUTES OF PROCEEDINGS

THURSDAY, June 12, 1969
(48)

The Standing Committee on Public Accounts met this day at 9.36 a.m., the Chairman, Mr. A. D. Hales, presiding.

Members present: Messrs. Bigg, Crouse, Cullen, Flemming, Gray, Hales, Leblanc (*Laurier*), Lefebvre, Major, Mazankowski, Noble, Noël, Rodrigue, Winch—(14).

Also present: Mr. Roy (*Timmins*).

Witnesses: Mr. R. C. Labarge, Deputy Minister (Customs and Excise) and Mr. A. R. Hind, Assistant Deputy Minister (Customs and Excise), Department of National Revenue; Mr. R. Y. Grey, Assistant Deputy Minister, International Programmes, Tariffs and Trade Policy, Department of Finance; Mr. G. R. Long, Assistant Auditor General; Mr. E. A. McIntyre, Director General, Mechanical Transport Branch, Department of Industry, Trade and Commerce.

The Committee agreed that the Sub-Committee on Agenda and Procedure consider the advisability of inviting the Minister of Industry, Trade and Commerce, the Minister of Finance or the President of the Treasury Board to appear before the Committee to give explanations concerning Order in Council P.C. 1969-172 dated January 28, 1969.

Mr. Winch moved,

> "That the Auditor General be instructed to provide the Committee with the names of the companies concerned in P.C. 1969-172 dated January 28, 1969 and the actual amounts remitted for each Company"

and discussion ensuing, Mr. Gray moved,

> "That the consideration of the motion be postponed pending the obtaining of a legal opinion on the matter."

The dilatory motion was negatived—For, 6; versus, 7 including the vote of the Chairman.

The question being put, it was resolved in the affirmative.

The Assistant Auditor General thereupon provided the requested information.

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

Edouard Thomas,
Clerk of the Committee.

20569 -1½

MINUTES OF PROCEEDINGS

EVIDENCE

(Recorded by Electronic Apparatus)

Thursday, June 12, 1969.

• 0937

The Chairman: Gentlemen, if you will come to order, we will proceed and take up where we left off last meeting. We were dealing with paragraph 148, page 87, of the 1968 Auditor General's Report under the title, "Concessions made to motor vehicle manufacturers". At the time that we adjourned, Mr. Lefebvre had asked some questions of Mr. McIntyre along these lines: what were the commitments that the car manufacturers failed to live up to, and was it the Canadian value added or the ratio of production to sales? Mr. McIntyre made a statement and we were at that point. Now Mr. Lefebvre will finish off and Mr. Noël is next.

But before proceeding with the questioning, I think that if this Committee is going to do a thorough and complete study of this subject matter, we should have the names of the 14 companies and the amount of money that each one was remitted. After we have finished questioning the Department of Industry, Trade and Commerce, we should direct our questioning to the Department of National Revenue in respect of the accounting of the administration. How was this estimated figure of $80 million arrived at? What type of accounting is done? That sort of thing. I just lay this out to the Committee for your perusal. Do you think that is the right line of study? If so, we will proceed on that. Mr. Winch?

Mr. Winch: May I make one comment, Mr. Chairman? I completely agree with what you have just said. If and when we have a quorum, I hope that somebody will move that the Auditor General be instructed to supply this information. In addition to that, sir, I would like to point out that I am assured that all of us want to do a thorough study of this most important matter but in view of the fact that it entails the forgiveness of some $80 million to automotive companies, it must have been a

• 0940

policy decision. You know, Mr. Chairman, that it is accepted in principle that deputy ministers, departmental heads and employees of the government cannot answer questions nor speak on policy. As policy relating to $80 million is of such great importance, I think it is imperative that we have the Minister of Industry, Trade and Commerce, the Minister of Finance and the President of the Treasury Board to answer questions and to outline the policy behind this and I make that request.

The Chairman: Maybe the Committee would like the Steering Committee to study this suggestion first. Mr. Lefebvre.

Mr. Lefebvre: I tend to agree somewhat with Mr. Winch that perhaps on some of these points we should ask the Minister to come forward because, as everyone knows, the officials of the Departments cannot take a position on policy. They are there to carry out the policy, not to say whether it is a good or bad one.

The Chairman: I would be agreeable if the Committee was to direct its Chairman to invite the Minister of Finance and the Minister of Industry, Trade and Commerce, to appear before it.

Mr. Winch: And the Treasury Board.

The Chairman: And the Treasury Board. Is that the wish of the Committee?

Some hon. Members: Agreed.

The Chairman: I do not know when we are going to have time for all this. Time is pressing us. However, perhaps if we make good progress this morning, we could try to arrange that for our next meeting.

Mr. Winch: As we have a quorum, can we briefly settle on this matter? I think it is of the utmost importance; $80 million is involved; we have been informed that $75 million of this went to one of fourteen companies; also, the companies, basically, if not all of them, are owned by the United States. Taking all of this into consideration, I think it is necessary, for a full understanding, that we have the names of the 14 companies and the amounts that were remitted on each. I

would, therefore, move that the Auditor General be instructed tu supply this information to the Committee.

The Chairman: In view of the fact that we do not need a seconder for that motion, I will ask for either discussion on it or a vote. Mr. Noel, do you wish to speeak on this?

[*Interprétation*]

Mr. Noël: Mr. Chairman, before we vote on this motion, I would like to ask you a small question.

In the light of what was said last Tuesday by Messrs. Labarge, Hind and McIntyre, and after reading the information noticed we received yesterday, is it not in order that the Public Accounts Committee examine the reports of the Auditor General as to the privileges granted to car manufacturers, not only in the light of the fiscal policy, but also in the light of the commercial and economic policy of Canada?

Is it not dangerous to give too much importance to customs receipts if, in our own mind, we don't take into account the good effects of the measures taken that one dependent on our commercial and economic policy?

The problem is very complex and must be studied very carefully, in all its aspects, while taking into account the results obtained up to date and also future results.

If we concentrate solely on the $75 or $80 million which are mentioned on page 88, Section 3, of the 1968 Report of the Auditor General, is it not probable that we will end up following the wrong track?

[*English*]

The Chairman: Mr. Noël, your question did not turn out to be a teeny-weeny one. However, I am glad to have your remarks on the matter.

Mr. Lefebvre: I suggest, Mr. Chairman, that we, as a steering committee, get a legal opinion on this before we take a vote. I think we are getting into privileged information; any taxpayer in Canada may have his name brought before the public, whether or not he has paid his taxes or whether it has been

• 0945

forgiven. There are many cases of this in Canada, as you know, as in any other country. I do not think this information has ever been made public before. I think we had better get a legal opinion on this.

The Chairman: Mr. Lefebvre, I have just checked on this and I am advised that we or any committee does not need a legal opinion on such a matter. We are at liberty to ask any question that could be asked in the House.

Mr. Lefebvre: Furthermore, Mr. Chairman, I think the amount of money involved is the important theory, not the names of the companies or individuals involved. Whether or not, we as a committee will make up our mind to forgive the loss of this amount of money is what is important.

The Chairman: The Financial Administration Act says that any remission of duties must be recorded in the Public Accounts Blue Book. Therefore, these items would have to be referred to or printed in the Public Accounts, they would then become public information, as I understand it. To explain further, the amount that was shown in the 1967 Auditor General's Report, where the Volkswagen people were allowed a remission of $2,250,000, appeared in the Blue Book under the name of Volkswagen Company. It appears to me, therefore, that these companies are not any different from that case.

Mr. Gray (Essex West): Mr. Chairman, may I speak on this? The subject matter of the motion may or may not be desirable or relevant to the basic issue before us. It may be, as you say, that we can ask the question. That is not the issue. The issue is, do those to whom we direct the question legally have to answer it? Tom Lefebvre has suggested a possible reason why it may not have to be answered; you have suggested a reason why it may have to be answered. I think that all this does is prove the advisability of asking the steering committee to study this question to seek the legal opinion of the Parliamentary Counsel, Dr. Ollivier, and to report back. One could possibly draw a distinction between information once it has been published in the Public Accounts, and information before it is published. I think that we are getting into an area of broad principle, which would apply not only to these companies, who may not need any particular sympathy, but also to matters which may pertain to taxpayers across Canada. We should be very sure that we are not establishing a precedent which is contrary to the whole thrust of our tax law, both income tax and customs law.

Mr. Winch: Mr. Chairman, may I point out that we are not asking for information that is governed by the income tax and the corpora-

tion tax laws. We are seeking information that comes under a remission of tariffs. The amount is heavy; it is $80 million. However, I would like to point out that of that, $75 million is a remission to one company. I believe, if we are going to study in depth and do a good job, that we are entitled to know that company. I cannot conceive of our saying that we have studied in depth unless we relate what is—although Mr. MacIntyre does not like it—a subsidy to a company and how it ties in with their profit situation and structure, particularly as it is American-owned. It had always been my understanding—and this has been confirmed more than once by Mr. Long and by Mr. Henderson—that in an issue of this nature, we have the power to instruct that we be given the information. I think that we are doing a pretty poor job if where a figure of this amount paid to one company is concerned, we do not get all of the information. We cannot reach a decision or an understanding or have the proper knowledge unless all of the information is before this Committee.

The Chairman: Mr. Gray, I must advise you that we are speaking to the motion now.

Mr. Gray (Essex West): It would be nice if you would advise Mr. Winch of the same thing.

The Chairman: All right.

Mr. Winch: I was speaking to the motion.

The Chairman: I thought he was.

• 0950

Mr. Winch: My motion was for the supplying of the names and the amounts.

Mr. Gray (Essex West): Mr. Chairman, if as Mr. Winch says, we are talking about a subsidy, then we also have to put on the table in the course of our discussions all the benefits that Canadian workers, Canadian communities, and the Canadian economy have derived from...

Mr. Winch: Mr. MacIntyre gave us that at our last meeting.

The Chairman: Order.

Mr. Gray (Essex West): I would like to continue; any committee, whether it is the Public Accounts Committee, the Finance Committee, or the Transport Committee, is simply an instrumentality of the House. I would like to be assured that in asking this question—we can ask any question we want—whether or not it must be answered and whether, in attempting to insist on the answer, we have a legal right to do this. If the House has the legal right to do this, then I think it is clear that the Committee does. I think that is a point you probably missed, Mr. Chairman, and one on which I would agree with you if you were to make it. I am not attempting to rule out the advisability of having these companies named or the fact that they might possibly be irrelevant. All I am suggesting is that this matter be referred to the steering committee to seek legal opinion from the Parliamentary counsel which the Committee may or may not want to follow and then report back to this full Committee at the next meeting at which time we will dispose of the issue.

The Chairman: Are there any other comments on the motion before the Committee? Mr. Cullen.

Mr. Cullen: Mr. Chairman, I want to endorse what Mr. Gray has said. I am a comparatively new member, but taking into consideration your comments that this has been the policy in the past together with somebody's remark that we have heard the answer that it is a privileged communication, if ever there were a gray area I think that would fit this situation. I think it is a waste of time and we will make ourselves frustrated by asking the question only to find that it does not have to be answered. I agree with Mr. Winch. Let us get as much information as possible, but, first, let us find out what information we are entitled to get. I would like to see it referred to the steering committee for a legal opinion.

The Chairman: Mr. Leblanc.

[*Interpretation*]

Mr. Leblanc (Laurier): Mr. Chairman, I believe that it is dangerous in the case that we are studying here, to create a precedent in so far as the discretion of the various Departments which collect taxes is concerned.

The taxpayers are used to filing their Income Tax returns and their Customs and Excise declarations in the belief that this information is strictly confidential. So, I do not see how we, ourselves of the Public Accounts Committee in particular, could create a precedent which would somewhat undermine the confidence of the taxpayers in the various Departments with which they have to file returns or declarations, because in my opinion, there would be a danger that

the information given to those Departments might reach the ears of competitors. I think we should give it some further thought before voting in favour of this motion. And, I would rather agree with what Mr. Gray has said, i.e. to have this referred to the steering committee for consideration.

[*English*]

The Chairman: Mr. Flemming.

Mr. Flemming: Mr. Chairman, I have listened to the arguments pro and con. It seems to me that the argument based on this company being American-owned is not a very valid one, Mr. Chairman, because I do not care who the shareholders of a company are, they are required to respect and to conform to the laws of Canada.

In connection with the question of the relationship, if you like, between the matter that is before us and the ordinary divulging of information relative to taxpayers' returns and that sort of thing, I fail to see the connection. I believe, sir, you said you had examined the matter and you found that according to the law, all remissions should be reported. Volkswagen already have complied with this and the matter has been reported in the public accounts of the year in which the remission was made. It seems to me, regardless of the

• 0955

size of the remission, a question of principle is involved here. Surely the company concerned, whoever it may be, must have known and were prepared—they have good lawyers on their staff—that the minute they accepted a remission or the minute they applied for a remission of this nature involving as much money as is involved here, to have that information made available to the public. As the matter stands now, I propose to vote in favour of Mr. Winch's motion.

The Chairman: I might say at this point, when I made that remark I said, "I stand to be corrected". I would want to know that I am on firm grounds as the Financial Administration Act, Section 22 (8), says:

> 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.

Now, in the Public Accounts 1968, Volume II, on page 44.19 it says:

> Volkswagen (Canada) Limited, Toronto,.... Remission with respect to 10,918 Volkswagen automobiles imported during the period of December 7, 1964, to July 28, 1965, of customs duty and the portion of sales tax attributable to the duty remitted...$2,187,532.

I, as Chairman, may not make a comment, but I wanted to bring that to the attention of the Committee.

Mr. Gray (Windsor West): I would like to make a very important point, Mr. Chairman.

The Chairman: Mr. Gray.

Mr. Gray (Windsor West): You left one question, at least, open in my mind. Is our position such that we can ask for this information even before the Public Accounts are published or do we have to wait until they are published?

The Chairman: No, I do not think we have to wait until they are published. We are entitled to the information.

Mr. Lefebvre: Mr. Chairman, is it possible for this motion to be tabled before we have the opinion of Dr. Ollivier on this matter?

The Chairman: I would like to, Mr. Lefebvre, but I have a motion before the floor and we will have to vote on the motion.

Mr. Gray (Windsor West): Mr. Chairman, I move that this motion be tabled so this Committee can receive a report from the steering committee on the legality of the matter, not necessarily because I am opposed to having the names—they may be very desirable—but because this may create a precedent for the future. I understand a motion to table takes precedence over any motion on the floor.

The Chairman: Mr. Crouse.

Mr. Crouse: Mr. Chairman, before Mr. Gray spoke I wished to speak to the motion made by Mr. Winch.

The Chairman: Is the Committee agreed that Mr. Crouse should be allowed to speak to the motion?

Some hon. Members: Agreed.

Mr. Crouse: The government has set the objectives of the auto pact. We have heard from other members of the Committee about the effectiveness of this pact both on the economy and on employment and with this there is absolutely no argument. The automobile companies were not pressured into this

type of agreement and they never claimed they were. They entered the arrangement knowing in advance the terms of the concessions that were to be made. These concessions now, of course, are getting to be quite sizeable sums and the plants are being built. In a way, I might endorse Mr. Winch's statement by the use of this type of so-called subsidy. I would point out, of course, that the government does not have any interest in these plants as the whole investment belongs to the automobile companies. However, when we hear of concessions in the nature of $80 mil-

• 1000

lion, naturally we, as watchdogs on the expenditures of the Canadian taxpayers' money, must be concerned and must endeavour to find out if these remittances are being made in accordance with standard procedure.

My own feelings are that it is just not possible to make a remittance of this type—$80 million with $75 million to one company—and not expect it to become public knowledge as it is bound to come out sooner or later. If we are not to be stymied in our studies in this Committee, I think we should know the names of the companies that received this money so that we, in turn, can check into their operations to the extent that the parts and equipment brought in for which they received this remittance, actually were used under the terms of the pact. We are concerned here with the proper application of the law primarily, not with the amount above, and for that reason I would support Mr. Winch's motion.

The Chairman: Gentlemen, I have a motion of Mr. Gray before me which takes precedence over the other motion. We will vote on Mr. Gray's motion, which reads: that the motion of Mr. Winch be tabled pending the obtaining of a legal opinion on the matter by the Steering Committee.

I do not think we need "by the Steering Committee". Mr. Gray moves: that the motion of Mr. Winch be tabled pending the obtaining of a legal opinion on the matter.

Those in favour of Mr. Gray's motion?

Those against? Now you have put me on the spot. It is a tie vote, 6 and 6.

Mr. Gray: Mr. Chairman, I have an idea that may take you out of your dilemma.

The Chairman: You do not need to. I know which way I want to vote.

I vote against Mr. Gray's motion, in view of my earlier statements.

Motion negatived.

The Chairman: The next motion we have before us is that of Mr. Winch, which reads: that the Auditor General or his assistant be instructed to provide the Committee with the names of the companies concerned in P.C. Order 1969-172 dated January 8, 1969, and the amounts for each company.

The Chairman: Those in favour of the motion?

Mr. Leblanc (Laurier): Mr. Chairman, perhaps I could clear up something. It says in the Auditor General's report that the amount of $43.6 million has since increased to a possible $80 million. What is the actual figure there?

Mr. Winch: But we were told it was $80 million.

Mr. Leblanc (Laurier): I wonder if the motion should not be cleared up?

Mr. Winch: We were told at our last meeting that it was $80 million...

Mr. Leblanc (Laurier): Well...

Mr. Winch: ...and we have the Order in Council in front of us that says it is $80 million.

The Chairman: Mr. Leblanc, what is your suggestion? Let us deal with that first.

Mr. Leblanc (Laurier): It is in reference to the end of the motion.

The Chairman: The part that reads "and the amounts for each company"?

Mr. Leblanc (Laurier): Well, the actual amounts, not the estimated amounts.

The Chairman: The actual amounts?

Mr. Leblanc (Laurier): That is it.

Mr. Winch: Right.

The Chairman: All right, I will read Mr. Winch's motion again: that the Auditor General or his assistant be instructed to provide the Committee with the names of the companies concerned in P.C. Order 1969-172 dated January 28, 1969 and the actual amounts for each company.

The Chairman: All those in favour?

Mr. Gray: Mr. Chairman, I would like to make a brief comment about my own position. As far as I am concerned, I have no personal objection to having the names pro-

• 1005

vided if, as you say, there is a legal obligation to publish them in the Public Accounts, anyway. The only question is whether they are published sooner or later. On that basis I actually intend to support Mr. Winch's motion. It may be that we will be able to have the names provided even before the Auditor General goes back and digs them out of his files. We wil have to check into this.

The Chairman: After we vote on the motion I suppose then we perhaps could decide who furnishes the names.

Are you ready for the motion, or do you wish to hear from Mr. Long? I think we have to vote on the motion. You all know what you are voting on. All those in favour of Mr. Winch's motion? Those opposed?

Motion agreed to.

The Chairman: Thank you for not putting me in the same spot as before.

Mr. Long, as Assistant Auditor General, the Committee is making certain requests of you.

Mr. Long: Mr. Chairman, when I asked you if I might say something before your vote, I had in mind the reference to the exact amounts. There is no question in my mind that the Auditor General, as an officer of Parliament, should, in so far as he can, meet the wishes of this Committee. Your instruction, I think, is quite clear and I will give the amounts, if it is your wish, as we know them. But I would point out that members of the two Departments are here and it is their records that contain these amounts. I think that to avoid any difference of opinion on what is the right amount and so on, it would be preferable for the Department who keeps the records to give the amounts and the names.

The Chairman: Mr. Long, the Committee has directed you and your Department to give them. I must abide by the wishes of the Committee and ask you to give them. If the Department of National Revenue do not agree with these figures, then it will be up to them to say so, and we can hear them next.

Mr. Cullen: Mr. Chairman, the Auditor General is also accepting the responsibility for giving this information, saying that he has the right to give the names of the companies.

The Chairman: I take that to be a fact. If not, Mr. Long could say otherwise.

Mr. Long: This question was asked at the last meeting, Mr. Cullen, and I stated that it was not the policy of the Auditor General to release any names On the other hand, the Auditor General is the servant of this Committee and in giving these names I would say that the Committee is taking the responsibility for asking that they be given.

Mr. Cullen: I disagree with that contention, because we could ask you to go out and commit murder and you would have to make a decision whether you could or could not do this in a legal sense.

Mr. Flemming: It would not be in 148 though.

Mr. Long: The Auditor General is dedicated to maximum disclosure of information to Parliament. My stand has always been that if the Committee takes it upon itself to instruct us to give certain information, then we are free to give it. This is my understanding.

The Chairman: All right. Proceed, Mr. Long.

Mr. Long: The 14 companies involved here are listed alphabetically and this is as we understood it at the time the audit note was written, Paragraph 148:

> American Motors (Canada) Ltd.—$3,049,000; Atlas Hoist and Body Incorporated—$1,000; Canadian Kenworth Ltd.,—$199,000.

• 1010

Mr. Leblanc (Laurier): Mr. Chairman, I was just wondering if this document could be photocopied for the members? We have a messenger who could go and photo it and then distribute the copies.

The Chairman: If it is the wish of the Committee. This will just take a moment, Mr. Long.

All right, proceed.

Mr. Long: Crane Carrier Canada Ltd. is an amount below $1,000 and I have not been giving below $1,000. It is $150.

> F.W.D. Corp. (Canada) Ltd.—$170,000; Ford Motor Co. of Canada Ltd.—$75,051,000; Hayes Mfg. Co. Ltd.—$265,000; International Harvester Co. of Canada Ltd.—$892,000; Milton Bus and Body Co.

Ltd.—$10,000; St. Johns Sheet-Metal Ltd.—$7,000; Sherbrooke Coach Mfg. Co.—$2,000; Sicard Inc.—$260,000; Welles Corp. Ltd.—$33,000; Wilson Motor Bodies—$22,000.

That is approximately $80 million in total.

Mr. Winch: Where is General Motors?

The Chairman: Mr. Labarge, would you like to say anything regarding these figures as suggested earlier?

Mr. Labarge: Mr. Hind will.

Mr. A. R. Hind (Assistant Deputy Minister, Customs): Mr. Chairman, there is only one amount on which I might comment and that has to do with the figure of very roughly $75 million that has been mentioned by Mr. Long as applicable to the Ford Motor Company. In actual fact, we have computed the Ford indebtedness only up to the end, I think, of 1966, and the total figure that we have for the failure there was $38,000,652 Now I believe—and I stand to be corrected if I am wrong, Mr. Long—that the Auditor General assumed that in failing for the following year, Ford's indebtedness would in all likelihood be an equal amount.

Mr. Gray: Do your records, sir, indicate that as far as...

Mr. Hind: Mr. Chairman, Mr. Long is talking about two years; I am talking about one year. My total figure comes up to $43.6 million, which we have confirmed and which is the amount mentioned in the Auditor General's Report on page 88, paragraph 3.

The Chairman: Just a minute. Maybe we can clear this up. Mr. Hind gave figures up to the end of what year?

Mr. Hind: I think it was the model year 1966.

The Chairman: Do you not have figures from that date on?

Mr. Hind: We have not computed the actual indebtedness, Mr. Chairman. We do know that the Company failed to meet the Canadian value added requirement. The reason we have not computed the amount is because the amount has been forgiven by Order in Council.

Mr. Winch: I would like to ask a question on that. I know all of us are going to be absolutely fair and get the information. On what basis was the recommendation made that in January of this year there was a remission or forgiveness of $80 million?

Mr. Hind: I think we would have to ask the Auditor General, Mr. Chairman, why this figure was mentioned. I doubt that National Revenue was responsible for this and just in case there is any misunderstanding, the Order in Council does not mention any amount at all as being forgiven. The Order in Council, as I understand it, simply sets out new rules under which the motor vehicle manufacturers can operate with a view to determining whether they meet the requirements of the new Order in Council or not. I repeat, there is no mention made of any figure in the Order in Council representing a remission.

• 1015

The Chairman: Mr. Hind, for the edification of the Committee, are you saying that the Department of National Revenue does not have up-to-date figures for this one particular Company and that you have figures that you could verify only up to 1966?

Mr. Hind: Mr. Chairman, this is not really what I intended to say. We have up-to-date figures, sir. We have not as yet used them to compute the actual amount owing.

The Chairman: Well, may I ask, do you agree with the amount of $75 million?

Mr. Hind: No, sir. I cannot say that, because we have not computed this last year.

The Chairman: Mr. Long, maybe you should take on from here.

Mr. Long: Mr. Chairman, the wording of the last sentence in Section 3 on page 88 is:

> As a result of failing to meet the requirements again in the succeeding period, this manufacturer now appears to owe in excess of $75 million.

We have from the Department the statement that the facts as stated in the draft audit note under this heading have been reviewed and appear to be correct. This is what...

Mr. Leblanc: Mr. Chairman, I asked for the actual figures. I did not ask for estimated figures.

The Chairman: Perhaps you should direct your question to Mr. Hind or Mr. Labarge.

Mr. Leblanc: Well, apparently they have a discrepancy of quite a few millions of dollars,

so I do not know who has the right figures now.

Mr. Labarge: Well, at the moment...

Mr. Leblanc: At the moment I would think that the Department itself might have the right figures because they are looking after this directly.

Mr. Long: Mr. Leblanc, as mentioned in our audit notes over the last three years, the big problem is that the Department has not been keeping track of what these companies owe. But nevertheless, when it was known they had failed, this amount was put in the report and this report was cleared with the Department before it was published.

Mr. Winch: Would you please read that again, where it was confirmed? I did not get what it said.

The Chairman: Mr. Winch, what are you asking?

Mr. Winch: Confirmation about what Mr. Long said. When it was submitted to the Department, as to their estimate.

The Chairman: Mr. Long.

Mr. Long: The Department's reply reads as follows...

The Chairman: What Department is this?

Mr. Long: The Department of National Revenue, Customs and Excise Division.

> The facts as stated in the draft audit note under this heading

and the heading is "Concessions made to motor vehicle manufacturers"

> have been reviewed and appear to be correct. The Assistant Deputy Minister of Customs has stated as follows:
>
> > "In our view everything possible is being done to interpret and administer the automotive program properly. In this context, the situation is watched closely at all times and where adjustments are necessary, steps are immediately taken to tighten the administration and to alter procedures.

The Chairman: Mr. Gray.

Mr. Gray: To clear up something in my own mind, I gather from what you said, Mr. Hind, that you have all the basic data on this matter. Is that right?

Mr. Hind: That is right. Yes, we have the basic data.

The Chairman: Mr. Gray, I wonder if he could explain what basic data means, for the edification of the Committee. I am not sure in my own mind. Are you?

Mr. Gray: I think I know what it means, but I have no objection to having it explained. It might help.

An hon. Member: I do not know either, so I would appreciate it.

Mr. Hind: Mr. Chairman, at the end of every year, each manufacturer is required to submit a statement to the Department of National Revenue, as well as to the Department of Industry, Trade and Commerce, outlining the results of its activities during that particular production year. This information is submitted to our Department. Our Department then sends our draw back officers into the offices of the various manufacturers to verify the correctness of the information furnished.

• 1020

This is the basic data that we have on file. As a result of this, we have indeed determined that while the company that has then named did indeed meet, in both years, the one requirement of the order, namely, the ratio requirement, they did, however, fail to meet the requirement as to Canadian value added.

Mr. Gray: When you say the company failed to meet the Canadian value added requirement, you are talking about the requirement as set out in the original Order in Council, I presume.

Mr. Hind: That is correct. The Order in Council, 1965, requires that a manufacturer in succeeding years must have at least the same amount of Canadian value added that it had in the base year ending July 31, 1964. In the case of the company in question, this was not accomplished.

Mr. Gray: So that your reference to "failure to meet the Canadian value added requirement" refers to the definition of the original Order in Council. I gather from what you say, therefore, that if you apply the definition in the amended Order in Council of January 1969, it may well be that this company will have met the requirements of the amended Order.

Mr. Hind: Mr. Chairman, I think perhaps it might be well for the Department of Industry, Trade and Commerce to answer this question as it is a very technical one. That department is responsible for the Order in Council and perhpas you might like Mr. McIntyre to say a word on this poiint.

Mr. Gray: That would be helpful.

The Chairman: Mr. Gray's question is: what has been the performance of this particular company since the new Order was amended in 1969?

Mr. Gray: I would also add a subquestion to it. In terms of actual increased investment and production in the period before the Order in Council but since the beginning of 1965, what had this company done?

The Chairman: Mr. McIntyre.

Mr. A. E. McIntyre (General Director, Mechanical Transport Branch, Department of Industry, Trade and Commerce): I think we must point out that in accordance with the objectives of the program which I already outlined, the government has encouraged changes in industry to upgrade our manufacturing technology and the skills of our workers in competitive efficiency. This company, with the full knowledge of the government, undertook a number of restructuring changes. In entering into the Agreement, it advised the government prior to the enactment of the Agreement that it was going to have difficulty in CVA.

Mr. Gray: Mr. McIntyre, may I interrupt for a minute. It was my understanding that the Canada-United States Automotive Products Agreement was between the governments of Canada and the United States and that the companies merely furnished information by way of some type of commitment.

Mr. McIntyre: That is right. Participating under the Agreement, then, would be a better term.

Mr. Gray: The companies themselves are not parties to the Automotive Agreement.

Mr. McIntyre: They are participating under the program arising from the Agreement. What I am trying to get across—my salient point is that the company came to the government before the fact and advised us of the difficulties that they were going to encounter because of certain restructuring that they had undertaken in accordance with the Drury "1 Plan". There is no question in my mind that the government agreed to judge the situation on the achievements the company was able to accomplish during the period. I think it important to point out that the company, in spite of its difficulties, generated sufficient additional Canadian content to account for what it was unable—and admitted it was going to be unable—to achieve in those two early years. It

• 1025

not only generated this but it met the total requirements placed upon it by the government of Canada. Over and above this considerable achievement, gentlemen, the company generated a further $200 million of Canadian content over the period referred to in the Auditor General's Report.

Mr. Gray: In addition to their goals and objectives.

Mr. McIntyre: The initial requirements of the government, yes.

Mr. Gray: You say over the period they met the initial requirements of the government?

Mr. McIntyre: And exceeded them by $200 million of Canadian content. Not output—output was higher than that, obviously. This is $200 million more than the price that was set by the government for duty-free entry of which every nickel and every dime was spent in Canada on true Canadian endeavour. Gentlemen, $200 represents a lot of good Canadian jobs—

An hon. Member: Two hundred million.

Mr. McIntyre: Two hundred million. What did I say?

An hon. Member: Two hundred dollars.

Mr. McIntyre: Two hundred dollars. Well, that represents a few jobs, too. Two hundred million dollars, though, certainly represents a lot of good Canadian jobs and good Canadian products and, in my opinion, good corporate Canadianship.

Mr. Gray: Do you have any figures that you can give us on several aspects such as increased investment in Canada by this particular company?

Mr. McIntyre: Mr. Chairman, I would prefer not to give this because it is really company confidential information which is given to the Department in confidence.

Mr. Gray: I will just state something which I think is a matter of public record as it has been published in the press. I have seen that in the city of Windsor alone, this company has built two new engine plants and the press reports have estimated the new investment in these alone at over $100 million.

The Chairman: We have three questioners here. Mr. Gray, have you finished, sir?

Mr. Gray: Yes. Thank you, Mr. Chairman.

The Chairman: Mr. Mazankowski, then Mr. Winch, then Mr. Bigg. Mr. Mazankowski.

Mr. Mazankowski: Along the line of the questioning that just took place, I would like to draw the Committee's attention to page 8 of the booklet that we were given the other day, Automotive Program Outline, where it is stated in the second paragraph:

> Because of the great importance of the program the Government has consulted closely with all interested parties. These include the motor vehicle producers, the component manufacturers and their associations, representatives of the trade unions and others in Canada. Discussions have also taken place with representatives of interested governments and arrangements have been made to consult within the framework of the G.A.T.T. All the views, suggestions and advice offered have been taken into careful account, and insofar as practicable have been incorporated in the new program.

From that it would appear that it is very evident that consultations took place between the auto manufacturers and the Governments before the Agreement was instituted and incorporated. If this is so, it must be fair to assume that all parties agreed to the conditions that were contained in the Agreement, such as levels of production, upgrading of facilities, etc., and along with these obligations, certain mutual benefits would be derived both to the country and to the automobile manufacturers. From the submissions that we received this morning it would appear that some companies, and in particular Ford Motor Company, have failed to live

• 1030

up to the responsibilities of this Agreement while being granted some very generous concessions. I would say that according to this, they have failed to live up to their responsibilities, and I think this is grossly unfair from a competitive aspect and from a taxpayer's aspect. I wonder if the gentleman representing the Department of Industry, Trade and Commerce would care to elaborate on this point?

The Chairman: Mr. Mazankowski, perhaps you might direct a question to him based on your observations. I prefer questions as much as possible.

Mr. Mazankowski: In his opinion, does he feel that the Agreement was lived up to and followed in so far as the Ford Motor Company is concerned? Or is this just a subsidy?

The Chairman: Mr. McIntyre.

Mr. McIntyre: Absolutely the company lived up to its obligations under the Agreement and far exceeded them. As to benefit to the national economy, there is no question in my mind that this company has done a fantastic job and one I think, gentlemen, you will find hard to equal in any other industry or company in Canada. Mr. Grey, you were involved when this was written. Perhaps Mr. Grey might answer.

The Chairman: No, I think Mr. Mazankowski has another question.

Mr. Mazankowski: We have just been told that the company had failed to live up to the requirement of the Canadian value added. You contend that they have lived up to their commitments, but the people from Department of National Revenue tell us that they had failed to live up to the Canadian value content.

The Chairman: Then probably the question should be: Did this particular company fail to live up to the Canadian value added commitment?

Mr. MacIntyre: In actually one of the nine conditions that it was required to meet it ran into these technical difficulties; and it had advised the government, prior to the announcement of the agreement in the House, that it was going to run into these difficulties.

The Chairman: I presume your answer is, Mr. MacIntyre, that they lived up to all the commitments except the one relative to Canadian value added. Is that correct?

Mr. MacIntyre: They ran into these difficulties in accordance with their projections, but they agreed to compensate for these difficulties by going out into the Canadian industry

and buying up Canadian value equivalent to what they were going to find difficult to produce under this one condition. Not only did they do it, gentlemen, but they did five and a half times this. This is the figure I was trying to give you.

The Chairman: I think we must clear this up, Mr. McIntyre. It is not quite clear.

Mr. Gray: Mr. Chairman, may I make a suggestion that might help solve the difficulty?

The Chairman: I have three further questioners, but proceed, Mr. Gray.

Mr. Gray: If I go on too long I know you will cut me off.

The Chairman: It is time they put the brakes on on that side!

Mr. Gray: What has been creating some confusion in the minds of all of us is that Mr. McIntyre is talking about what was actually accomplished in a practical, real-life way in terms of dollars and cents, increased investment, increased production, increased purchases of Canadian goods and increased employment of Canadians.

It would appear that what this particular company did not meet was the exact wording of the original definition in the original order in council, but so far as meeting the over-all objectives set for them by the Government of Canada for increasing production and employment, from what Mr. McIntyre has said they apparently not only met but exceeded these objectives, although they ended up doing it in a way somewhat different from what was spelled out in the original order in Council. Mr. McIntyre, have I analysed this correctly?

Mr. McIntyre: Yes, with one addition; that they did it completely above board. They informed the government fully of the difficulties they were going to get into.

The Chairman: Mr. Mazankowski?

Mr. Mazankowski: With all respect, if we are going to compare the physical gain—that is, employment and production facilities, and so on—I think it would be unfair for us just

• 1035

to look strictly at the one company. To draw a comparison perhaps we would have to have some of the comparable figures from General Motors, American Motors and the Chrysler Corporation.

Mr. Gray: That is right.

Mr. Mazankowski: I do not think that really answers my question at all.

The Chairman: Mr. Winch?

Mr. Winch: That is almost exactly the line that I was going to take. I am very interested in the information we have been getting, and in the information from Mr. McIntyre when asked questions by Mr. Gray and Mr. Mazankowski.

From that information it would appear that General Motors were able to meet all nine of the requirements of the original order in council. There was no forgiveness at all. I agree completely with Mr. Mazankowski, and I hope all do.

Could Mr. McIntyre now give us the situation of General Motors in meeting their requirements in relation to the new plants, or the refabrication, or the additional jobs? I think this would be very interesting—and only fair.

The Chairman: Mr. McIntyre?

Mr. McIntyre: To answer Mr. Winch's question, I really believe the industry has done very well under the agreement. I would be prepared to make such a comparison, but I am not prepared to do so this morning. I would like to ssek advice on whether, in so doing, I would be giving information on a company which has not been named in some way. I must confess I am a little apprehensive—

Mr. Winch: Mr. Chairman, I can understand that, but I hope Mr. McIntyre also understands that it ought seem a little peculiar if, on a company which receives up to $75 million, as anticipated, we get an explanation of what they did and why this occurred, while on another major company, that meets all requirements, we do not.

The Chairman: Have you finished, Mr. Winch?

Mr. Winch: Yes; that was my point.

The Chairman: Mr. Bigg?

Mr. Bigg: As I understand it, what we are trying to find out here is whether these companies lived up to a very specific agreement,

which involved a lack of revenue to the Canadian government of some $75 million.

I do not think you can have it both ways. If the company, under the first Drury plan, were going ahead formulating plans which ended up with $200 million more business for the Canadian people, I would presume that whether or not we had had this tax agreement under this specific item we might have had that same number of jobs.

I think we should try to keep the thinking straight on this. It seems to me that you do not suddenly change your whole plant at Windsor or Oakville around on a moment's notice. These plans are no doubt long-term plans, and the Canadian industry has been benefiting from the automotive industry over a period of years. To go back previous to 1965 and say, "These were all in the plans, and since then we have had $200 million more business"—we know that; but I think we would have had it anyway.

The Chairman: Mr. Bigg, will you ask your question?

Mr. Bigg: What loss did the small Canadian industries suffer, in total, to offset the $75 million—or at least the benefit from the large companies which produced the $200 million worth of Canadian business?

The Chairman: Mr. McIntyre?

Mr. McIntyre: As I understand the question, absolutely none. I would say they all benefited.

The Chairman: Mr. Bigg?

Mr. Bigg: Perhaps I am asking the wrong question.

The Chairman: Perhaps you could make your question just a little clearer. I was not too sure of it myself. Perhaps you could reword it.

• 1040

Mr. Bigg: It is my understanding that several small industries in Canada have had to close down because of the automotive agreement. Therefore, there has been a great loss of small jobs in small companies, which would offset the $200 million figure which has just been mentioned. I would like to know what would be the net result to Canadian industry.

The Chairman: I think Mr. McIntyre has answered that question with his figures on the increases in employment and trade balance, and so on; so I think the over-all answer to that was given, Mr. Bigg.

Mr. Winch: May I ask a supplementary? It will not take one second.

Mr. Bigg: May I take it, then, that the Canadian industry has suffered no loss from this international agreement?

The Chairman: I think that is in the field of policy, Mr. Bigg. We are really more in the field of administration. I would have to rule that out of order.

Mr. Winch: When Mr. McIntyre considers the information we would like to have, if he can give it, on General Motors, would he also do the same thing on Chrysler?

The Chairman: All right. Yes, Mr. Lefebvre?

Mr. Lefebvre: Mr. Chairman, may I get the answer to this question: How is it that one of the major corporations is involved and GM is not? Can we get that information?

The Chairman: Yes. Mr. McIntyre, I think, intimated that he would give us some information.

Mr. Gray: Mr. Rod Grey, the Assistant Deputy Minister of Finance, is one of the principal draftsmen of the original documents and he was on the scene possibly before Mr. McIntyre. Perhaps he could join with Mr. McIntyre in attempting to answer the questions.

The Chairman: I would be glad to hear Mr. Rod Grey from the Department of Finance. We are happy to have him here this morning.

Mr. Lefebvre: Perhaps he could give us some idea why the other major companies, especially GM are not here. I think this is what Mr. Winch has been referring to.

Mr. Winch: And with a comparison of the benefits accrued.

The Chairman: All right, Mr. Grey.

Mr. Rod Grey (Assistant Deputy Minister, Department of Finance): Mr. Chairman, I would prefer to give a fairly technical answer in answer to Mr. Winch's question. When we drafted the original tariff order, we were trying to draft a general provision which would take account of a very wide variety of production plans. At that time, as the letters tabled in the House made clear, the Ford

Company apparently were going to export a great deal of Canadian content in the form of parts. Despite that we decided that the Canadian value added in the order would refer to value added in Canadian vehicles and would not include exported parts. If we had made an opposite decision, bearing in mind that this program was continually under review and we were aware that we could, after the fact, tailor the legal provisions to meet the circumstances of different companies, and had decided to count value added and exported parts, I do not think this issue would have arisen because it would have then been clear that the Ford Company would have vastly exceeded its requirements.

The question of General Motors not requiring a remission and the Ford Company requiring a remission arises entirely out of the decision to not count content in parts exported as Canadian content. I think that was a decision made primarily by the draftsmen at the time.

Mr. Lefebvre: Does this affect the Chrysler Corporation in the same manner as it affects GM?

Mr. Grey: We will have to look at our records more closely. It is clear, I think, from the figures given by Mr. Long that the one company which failed to meet its value added requirement because of this technical requirement in the original order was the Ford Company. We will have to get our records organized in order to present the precise position of Chrysler to the Committee.

Mr. Lefebvre: As a result of this there has been a change made, so that if this happens again Ford will not be implicated. Is that correct?

Mr. McIntyre: No, this is not so. The remission order has an effect only until July 31 of last year. Every company is now operating under the original conditions which I described earlier.

The Chairman: Mr. Flemming.

• 1045

Mr. Flemming: Mr. Chairman, perhaps I am leaving an interesting angle for something more mundane, and my question is to Mr. Hind. I want to clear up an uncertainty that exists in my mind. In the last paragraph of the Auditor General's Report on page 88, and toward the latter part of No. 3, these words appear:

> ...The Department has since estimated the receivable at $38.6 million. As a result of failing to meet the requirements again in the succeeding period, this manufacturer now appears to owe in excess of $75 million.

If the Department has estimated that the $38.6 million was to be added to the $43.6 million, then I would like to have an answer from Mr. Hind as to how they arrived at the estimated amount of $38.6 million if they had not done any auditing of these books for that particular year.

Mr. Hind: Mr. Chairman, I touched on this point before. While it is true that the Auditor General's report says the Department has since estimated the receivable at $38.6 million, I have made some inquiries and am told by the Department of National Revenue, that this is not an estimate of the Department of National Revenue; that this is an assumption by the Auditor General that the Ford Company, failing in the second year, would fail by the same amount as they failed during the first year. You will note that the amount of duty owing is precisely the same for the two years. We can only vouch for the failure in the year 1966, and I am told by our officers that the Auditor General's officers indeed assumed that Ford, having failed in the second year, 1967, would fail by the same amount. But we have not checked that out, sir.

Mr. Winch: Mr. Chairman, on a point of order—and I say point of order, because I know that we do not want to have conflicting evidence—did we not understand a little while ago that Mr. Long read from a letter from the Department of Revenue saying that they basically confirmed the estimate? I understood you to say just now, sir, that you did not make it but you did confirm it?

Mr. Hind: Mr. Chairman, I have not seen this letter that Mr. Long cites here. Therefore, I do not know what we were alleged to have been confirming.

The Chairman: Just a minute. In order to clear things up we will have to ask who wrote the letter from which Mr. Long quoted.

Mr. Hind: Mr. Chairman, I have no doubt that there is a letter from the Department of National Revenue but what I am saying is that I do not know at this moment what the

Auditor General was asking the Department of National Revenue to confirm, whether or not it was asking the Department of National Revenue to confirm that the amount of $38.6 million was a fair estimate of the amount that would be owing for the second year.

Mr. R. C. Labarge (Deputy Minister, Customs and Excise, Department of National Revenue): Mr. Chairman, on looking at this correspondence everybody seems to be dealing with such words as "possible" or "it would appear", and since it was all a question of being "possible" and "appearing" on the part of both the Auditor General's staff and our own, I think they were just agreeing with each other that it was "possible" and that it "appeared". I do not think there was anything factual in either of the statements.

The Chairman: Mr. Flemming, you have the floor.

Mr. Flemming: Mr. Hind, do you disagree with the estimate as being a realtively fair estimate which you would make if you were acting in the Auditor General's Department?

• 1050

Mr. Hind: I really cannot answer that, Mr. Chairman, because it would all depend upon Ford production in the second period, the amount of value that they purchased in Canada, the amount of value that they imported from abroad. I really cannot say whether that is fair or not. It might be more; it might be less.

Mr. Flemming: I appreciate that point. I would like to know what Mr. Long has to say as a basis for the estimate of $38.6 million which, after all, when added to the original amount totals something over $80 million.

The Chairman: Both Mr. Long and Mr. Laroche are here, and Mr. Laroche is Director General who looks after that department. Mr. Long, would you like to answer that?

Mr. Long: Mr. Chairman, I would like to reject any suggestion that there is any assumption in the report. The figures in the report were in fact cleared with the Department.

In connection with the figure of $43.6 million the Department does show in their accounts receivable in the public accounts something we had nothing to do with the formation of, and they say that not included in the above is a contingent receivable estimated at $43.6 million for duties and taxes resulting from failure to meet the requirements of the law in connection with the importation of motor vehicles and motor vehicle parts. This has particular reference to the automotive programs.

The Chairman: Mr. Flemming?

Mr. Flemming: My question really had more to do with the $38.6 million than with the $43 million. My point is where did Mr. Long get the information about the $38.6 million.

Mr. Long: The $43.5 million included a list of items which made up slightly over a page, one item of which is $38.6 million for the period August 1, 1965, to July 31, 1966.

The Chairman: Where do those figures come from, the Department of Industry or the Department of National Revenue?

Mr. Long: These figures came to us in a letter from the Department of National Revenue dated July 24, 1968.

The Chairman: Does that answer the question? Mr. Flemming asked about the verification of the $38.6 million. Perhaps you would like to add to that, Mr. Hind.

Mr. Hind: Mr. Chairman, we freely admit that the $38.6 million is included in the $43 million. Mr. Long read that out to us this morning. However, that was for the production year ending 1966. It is my understanding, and please correct me if I am wrong, that the Auditor General has gone beyond that and said it would appear that Ford Motor Co. of Canada Ltd. has failed a subsequent year, namely, 1967, and it is estimated that the amount of the failure will be about the same as the amount for 1966.

An hon. Member: When will we know?

Mr. Hind: We can certainly get on with this and I would think we could come up with an approximation for you within perhaps a week or ten days. I may say it is a rather colossal job. It is very demanding.

The Chairman: Mr. Winch?

Mr. Winch: But you believe you can do it in a week or ten days?

Mr. Hind: I would hope so, Mr. Chairman.

The Chairman: Mr. Leblanc and then...

Mr. Leblanc (Laurier): That question was asked previously when the other departments

were here. When you prepare the draft of your report, to whom is it submitted in the various departments?

Mr. Long: It is submitted to the deputy minister of each department.

Mr. Leblanc (Laurier): Whatever is printed there is the way it was submitted to the Department?

Mr. Long: Yes, sir.

Mr. Leblanc (Laurier): How is it that when that draft was submitted to the Department you let it go in the way it was drafted? You now seem to be inclined to say that it is not entirely in agreement with your figures in the Department. This is what troubles me, and we had that situation before with the production department.

The Chairman: And National Defence as well.

Mr. Leblanc (Laurier): Yes, National Defence, when we studied the *Bonaventure* and the hydrofoil affair. I cannot understand this.

The Chairman: We will ask Mr. Long and then Mr. Labarge.

Mr. Long: Mr. Leblanc, in the case of the Department of National Defence, the explanation was that this had been done verbally because of the close proximity of our staff there. Of course, this has been changed since that happened. In this particular case it was done in writing.

• 1055

Mr. Leblanc (Laurier): You submit your report in writing and if you do not get an answer, of course, you print it as it was drafted and submitted to the Department.

Mr. Long: That is right.

Mr. Leblanc (Laurier): And if you get an answer, you study the answer is to see if you have to amend your report or not.

Mr. Long: That is right.

The Chairman: Mr. Gray?

Mr. Gray: Mr. Chairman, may I ask a supplementary question? Mr. Long, are you obliged to change your report on the basis of the comment from the Department? Can you say, "We do not agree", and go ahead and publish your report in the way you see fit? You have no legal...

Mr. Long: The Auditor General would publish his report in the way he sees fit but he would be very careful not to have a misstatement in it. The purpose in clearing with the Department is to make sure that Parliament is not miseld by a misstatement in the Auditor General's report. We do everything we possibly can to see that that does not happen.

Mr. Gray: But you are a human being like everybody else.

Mr. Long: But if the Department pointed out that we had made a mistake in the report we would change it.

The Chairman: Mr. Leblanc asked a question which has been partially answered. Mr. Long has given his version and I think Mr. Labarge of National Revenue should speak to it.

Mr. Labarge: Do you wish me to speak?

The Chairman: Yes. Mr. Labarge, Mr. Leblanc brought up the matter of the Auditor General sending a statement to you as a deputy minister to the effect that this is what is going to appear in the Auditor General's Report and asking if you agree with it. If not, please advise before it goes to print. The facts are now in this report and it would appear that perhaps they are being disputed.

Mr. Labarge: I think there is a question of time involved here. Time passes during the exchange of correspondence between the Auditor General and ourselves and, as I indicated to you before, the words that are in here are "estimated", "possible" and "appears". What do you say to a thing like that when you do not have a direct contradiction? This could appear and it could be possible, but the only time we could verify it and say whether it is right or wrong is when the time comes for a complete audit. In this case we knew there was going to be a failure but the audit has to be pursued to arrive at something that does not "appear" but something that is. If I may put it this way, it now appears that it might not be what it appeared to be before. That is about the situation.

The Chairman: I think we will have to adjourn at this point, gentlemen. We will meet next on Tuesday at 9.30 a.m.

Mr. Gray: May I ask Mr. Rod Grey a question so I can understand his answer?

The Chairman: All right. Mr. Gray has a question for Mr. Grey.

Mr. Gray: We are really back to the way you told us the original order was drafted. Do I understand that the new order was issued to in effect take into account the fact that the Ford Motor Co. of Canada, and possibly other companies as well, had in fact purchased additional Canadian content but in the form of parts rather than of vehicles?

Mr. Grey: Mr. Chairman, the answer is that if the Ford Motor Co. had chosen to export their Canadian content in the form of assembled vehicles they would not have required a remission, but since they chose to export the amount of Canadian content which Mr. McIntyre has indicated...

An hon. Member: That was their doing.

Mr. Grey: That was their decision.

The Chairman: And they knew about this at the time they went into it.

Mr. Grey: And the government knew about it.

The Chairman: And the Ford people knew as well.

Mr. Grey: Yes. That is a matter of public record, Mr. Chairman. I think that is just a footnote to my earlier observation that because we defined Canadian value as value in vehicles rather than in parts exported that this technical problem arose.

The Chairman: I would like the steering committee to meet for a few minutes outside the room because another committee is coming in here.

The meeting is adjourned.

The Queen's Printer, Ottawa, 1969

HOUSE OF COMMONS

First Session—Twenty-eighth Parliament

1968-69

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: Mr. A. D. HALES

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 44

TUESDAY, JUNE 17, 1969

Public Accounts, Volumes I, II and III (1966, 1967 and 1968)
Reports of the Auditor General to the House of Commons
(1966, 1967 and 1968)

WITNESSES:

(*See Minutes of Proceedings*)

20571—1

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. A. D. Hales

Vice-Chairman: Mr. T. Lefebvre

and Messrs.

Bigg,	[3] Jerome,	Rodrigue,
Cafik,	Harding,	[2] Roy (*Timmins*),
Crouse,	Leblanc (*Laurier*),	Tétrault,
Cullen,	Major,	Thomas (*Maisonneuve*),
Flemming,	Mazankowski,	Winch—(20).
[1] Gray,	Noble,	
Guay (*Levis*),	Noël,	

(Quorum 11)

Edouard Thomas,
Clerk of the Committee.

Pursuant to Standing Order 65(4)(*b*),

[1] Mr. Gray replaced Mr. Gilbault on June 10, 1969.

[2] Mr. Roy (*Timmins*) replaced Mr. Boulanger on June 12, 1969.

[3] Mr. Jerome replaced Mr. Roy (*Timmins*) on June 17, 1969.

MINUTES OF PROCEEDINGS

TUESDAY, June 17, 1969.
(49)

The Standing Committee on Public Accounts met this day at 11.04 a.m., the Chairman, Mr. A. D. Hales, presiding.

Members present: Messrs. Bigg, Cullen, Gray, Guay (*Lévis*), Hales, Harding, Jerome, Lefebvre, Major, Mazankowski, Noble, Noël, Rodrigue, Winch—(14).

Witnesses: Hon. J. L. Pepin, Minister of Industry, Trade and Commerce; Mr. R. C. Labarge, Deputy Minister (Customs and Excise), Department of National Revenue; Mr. R. Y. Grey, Assistant Deputy Minister, International Programmes, Tariffs and Trade Policy, Department of Finance; Mr. G. R. Long, Assistant Auditor General; Mr. E. A. McIntyre, Director General, Mechanical Transport Branch, Department of Industry, Trade and Commerce.

The Committee questioned the Minister of Industry, Trade and Commerce concerning his statement to the members at this meeting.

The Committee agreed to accept a copy of a letter from the Minister of Industry dated March 1, 1965 as an appendix to this day's Proceedings. (*See Appendix T*).

The Committee questioned the witnesses concerning paragraph 148 of the Auditor General's Report (1968)—Concessions made to motor vehicle manufacturers.

At 1.04 p.m., the Committee adjourned to the call of the Chair.

Edouard Thomas,
Clerk of the Committee.

20571—1½

EVIDENCE

(Recorded by Electronic Apparatus)

Tuesday, June 17, 1969.

• 1104

The Chairman: Gentlemen, at our last meeting on the suggestion of the Committee, and further study by your Steering Committee, it was decided to invite the Minister of Industry, Trade and Commerce, The Honourable Jean-Luc Pepin. At great inconvenience to himself, with great effort and a heavy schedule, he has managed to come this morning. That was the reason why we changed the hour from 9:30 a.m. to 11:00 a.m. In view of the fact that he had made other arrangements for next Thursday's meeting, we thought it would be best to continue on the discussion of Paragraph 148 in the Auditor General's Report, dealing with the remission of the duties to car manufacturers. I think we will

• 1105

hear from the Minister at this point. I understand he has a statement to make; after that, we will open the meeting to questions. Mr. Pepin.

Hon. Jean-Luc Pepin, (Minister of Industry, Trade and Commerce): Mr. Chairman, it is with great pleasure that I am here. If I was reluctant to come today, it was not because I did not wish to appear before the Committee; however, today I have a meeting with the advisory council to my Department. I always make it a point to spend the day with them, because if you are going to have an advisory council, the first condition is that you should be there, so they can rely on you. However, I am here, and it is a pleasure.

I have two statements to make, one pertaining to the automobile program, the other to tariff administration. Will you kindly bear with me while I read these statements. I may comment a bit as I go along.

The first one is on the automobile program:

The Canada-United States Automotive Products Agreement provides for the removal of tariffs and other impediments to trade between the two countries in motor vehicles and motor vehicle parts.

Article 1—and I am going to return to fundamentals because I think it is very useful to return to these basic principles in order to judge the circumstances we have before us.

Article 1 of the Agreement provides that the two Governments, pursuant to the principles of the Agreement, shall seek the early achievement of certain objectives. I am going to read them:

> "(a) The creation of a broader market for automotive products within which the full benefits of specialization and large-scale production can be achieved;

This is the first objective, specialization and large-scale production.

> (b) The liberalization of Canadian and United States automotive trade in respect of tariff barriers and other factors tending to impede it, with a view to enabling the industries of both countries to participate on a fair and equitable basis in the expanding total market of the two countries;

I am quite sure that there can be a lengthy discussion on what is fair and equitable. One thing that is for sure is that this is a free trade agreement, and agreement to eliminate duty and tariff barriers between two countries. In other words, free trade is the principle. Tariff is the exception. I think this is one of the fundamental things to bear in mind. The third objective:

> (c) The development of conditions in which market forces may operate effectively to attain the most economic pattern of investment, production and trade.

I am going to maintain, in a few minutes, that in my view this has not yet been achieved. This is one of the three objectives towards which we are striving.

> It shall be the policy of each Government to avoid actions which would frustrate the achievement of these objectives."

In other words, governments should try to eliminate difficulties not to create them. These three objectives and one comment, in my way

• 1110

of thinking, are really fundamental: specialization and large scale production; elimination of tariff barriers; expansion on a fair and equitable basis; the most economic pattern of investment, production and trade, and no action to frustrate achievement of these objectives.

Under Article 2 of the Agreement, each country agrees to accord duty free treatment to the imports of the other country.

This is basically a free trade agreement and, as such, it does not anticipate collection of duties by either country, and none have been paid. However, both Canada and the United States established conditions which are contained in the text of the Agreement as a means to control and to serve as a measure of protection for their separate industries.

In other words, the two countries would not embark totally on the free trade road; they would both establish conditions under which this free trade agreement would operate.

One of the conditions established by Canada for this purpose pertains to the definition of a manufacturer. In particular, this definition requires the company to continue producing motor vehicles at its 1964 level in terms of value and in terms of Canadian content. That is a Canadian condition. We wanted to protect ourselves by establishing the 1964 level as a floor under which the companies could not go; in other words, the cellar is excluded.

This condition was established by Canada to ensure that in the process of rationalization, our industry would not become smaller than it was in 1964.

However, that particular condition is not sufficient by itself, because it does not give any assurance of expansion by the Canadian industry within the North American market created by the Agreement. In other words, this floor was not judged sufficient and further conditions were brought forward. I am going to come back in a few seconds to these further conditions.

It was found, however, that in 1964, Canada produced about 4 per cent and consumed approximately 7½ per cent of the North American motor vehicle production, and that this differential of 3½ per cent represented many hundreds of millions of dollars of value. Therefore, in pursuing the "fair and equitable market" participation objective of the Agreement, it was reasonable to assume that the minimum level of Canadian production should be such as to narrow this gap to the greatest possible extent. Again, we may have different views on the speed at which the gap is being narrowed, but nevertheless I am stating there, the intentions of the Agreement.

In view of the higher manufacturing costs of operations in Canada and the institutional barriers to the Canadian companies participation in the United States market, it was unlikely that the industrial growth considered necessary to reach that level of production would be achieved automatically.

The Government, therefore, entered into a more comprehensive agreement with each of the motor vehicle companies, presently some 60 in number, which placed greater obligations upon them than provided for under the international agreement.

This is the next round of conditions. The separate agreements with the companies require these companies to increase the Canadian content of their production beyond the 1964 levels, proportionate to their annual growth in the Canadian market in each of the succeeding years, and also to achieve a particular level by the end of the 1968 model year. I am not going to go into that because this has already been done. These additional conditions placed heavy short term obligations upon the companies which anticipated a very rapid and substantial restructuring of their manufacturing operations.

It was not intended to make life easy for the companies, but neither was it intended to make life unbearable for them. I think this is the light in which we have to look at that. There is an expression in English "cutting your nose in spite of your face" or something like that; well, this is it: we did not want to cut our face in spite of our nose, or our nose in spite of our face; I am always getting mixed up with English axioms. There must be a French equivalent somewhere.

• 1115

It was recognized, Mr. Chairman, and understood at the outset that in several cases

the companies could not achieve this overall obligation placed upon them without encountering some difficulties in respect of some of the specific conditions. In these situations, which were freely discussed with the companies as they developed, as they existed at the beginning, the Government indicated that it would be prepared to evaluate the companies on the basis of their overall performance and to give consideration to any particular situation that might arise, provided performance was adequate.

In other words the government said, "We will be intelligent about it." Troubles were expected and it was said at the beginning that the government would constantly bear in mind the objectives of the Agreement. It seems to me that this is the rational approach to this thing. You do not want to be formalistic; you do not want to go against the real objective because of a temporary situation that may not meet all the criteria at a specific time. Again, I make the strongest possible plea for an understanding of the objectives. This is why I have quoted them at length in my first minutes of testimony.

A review at the end of the 1968 period—Mr. Hales is familiar with this because he has asked a few questions on it—indicated that the companies in question had performed satisfactorily and, in the main, fully satisfied the requirements placed upon them. In most instances they were found to have over-performed. They were therefore considered to have incurred no liability to the Crown.

Let me review rapidly the results that have been achieved. I know you have been through that, but we are now in the mood.

The results to date of agreements with the companies have been gratifying. I understand that the Committee has been supplied with considerable information concerning the over-all arrangement, information which includes pertinent official statistics on the industry for the years 1964 through 1968. From this information you may clearly note the reversal of the chronic trend from importing to producing more of the automotive products Canada consumes. This reversal began with the implementation of the Agreement in 1965 and has progressively improved the domestic situation through the year 1968.

It should be noted by everyone that our automotive industry has responded very positively to the challenge of the new opportunities made available to them by the Agreement. Motor vehicle production has increased during this period, 65 to 68, by 76 per cent from 671,000 annually to an exces of 1 million units; that is vehicle production. The value of factory shipment of parts has increased 71 per cent from $628 million to over $1 billion. Two-way trade between the two countries has increased from about $818 million annually to approximately $5.3 billion and is continuing to increase. Within this trade our exports have increased by 2,365 per cent from $99 million at the beginning to $2.5 billion now.

It may also be noted from these official statistics that the monthly average employment within the automotive industry has increased by 21 per cent which represents approximately 15,000 new jobs.

• 1120

Employment has also increased in industry supplementing the motor car industry. Some textile plants for example have benefited from this Automotive Agreement. Information from industries associations is even more enthusiastic, it indicates that employment in the industry is currently running around 100,000 and that there are an estimated equivalent number of jobs in the material and service industries which supply automotive manufacturers. There are different ways of calculating this. Some say it is one to one, some say it has created five jobs for every one job. I have no specialized opinion to offer on this subject.

Information on new factory construction and equipment which has come to my attention reflects 100 new plants and 185 expanded factories representing new capital investment variously estimated at $850 million to $1 billion from 1965 to 1968.

There is no practical basis of determining the increased national and provincial revenue which has been generated by this over-all increase in economic activity but, on the most conservative basis, one may assume that it has been substantial. Indeed, it would be many times the tariff revenue that would have been created without the Agreement. I repeat—many times the tariff revenue that would have been created without the Agreement.

Spectacular as the growth of the automotive industry has been it has served to reduce the differential between production and con-

sumption only by about 1½ per cent. There is every reason to believe that our industry can and will do considerably better than this. There is a lot of room for improvement still.

I am happy to inform you that the growth experienced so far is continuing at a satisfactory rate and that substantial restructuring is in process; however, the industry will need many more millions of dollars in investment and a great deal more employment to achieve the objectives of the Agreement, the realization of which objective will require obviously the fullest co-operation between industry and government. I underline that.

In view of the continuing need for restructuring in the industry it should be clearly understood that problems in some industries in particular—particular problems in some industries, if you want to be more complete—will continue to arise in the operation and administration of the program. We have had difficulties in the past and there is nothing to tell us that similar or new types of difficulties will not come up in the future. Such problems will, as in the past, require to be resolved through the exercise of good judgment, with the objectives of the Agreement always in mind.

I might at this point underline that in order to cope with these difficulties you have to have full co-operation between government and industry and you have to have the kind of information, if I may be completely blunt, that is not possible to give to the press on an every day basis. You cannot do that because some of this information is within the propriety of the particular industry. They give it to the departments of government because of a tradition of respect for the secrecy of the information, and I dare say that this is essential. One may disagree, philosophically, one may think on the basis of democracy that the whole thing should be put on the public platform on an every day basis, but I dare say that this is not possible because you would impair the success of the program if the committee, the public or the press should require this kind of information. I think I have the reputation for being rather informative, but I do not think that I would go to that extent because I think that this would be against the objective of the Agreement itself. It has been demonstrated rather recently that a bit of "in camera" might be useful

Let me talk about Ford now. I say bluntly that I have only praise for the Ford Motor Company which has been identified and singled out for attention by the Public Accounts Committee. In keeping with the co-operative spirit of the industry, Ford made a great and immediate effort to adjust and to rationalize its Canadian operations and produce on a much larger scale to supply the larger market open to it by the agreement. Being on the verge of modifying its engine factory in Windsor it was faced with the necessity of substantially changing its plans on an impractical basis and at great cost to meet the new conditions which had suddenly been established by the Agreement, or alternatively, to seek a modification of the new conditions on a short term basis. In other words, they had a choice to go back or to request from the government a comprehension for the particular situation in which the industry had been put. I did not go into the details of that but there was a previous Drury Plan, Drury 1, and under Drury 1 Ford had made a number of the decisions that were partly contradicted by the new approach taken by the govern-

• 1125

ment and implemented in the Agreement. This alternative was explained to the Government by the Company. The company outlined in a letter from Mr. Scott, the President of Ford, to the then Minister of Industry, Mr. Drury, which was tabled in the House on April 26, 1965, that dismantling and re-equipping its engine factory to supply the North American market would reduce its "in-vehicle content". So they told the government that what they had started to do would reduce their "in-vehicle content". Mr. Ford proposed to make this up by the purchase of an equivalent Canadian content from independent Canadian suppliers. So it seems to me, again, that the spirit, the objectives, of the Agreement were respected because independent suppliers would benefit from what Ford could not do at that time.

Mr. Scott and the Minister of Industry reached an understanding that the company should proceed with its plans as outlined and that the company's performance would be evaluated on an over-all basis in considering whether it had earned its duty free imports, and the company was so informed in writing on March 1, 1965.

Mr. Chairman, you may want me to read this letter at this point. I am disposed to table it after I have read it.

The Chairman: I would suggest you read it and then table it.

Mr. Pepin: I will read it and then I will table it. It was written by Mr. Drury and dated March 1, 1965.

> Dear Mr. Scott:
>
> I refer to your letter of January 14, 1965 in which you inform me of Ford's plan to invest $50 million to increase production in Canada of automotive engines.

You have the first letter so I will not go into that. The important paragraph is the following one:

> You point out that this new investment will result in a substantial increase in the Canadian value added in Ford's production. You mention that because a portion of the new engine production will be shipped to your parent company, this may decrease your company's direct contribution to Canadian value added in vehicle assembly. You state, however, that in the event Ford's contribution to Canadian value added in vehicle assembly should fall below the level attained in model year 1964, that not only will Ford's purchases from independent vendors be maintained at least at the level of model year 1964, but that Ford will also increase its purchases from independent vendors by the amount of shortfall in Canadian value added in Ford's vehicle production.
>
> In the event that the foregoing situation should develop, I am confident that the Government will give sympathetic consideration to Ford's problem and to your request that Ford should not be disqualified from the benefits of the automotive program.

The Chairman: Mr. Pepin, would you prefer to continue your brief, or would you want to accept questions at this time?

Mr. Pepin: I think I should develop the whole thing first.

The Chairman: Is it agreed that this be tabled as an Appendix?

Some hon. Members: Agreed.

(See appendix attached)

Mr. Pepin: So the Ford Company, in my view, and I hope in your view too, has acted openly, honestly and quite sincerely through Mr. Scott and his executives in all its dealings with the Government on this matter. The company met its obligation, did indeed offset its shortfall of "in-vehicle content" and also generated an additional $200 million Canadian content. This represents new production over and above the company's promise and includes considerable new employment that would not otherwise have developed.

• 1130

In evaluating the performance of other companies, which have been identified by the Committee, whose problems were also made known to the Government as they emerged, the same judgment was exercised and none were found wanting. Indeed, the over-performance of some of these companies, while not of the same magnitude, is also outstanding and a credit to their management and workers.

The success of the Automotive Program in bringing about a substantial increase in economic activity has been clearly established and is unquestionable. With the continued cooperation of the kind the Government has experienced from the management and the workers of the automotive industry, the industry's contribution to the national economy and the welfare of its workers should be assured.

However, it is essential that no one be left with the impression that an industry of this size can be restructured and our objectives achieved in as little as 4½ years. There is a long and hard road ahead and it is important that we continue to take action to encourage investment, expansion, trade and employment.

Really what I have been making is a plea for flexibility, and a plea also that this flexibility is essential if the government and the Canadians want to realize the true objectives of the agreement.

Mr. Chairman, the other one is on tariff administration. Please bear with me for another few minutes. I know that you have good questions to ask.

The Chairman: No, I leave those to the Committee.

Mr. Pepin: The second statement is one made by me, but it covers mostly other departments.

I am informed by my colleague, the Minister of Finance, who is responsible for tariff

policy, that he does not accept the opinion of the Auditor General that there is need to deviate from the long standing administrative practice now applicable to the Automotive Program.

The Auditor General, in his 1968 Report, referred in Section 148 to concessions made to motor vehicle manufacturers, and in his comments raised a general question about tariff administration. He has chosen to single out in his report the particular tariff provision which pertains to the Canada-United States Automotive Products Agreement.

My contention is that had we selected others, I would not be here today.

This provision allows duty free entry of certain goods to motor vehicle manufacturers if they meet specified conditions.

Tariff provisions or techniques of this sort have been a feature of the Canadian tariff for many decades; there are many items contained in Schedule A of the customs tariff, which provides for free or reduced rates of duty for goods when used for particular purposes, which the Government wishes to encourage.

I am told by my honorable colleague, the Minister of National Revenue, that his department has long followed the practice of allowing an importer who claims that he will

• 1135

use the goods for the specified purpose to import them under these "end use" tariff items. Such importations are subject to investigation to determine that the goods have been used for the intended purpose. In other words, there are many cases where a similar procedure is followed.

The Auditor General's report—and I want to say that the Auditor General is a great friend of mine, and I am not resenting him; I am resenting what he is saying. It is not a personal question. The Auditor General's Report fails to indicate why he has chosen to comment on this technique in respect of this particular tariff item rather than on one or more of the many other items. Of course, the sums theoretically involved are large, but it is the practice which is being questioned. The practice is not new nor is it unique to the Automotive Agreement. In cases where the Government considers that the duty should be collected, and refunded only when it is established that the goods have been used for the purpose specified, provision is made for drawback of the duties under Schedule B of the Customs Tariff.

In other words, had the Agreement intended this be done in a different way, there was a provision under the tariff system to collect the money when the imports were brought into Canada. In other words, the people who negotiated this Agreement knew the tariff system and had they wanted to do it differently they had the necessary information and the necessary instrumentation to do it differently.

The Auditor General's criticism of the administration of the provision pertaining to the Automotive Agreement implies that it should be operated under a drawback arrangement rather than an "end use" provision. In addition, in his 1967 Report on the same matter, the Auditor General expressed the opinion that Canada is not obligated to permit duty free importation by any manufacturer.

In making these comments the Auditor General has failed to observe that the provisions in question are based upon an international duty free trade agreement which does not anticipate import duties, and which would not be operable if such duties were collected in the manner suggested. It could be argued really that collection of duty would be contrary to the agreement.

A second aspect of tariff administrative practice, criticized by implication in the Auditor General's 1968 Report, pertains specifically to the automotive industry. In this respect the Report states "...in the past, the concept that duties and taxes be paid at time of importation, with penalties provided if payment was deferred, has been inherent in the Customs Act and the Customs Tariff". This is, unfortunately, not so. I say "unfortunately", not because I disagree with the system, but unfortunately because the statement there is not a factual one.

Since 1936, when conditional duty free entry provisions were introduced in conjunction with the so-called "Commonwealth Content" arrangement, the Department of National Revenue has allowed motor vehicle manufacturers to import free of duty automotive parts covered by the arrangements, subject to subsequent proof that the content provisions have been satisfied. The Auditor General does not identify any particular feature of the present automotive arrangement to distinguish it in this regard from the previous program which should require different adminis-

tration. In other words, he has not said why this one should be implemented differently from the way a similar type of program has been implemented since 1936.

The fact is that the Department of National Revenue has continued the same administration under the present automotive arrangement as it practiced under the "Commonwealth Content" provisions. There has been no reason to depart from long-established, tried and proven practice. The adoption of a procedure of collecting duty subject to refund after proof of satisfying conditions for duty-free entry would mean collecting a very great amount of tax for which no liability would exist. If such a procedure had been considered by the Government to have been appropriate in this circumstance as I said before, provision would have been made for drawback of the duties under Schedule B of the Customs Tariff.

The Government does not accept the position taken by the Auditor General in these particular matters.

The Chairman: Thank you Mr. Pepin. What procedure would you like to follow, gentlemen? Do you wish to ask questions now, or do you wish to hear from any of the other witnesses we have before us?

[*Interpretation*]

• 1140

Mr. Noël: Mr. Chairman, I would ask Mr. Pepin if the Auditor General had access or could have access to this letter from Mr. Scott of the Ford Motor Company?

Mr. Pepin: The first letter from Mr. Scott to Mr. Drury was tabled in the House on the date I mentioned in my short speech.

Mr. Noël: I have forgotten the date, Mr. Minister.

[*English*]

The Chairman: Mr. Noel, you were asking what day the letter from Mr. Drury to Mr. Scott was tabled. The date of the letter was March 1. When was it tabled in the House?

Mr. Pepin: Yes. You are referring to the letter from Mr. Scott to Mr. Drury which was tabled in the House of Commons on April 26, 1965.

[*Interpretation*]

Mr. Noël: So this way, the Auditor General must have been aware that there were negociations between the federal government and the Ford Company?

Mr. Pepin: What I do not know, to be frank, is whether the Auditor General was aware of the answer given by Mr. Drury to Mr. Scott. I read this answer this morning. Maybe the Chairman could ask this to the Auditor General.

[*English*]

The Chairman: Mr. Noël, I would suggest that you direct your question to Mr. Long, the Assistant Auditor General.

[*Interpretation*]

Mr. Noël: Mr. Long, you must no doubt have been aware of this letter and of the answer from Mr. Drury.

[*English*]

Mr. G. R. Long (Assistant Auditor General): Yes, Mr. Noël, we were aware of that correspondence. We have copies of it.

[*Interpretation*]

Mr. Noël: So being aware of these negotiations which the witness mentioned before, objective, intelligent negotiations requiring sound judgment, I think we could have studied a little bit more deeply, as I mentioned the other day, the complexities of the problem before stating in the report something that is almost an insult to the Ford Company, and which the newspapers have headlined of late.

Is it not true that he could have used this information and asked for fresh explanations before proceeding to the writing of the Auditor General's report? I cannot understand how you could have split those two functions in such a categorical manner. Here we have just had explanations on the way this very complex problem was handled. We had very clear explanations. Now, we have a report here which seems to be limited to the letter of the law without taking into account the objectives and the spirit of the law which has been recognized by all the negotiations since 1965.

My question aims at correcting the impression made by the Auditor General's Reports since 1966, 1967 and 1968 and the comments made by certain members of the Committee may have allowed to slip into the press and spread among the public at large. I would like to correct this unfortunate impression that the government has not administered its budget properly.

[*English*]

The Chairman: Mr. Noël, before Mr. Long answers your question, I would think that

you and the members of the Committee would want to know if the Department of National Revenue also had a copy of that letter. Mr. Labarge.

Mr. R. C. Labarge (Deputy Minister, Customs and Excise, Department of National Revenue): Yes.

The Chairman: So the communications were complete between all departments. All right, Mr. Long.

Mr. Long: Mr. Noël, I would point out that the Auditor General did not single out the Ford Motor Company. The Ford Motor Company was not mentioned in the note. In the letter the Minister uses these words:

• 1145

> In the event that the foregoing situation should develop, I am confident that the Government will give sympathetic consideration to Ford's problem and to your request that Ford should not be disqualified from the benefits of the automotive program.

Ford did indicate that they might not be able to qualify under the definition of manufacturer but after this was stated, there was no change made in the law which is the tariff order passed by the Governor in Council. That tariff order defines "manufacturer" and I rather think this is unique. This is not talking about end use of imports. This is talking about the definition of people who are entitled to import duty free. The tariff order defines "manufacturer" as somebody who qualifies by meeting certain conditions. The reason reference is made to the possibility that duties should be collected and later refunded is that you cannot tell who qualifies until they have the years completed. In order to get around this, there was devised a certificate that the manufacturer would give saying that he would qualify. The wording of this certificate is spelled out in the Order in Council but on looking at these certificates, we find that the motor companies, in sending them in, varied the wording and therefore we know of no authority for a department to accept any variation in the wording of certificates. There was nothing done about the failures which took place until January 1969. Had remissions been made promptly as soon as it was known, had it been determined promptly after the end of the production year that there had been failure and that it was the intention to relieve the particular manufacturer, the Ford Motor Company, of its obligations under the law, the note would have had quite a different tone to it. It may still have been mentioned but certainly it could not have been said that anybody owed anything, but they did under the law owe the moneys that had been stated in the report at the time the reports were written.

The Chairman: Mr. Noël.

[Interpretation]

Mr. Noël: Mr. Chairman, this is the interpretation of the Auditor General. This is why we should have a somewhat fuller interpretation from the Department of Justice. There seems to be a conflict here between the Department of National Revenue, the Department of Industry and Commerce and the Auditor General, and we will never clear this up unless this question is settled.

Since 1936, as the witness said, the Government has applied in a very broad manner the import tariffs on new materials used in products made in Canada, and it was not required immediately that the customs duties be paid. In the 1966, 1967 and 1968 reports, the Auditor General insisted several times to say that the tariffs have not been paid and that we should proceed by drawbacks.

I think that this is a very complex question that cannot be settled in front of newspapermen who will interpret it this way and that, and inform the public in a way which is not fair either to the Government, the Company, or the Auditor General. This is my answer.

Mr. Pepin: There are two aspects to this question you have stressed. The first one is the way of collecting taxes. That is the first subject.

Mr. Noël: That is right.

Mr. Pepin: And my second statement applied to this first subject.

And there is also the second problem, i.e. the application of the Canada—United States Agreement on Automotive products to the situation which applies to a certain number of companies which have not formally fulfilled, in a temporary way, because of certain provisional difficulties, certain conditions of this agreement. So, there are two aspects.

Maybe Mr. Grey would like to make some comments on the first aspect "the application of the tariffs".

[*English*]

Mr. Grey, would you like to say something on that particular subject?

• 1150

Mr. Rod Grey (Assistant Deputy Minister, (Customs) Department of Finance): Mr. Chairman, I think the Minister really did cover very fully the questions about tariff administrative practice. The only additional point that I think needs to be made in spite of Mr. Long's comment is that his distinction between the very complex certification procedures under the Tariff Order relating to the automotive program and the end use provision is really, I think, a difference of form and not of substance or, if you like, a distinction without a difference. I think that the Minister's comments really go to the heart of the matter and that Mr. Long has missed the point.

Mr. Long: Mr. Chairman, first I would like to say that this interpretation is not the Auditor General's interpretation. It is the interpretation of the Department of National Revenue, with whom there has been no dispute, that when the conditions of the Order were not met, the duties and taxes were owing. The Department was reluctant to go through the work of setting these up because they felt that they probably were going to be remitted, but the remission is something that is the responsibility of the Governor in Council and I do not think any of the staff of the government or even individual ministers can commit the Governor in Council to this. Mr. Drury was very careful to do this. I would say that the Department of National Revenue did set up and show amounts as being receivable.

Mr. Pepin: It seems to me, Mr. Chairman, that it might be a good idea if Mr. MacIntyre, who is in charge of the administration of this program, would comment on the difficulties and on the time it takes to assess all these things.

The Chairman: I am just wondering, in view of the fact that Mr. Long mentioned the Department of National Revenue, if they should answer to this observation or if Mr. MacIntyre should.

Mr. Pepin: You are right. It is a different subject.

The Chairman: Mr. Labarge, since Mr. Long mentioned your Department, you might have some observations here.

Mr. R. C. Labarge (Deputy Minister (Customs and Excise) Department of National Revenue): In view of the result that we produce in the review of the item and the very limited, almost single criterion that is in the tariff, I would ask Mr. Grey, of the Department of Finance, to elaborate on what we do with the information we have received and why we do it.

The Chairman: I think the Committee realizes that the Department of National Revenue is responsible for the collection of the money and the administration and that you take your orders from other departments. Mr. Grey, of the Department of Finance.

Mr. Grey: Mr. Chairman, I think the point that perhaps has not emerged is that it has been the practice of the Department of National Revenue, as soon as they complete the audit and have arrived at the view that a particular manufacturer has not met the qualifications set out in the Tariff Order, that that is brought to the attention of the Deputy Minister of Finance by the Deputy Minister of National Revenue, with all the information that is necessary.

It will be appreciated, Mr. Chairman, that the Tariff Order is drafted in such a way that if a company misses by, let us say, 50 cents of value added in vehicles, they are liable for the whole amount of the duty. Therefore, the Deputy Minister of National Revenue has followed the procedure of drawing the attention of the Deputy Minister of Finance, who would be responsible for advising the Minister of Finance whether or not there should be a recommendation to the Treasury Board concerning a possible Order in Council under Section 22 of the Financial Administration Act. The Deputy Minister of National Revenue has followed the practice of notifying us so that a judgment can be made and ministers can be advised whether the failure to qualify under the Motor Vehicle Tariff Order is such as to require the collection of the duties or whether, as in the case of the Ford Motor Company, the objectives of the agreement have been met and overmet in some

• 1155

other way. I do not suppose the Auditor General is inclined that if the Ford Motor Company had fallen short by 50 cents, we should have collected all the duty; that would be legally correct, but in substance it would be nonsense as an exercise policy. I think that

the Department of National Revenue has notified us very meticulously and very promptly as soon as their audit has been completed with respect to every company involved in the automotive program and the Minister of Finance has then taken counsel with his colleagues as to what action should be taken. The action taken, I think, has been outlined by the Minister quite adequately, Mr. Chairman.

The Chairman: May I just ask at this point why this was not brought to the attention of the Auditor General in the 1967 report when he made some observations on the same matter?

Mr. Grey: Mr. Chairman, the Auditor General has access to our files and we had assumed that he was quite aware of these matters.

The Chairman: Mr. Winch, then Mr. Bigg.

Mr. Winch: Mr. Chairman, I know we all appreciate the information given us by the Minister and I have a number of questions, although I am certain it is clear.

When you and the Minister of Finance recommended P.C. 1969-172, the wording of the introduction, which was dated at Government House on Tuesday, January 28, is correct where it says:

> His Excellency the Governor General in Council, on the recommendation of the Minister of Industry and the Minister of Finance, pursuant to section 22 of the Financial Administration Act and section 273 of the Customs Act, is pleased hereby to make the annexed Order Granting Remission on Certain Motor Vehicles, Parts and Accessories and Parts thereof.

Mr. Minister, this makes it very clear that, according to the law, whether it is by legislation or by Order in Council, certain automotive companies had not lived up to the wording of the law or the Order in Council, and that this was passed to remit moneys which would otherwise be owing. That is definite, it is not, sir?

Mr. Pepin: The word "remission" may not be a good word to qualify what we have in mind here. It may be "the" legal word that had to be used.

Mr. Winch: But it does mean the remitting of moneys which would have been due by automotive companies because, in part, they had not been able to meet the requirements. Is that correct?

Mr. Pepin: Technically, that is correct.

Mr. Winch: That being the case, Mr. Chairman, I would now like to ask the Minister—when he and the Minister of Finance made a policy decision to recommend to the Cabinet P.C. 1969-172—if they took into consideration the fact that one year prior to the automotive agreement—that would be 1964—the net profit of the Ford Motor Company was $7,-351,000, and that it climbed by seven times to $50,200,000 in 1968 resulting in the situation that the Ford Motor Company of Canada, which for years had paid a dividend of $5 a share, declared an extra dividend of $2.50 a share in the year 1968.

Was this considered in the policy decision?

The Chairman: Mr. Winch, just in case you might proceed along this line, I do not think it is a matter whether they made or lost money. We are dealing with the principle in the operation and administration here, so I will accept that now, but not if you mention it again.

Mr. Winch: I am sorry, sir, we are dealing with the company, its administration and its situation.

Mr. Pepin: The logical follow-up of what you are saying is that if the company loses money, we should encourage it to do so.

Mr. Winch: I am sorry, sir; I am speaking on the actual situation.

Mr. Pepin: The profits of companies do not enter in our assessment of the progress of the automobile agreement. I consider the contribution that Ford is making to the development of this industry in Canada. I look at

• 1200

what they have done in Windsor on the Ensite Engine Plant, and in Talbotville with respect to the assembly plant, the additional facility at Oakville, the further extensions they have in mind in Windsor. This is the sort of thing that I think should be borne in mind.

The Chairman: Mr. Winch.

Mr. Winch: Mr. Chairman, now I can move on, in view of the answer given by the Minister, to what the Ford Motor Company did. Can I now ask the Minister whether,

when he examined what the Ford Motor Company did from 1964 and with respect to the Automotive Agreement in 1965, he made a study of the Ford Motor Company relative to its own financial statement of total assets, fixed assets, depreciation reserve, capital stock and retained earnings?

Mr. Pepin: No, this is not the objective of the agreement.

Mr. Winch: Mr. Chairman, the Minister has mentioned what the Ford Motor Company did and what it resulted in, as a result of the Automotive Pact. Did you relate that to what their financial statement says they did?

Mr. Pepin: I have indicated some of the things that Ford has done. I relate that to the objective of the agreement: the creation of a broader market for automobile products, the liberalization of Canadian and United States automotive trade in respect of tariff barriers, a fair and equitable basis, and the development of conditions in which market forces may effectively operate. These are the sort of things to keep in mind.

Mr. Winch: Did you note that in 1964 the Ford Motor Company had total assets of $484 million and that the latest figures which are now available on this aspect is $696,566,000 in 1967. This indicates an increase by Ford on capital assets of some $200 million.

Fixed assets is the difference between total assets reducing what they have put in their depreciation reserves. Did you take note that from 1964 their fixed assets were $162,689,000 but in 1967, they were $276,911,000? In other words, their total assets went up approximately $200 million, but with what they put in their depreciation reserve their fixed assets only went up $100 million. Did you not make a study of this sort of thing?

Mr. Pepin: I have heard about it.

Mr. Winch: Did you also make a study of the fact that you were making a policy decision and that the Ford Motor Company of Canada have depreciated over $400 million on their installations in Canada? Did you? I think it is important.

Mr. Pepin: In this case I think that you will admit that Ford is the only company that is a public one and for which you have this...

Mr. Winch: I know, I did my damndest to get General Motors and Chrysler and you just cannot get it. All you can get is the United States.

Mr. Pepin: Again, I can only state that we judge these things and there might be other things in the automobile figures that you indicate there. Ford is a rather big company. We only assess the performance of the company in relation to the objectives of the agreement, and that I think is the only thing that can be asked for.

Mr. Winch: And so the fact, according to *The Financial Post Corporation Service* that in 1967 the Ford Motor Company had $301,-649,000 retained earnings did not mean a thing to you.

The Chairman: Mr. Winch, I think we are a little bit off the subject matter.

Mr. Winch: No sir, I think this completely ties in if we are going to study the policy statement.

Mr. Pepin: Whether or not Ford should be taxed more by the federal government, is another subject. We are now dealing with the automobile agreement.

Mr. Winch: I am dealing sir, with a remission of $75 million, in view of their financial picture.

The Chairman: Mr. Bigg and then Mr. Mazankowski.

Mr. Bigg: I understand that the law has, in fact, been broken. Am I correct in assuming that?

• 1205

Mr. Pepin: No.

Mr. Bigg: In other words, Ford was incapable of keeping the agreement to the letter of the law, and therefore because of their performance in Canadian industry, they have been allowed a financial adjustment. Is that right?

Mr. Pepin: In view of the fact that they have performed in a way which is in accordance with the objective of the agreement, they followed what they said to the Minister that they would have to do. They were also in agreement with the agreement, itself, which is one of free entry. This is one in which the imposition of tariffs is exceptional and in which the rule is free entry, the exception being for lack of performance and not the general principle.

Mr. Bigg: Yes. Are all companies treated exactly the same?

Mr. Pepin: Yes.

Mr. Bigg: In other words if General Motors created $200 million worth of new jobs and so forth, would they get the same treatment as Ford?

Mr. Pepin: Indeed.

Mr. Bigg: And did they in fact?

Mr. Pepin: Indeed. They did not have to be—I have to be careful with my words—dealt with specifically, in view of the fact that they met all the formal requirements.

Mr. Gray: But they got duty free entry as well, obviously.

Mr. Pepin: Yes.

The Chairman: Are you finished Mr. Bigg?

Mr. Pepin: One of the things is that they were in a different situation. I really laboured this aspect in order to show that Ford, at that time, was in a very special situation.

Mr. Bigg: There is just one other point I want to make and that is this. I detect, or think I detect, that in some respects the position of the government appear to be the devil's advocate. The Auditor General is the servant of this Committee and of the government.

The Chairman: A servant of Parliament.

Mr. Bigg: Because of his job he is the only access that we have to any type of records whatsoever which might indicate whether or not the taxpayer of Canada is getting a fair break.

Therefore, we think that because he takes any specific item it should never be considered, in any way, that he may be on a witch hunt or anything like that. He is merely taking an individual case to show us the type of thing that we should be looking for. Had we the time we would go into every record in the government, but we have not and therefore in our limited time we look at the apparent large abuses. On the surface we thought this $75 million item was one, and I am not entirely satisfied yet that the taxpayer is well protected. However, I would just like to say on his behalf that we are very, very proud of the impartial way in which he behaves. I think that it cannot be understood why he makes specific reference to the differerent items but I can say that, in this regard, he is acting for us. I cannot see any other way that he can do it.

Mr. Pepin: It never crossed my mind to criticize the Auditor General for doing his job. What I tried to demonstrate was that some very important elements were left out of the report.

The Chairman: Mr. Bigg, do you have another question?

Mr. Bigg: No, that is it.

The Chairman: Mr. Mazankowski.

Mr. Mazankowski: Thank you Mr. Chairman. I would like to direct this question to the Minister of Industry, Trade and Commerce.

This Auto Pact did have far reaching importance, in so far as the affects on the economy and the country and the manufacturer, in that before the implementation of this act there was certainly a great deal of consultation and discussion with all interested parties.

If this is so, Ford Motor Company would have been included in these discussions and I am wondering why, immediately after the signing of the agreement, they decided that they would not be in a position to live up to the letter of the Pact? If the government had decided to grant such a concession to Ford or to amend or alter some of the conditions to accommodate Ford, why then was an amendment not introduced to cover this?

An hon. Member: Why did it take four years?

Mr. Mazankowski: Why did it take four years, and why has this whole business been conducted so secretively?

• 1210

Mr. Pepin: It cannot be that secretive because the letters written by Ford were tabled in the House of Commons, which is not one way to keep it secret.

Mr. Mazankowski: Yes, but was it accepted? We have no information that this was accepted until we have seen the Order in Council.

Mr. Pepin: My understanding is that these points were brought forward by the Ford Motor Company at the time at which the

agreement was negotiated. It was not believed useful, I think you will agree, to make an exception in the agreement to cover the temporary situation of one company.

Mr. Mazankowski: How then would the Auditor General be able to assess this matter? He would have no choice other than to follow the law in accordance with the Act.

Mr. Pepin: They had access to the letter which was tabled in the House and presumably they have access to all the files which we hold in the Department.

Mr. Winch: But that did not amend the Act.

Mr. Pepin: It did not amend the Act either.

The Chairman: I think we should ask Mr. Long to explain this point. It is a very important one. Do you act according to letters that are in files, or do you act according to legislation? This is the point, I think. Or do you use both?

Mr. Long: The Committee will not have to think back too far to recall its examination of a certain paragraph on the *Bonaventure*. A subcommittee of this Committee discovered that what was written in the files apparently did not mean anything and most of the meaningful things had been verbal. Would this Committee want the Auditor General to take a letter from Ford Motor Company saying they could not qualify, and a letter from the Minister saying, "I think that the government will take this into consideration", as over-riding a tariff item which calls for payment of millions of dollars of duty? Would the Committee expect the Auditor General not to say anything in this case?

Mr. Gray: I think the Committee would expect the Auditor General to enquire of the Department of Industry as to what exactly was happening. It could have found out whether or not, in terms of real expansion of production and increase of jobs, the Company was meeting the objectives of the auto pact. Then it could have gone on and included something about this in its comments to this Committee.

The Chairman: Mr. Long, have you finished?

Mr. Long: Mr. Gray, the way this matter has been settled has been by remission. I do not know of any other way, outside of mending the tariff order, that it could have been settled. Why did it take so long for the remission to go through? This has been in the report for three years. We were after the Department to set up the account, to bill the Company. The President of Ford Motor Company now says this is the first he knew that the Company was supposed to have owed anything. Had the Department of National Revenue been billing him, he would have known and known promptly.

Mr. Gray: But by waiting until January, 1969, to pass the Order in Council amending the original definitions in the original order, the government was able to make certain that Ford Motor Company had not only met its original objectives with respect to increasing production, but in fact, had exceeded them. It would seem to me, speaking personally at least, that this was a very effective technique to ensure that as far as real-life production is concerned, that this had actually taken place, that the government, in effect, was not amending its original order relying solely on the letters, but was waiting to see, as did happen, that the Company in effect actually reached and exceeded the original objectives.

Mr. Winch: They had not yet audited last year's books.

Mr. Long: Mr. Chairman, if I understand Mr. Gray correctly, he is now agreeing that this amount was owing by the Ford Motor Company and the other companies up until this amending order was passed. Knowing that this amount was owing, surely he would agree that the Department of National Revenue should have had the exact amount shown on its books and should have been trying to collect in the meantime.

Mr. Gray: I am not sure I agree with that. I would like to know how much it would have cost the taxpayers with respect to hiring extra staff to process these entries which would be required to follow what you are suggesting and the additional paper work and overhead. I submit to you, Mr. Long, that if your suggestion had been followed you would be costing the taxpayer an extra $1 million a year for nothing.

The Chairman: Gentlemen, order. These

• 1215

across-the-table conversations must be addressed through the Chairman and I want

direct questions asked of the witnesses who are here.

Mr. Winch: Mr. Chairman, we may have lost $1 million but we would have collected $75 million too.

Mr. Gray: You would have to give it all back because the Company far exceeded its objectives in terms of production and employment.

The Chairman: Mr. Mazankowski has not finished his questioning.

Mr. Mazankowski: I would like to ask one more question of Mr. Long. Do you have covering letters granting similar special agreements with the other 13 companies that are involved in this remission, as we have had evidence in the case of Ford Motor Company?

Mr. Long: I cannot answer that at this particular time. The Ford Motor Company did have a special problem of which the Department was certainly well aware. The other companies I cannot say about offhand. I would have to check the files.

Mr. Mazankowski: Could you obtain that information?

The Chairman: Mr. Mazankowski, I think some of the departmental officials could say whether or not there were similar letters concerning the other 13 companies that received remissions.

Mr. A. E. McIntyre (General Director, Mechanical Transport Branch, Department of Industry, Trade and Commerce): The answer to the question, Mr. Mazankowski, is yes and no.

The Chairman: Mr. McIntyre, we will have to have a little more definite answer than that.

Mr. Mazankowski: For example, let us look at American Motors. Was there a similar agreement with American Motors?

The Chairman: The question is, was there a letter to American Motors similar to the one that is reported?

Mr. McIntyre: What is the question I am answering now, Mr. Chairman?

The Chairman: Mr. Mazankowski's question was whether American Motors received a letter from the Minister of Industry similar to the one Ford Motor Company received?

Mr. McIntyre: No, they did not. There is correspondence on file with American Motors, but there was no letter similar to the one that has been tabled today.

The Chairman: Was there another part to your question, Mr. Mazankowski?

Mr. Mazankowski: Insofar as the other companies are concerned, how did you go about deciding that these companies would be granted a remission similar to that of Ford Motor Company?

Mr. McIntyre: As I tried to explain, and I hope I did it successfully at the first meeting, the companies entered into the operation under the agreement in 1965 under certain conditions. One was the suddenness of it. It came in the middle of a production year, if you recall, which was January. It came upon them very suddenly. Secondly, they were caught, in some cases, because they were tied to the 1964 base year and if, indeed, they had been planning to do certain things under the Drury I Plan in 1964, this may have either helped them or hindered them, depending upon whether what they were trying to achieve was in line with the objectives of the new international agreement.

Thirdly, they found they had to take time to decide how best to adjust to the new agreement. I think any of you who are in business realize that big corporations do not make this type of decision quickly. They have to look into the situation and see how it shall be done.

We had anticipated in our discussions with many of the companies before the agreement was put into effect that there would indeed be difficulties. However, what was negotiated with the United States was an international agreement with a set of conditions. It was not possible, I do not think, to enter into the United States with an agreement for every company we had and also to project how that agreement could apply to every company that we would have in future years.

It was realized and accepted that there would be certain difficulties. In addition to that, particularly with the smaller companies, a number of problems arose which we had not anticipated. These, as I said, and I think it was said by the Minister this morning, were the basis of thorough discussion between the industries themselves and ourselves. I cannot overemphasize the communication that continually went on, and the visits

back and forth to try and explain the situation. What we tried to do was negotiate with these companies, and we did negotiate.

As the Minister has already said, this was

• 1220

not an easy situation. It was a difficult situation. I know of no other industry which in four years has grown as fast as this industry, in any country. If you know of one, I would be glad to hear about it. Frankly, we found ourselves with these fellows, and we negotiated with them and said: Now, look, if you fellows will endeavour to meet the objectives of this agreement in terms of employment and in terms of Canadian content. That was in many ways the crux of the thing. In other words, during this sudden change let us not upset the employment position. If, ideed, you have to keep something in place at the moment, in order to make your change more gradual so that you do not upset and throw workers out, we think this a good idea, so long as your long-range objective is to meet the objectives of the agreement. What we want from you, though, is some alternative in terms of Canadian content. If you cannot make it in your own plant while you are doing this restructuring—if you are having difficulty meeting your ratio, or things of this nature—go outside and buy it. This will help build up the technology in our industry and in our parts industry, and this is good.

This is how it was handled, Mr. Mazankowski, and this is the basic philosophy that was behind it—to try to protect the technological level and the size of the labour force we have in Canada.

Mr. Pepin: In other words, in the agreement you have two sections: you have the objectives and you have the methods to reach the objectives. In my thinking now, in 1969, there might have been other ways by which to reach these, but it was found that these objectives were palatable, were acceptable and were worthwhile.

But the method could not cover all situations in implementing the agreement. Still, we pay more importance to the objectives than to the actual implementation, on an every day basis. You know, you might have had other criteria in the agreement. I think this was the only way to go about it.

Mr. Mazankowski: I just have one further question, and I would like to direct it to Mr. Long.

In view of the submissions that have been made by the Minister and Mr. McIntyre, and the flexibility of the administration and the application, as written in the Act, would he now take a different approach to the tariffs, as he pointed out in the Auditor General's Report in 1967 and 1968?

Mr. Long: Mr. Chairman, I do not see how the Auditor General could take any different approach. I would submit, notwithstanding what has been said, that it is not the Auditor General who would cause money to be spent keeping records. This was called for by the tariff agreement, as the conditions were set up. If there is no intention that these conditions be carried out, this is a matter of policy.

Mr. Pepin: You are not quite following what I was saying, sir. The conditions are there. They have been implemented in most cases, and over-all in all cases. But in this industry, as in any others, it has been necessary for the government to take into consideration particular, temporary situations. But the critera have been fully implemented.

Mr. Chairman, if you do not mind, explanation might be given about why it took "somebody else" so long to assess the situation and come to this order.

Mr. Grey: Mr. Chairman, Mr. Long did ask one question which has not been answered, namely, why did it take so long to pass the Order in Council, which has been referred to, after the facts were established? As I think I made clear, the Department of National Revenue notified the Department of Industry, as it was then, and the Department of Finance as soon as they had completed their audit. The delay has not occurred in the Department of National Revenue.

The reason for its taking so long was really largely technical. The original tariff order is probably the most complicated provision in the Canadian Tariff. It was drafted to try to envisage a wide variety of industrial and commercial circumstances.

Considering that the great majority of Canadian producers did, in fact, fit within the complicated legal provisions, I think we did a reasonably good job, but there were these cases of companies, such as Ford, which overperformed in substance and yet did not quite meet the precise legal terms.

We could have drafted individual Orders in Council, sorting out the problem of each individual company when Mr. Labarge

reported to us that it did not qualify under the precise terms of the order. These could have been done very promptly, and there would then have been a series of orders. We made the decision—perhaps incorrectly—that we would have a general order which, for the years in question, would have the effect of revising the original tariff order. That took a very long time to draft.

Perhaps, with the benefit of hind sight, we could have acted with greater despatch, but we could not have done it in this general way. We would have had a long series of individual orders related to the affairs of particular corporations. We decided—perhaps wrongly—that it would be better to proceed by a general order. And the second most complicated provision in the Canadian Tariff is the order which amended the original order. Thank you, Mr. Chairman.

The Chairman: Mr. Bigg?

Mr. Bigg: Are all companies now advised to do the same thing?

The Chairman: The answer is yes.

Mr. Bigg: Will it be enforced without the intervention of the Minister?

Mr. Pepin: It will be enforced in the same way as it has been in the past, that is, with a desire to accomplish the objectives and with a willingness to consider every situation on its face value and constantly to take into account the objectives of the agreement in making a decision on a specific situation.

Mr. Bigg: Might I suggest that the Minister issue to these companies a warning that if they do not comply with the law they cannot expect too much...

Mr. Pepin: Again, this comes back to the expression "cutting off your nose to spite your face." You must bear in mind that the department has constant communication with these industries. I saw them all last year, and I have seen five or six this year. There is a constant list, and we meet them regularly to find out how they are doing, what kinds of problems they are experiencing, what they would like to be able to do, what they intend to do, when they intend to do it and how they intend to do it, and so on. This, in my view, is the only way. You have to have some flexibility, otherwise you are depriving yourself of advantages that are the very objective of the agreement.

Mr. Bigg: Mr. Minister, we will back you up if you enforce the law of Canada.

The Chairman: Mr. Grey, you spoke about the Order in Council. Are you considering proposing certain amendments, or changes, to it now that we have had this experience?

Mr. Grey: Mr. Chairman, I think it is almost a self-evident proposition that the original tariff order, which sets out very complicated conditions relating to a particular base year, becomes increasingly out of date. At some point in the future it will be necessary to revise that order and establish a new tariff provision. I think that time is approaching very quickly, but obviously it will require discussion with the United States and very elaborate discussion with all the companies that participate under the program. I would not suggest that we are going to be able to do it very quickly, if we are going to do it well.

Mr. Winch: I have a supplementary. In view of what Mr. Grey has just said, would you contemplate any change before the completion of the audit of the 250 companies which have not yet been seen? If my memory is correct, I think approximately 250 have not yet been audited.

The Chairman: Yes; parts manufacturers.

Mr. Labarge: I think I mentioned something which, interpretated another way, would have meant "peanuts", because we indicated, in the case of these companies, that they are not only smaller but are highly indoctrinated in their performance and their records. We follow up with an audit, and I think we have audited well over 250, and are perhaps approaching 300 and something now. We have found very little by way of error—perhaps less error than in many companies in other of our Canadian industries.

Mr. Winch: May I just follow that up by asking this question: On the major items now with Ford, before this Order in Council was passed you had not concluded your last audit of the Ford Company, had you? Is that not the one on which you promised us that perhaps in another two weeks...?

• 1230

Mr. Labarge: We got all mixed up in the years we are taling about in the book, because they are somewhat historical. Time marches on and we are marching with it and

I wanted to find out where we stood on the road at the time you mentioned.

The Chairman: Mr. Labarge, I would like to ask this question. Have you ever given or would you give consideration to making the car manufacturers post a bond so that if they did not meet their commitments they may be more prompt in getting their returns in to you, and so on?

Mr. Labarge: We do not do this with other free entries.

The Chairman: You do it with other types of...

Mr. Labarge: We do it where duty is owing that will be payable within two or three days—for instance, rushing perishable goods through when the documents are not yet ready. They have a period of three days or so, but on the whole we are not giving credit in this case, and where we have bonds in other cases it is for security reasons.

The Chairman: If a company did not fulfil its commitments, and was eligible for duties or if they went bankrupt or something, then security is involved, Mr. Labarge.

Mr. Labarge: No, I am talking about security in the case of highly dutiable, excisable products. We have bonds for intermediaries who are handling a number of accounts such as the customs brokers, because it is an accumulative and separate responsibility because of the intermediary from that, following or bearing upon the ultimate importer. As a result, the intermediary is handling money for a lot of people. However, there is no provision for a bond in the case of free entry.

The Chairman: Are there any other questions?

Mr. Long before we adjourn, I think you should assure the Committee that you have the right information or the amendments to the legislation, or what have you, to perform your duties as the Auditor. I think the Committee wants to know what has to be done so that you work according to the Order in Council.

Mr. Long: Mr. Chairman, I think we have obtained all of the information that we have required. I am interested in whether or not the Committee and the other witnesses here agree that prior to the remission order these duties were owing under the law. Our only point is that with amounts of this size—indeed, with any amounts—you must keep track of these things, and you must try to collect them. There is no authority for deferring collection of duties.

The Chairman: Then, Mr. Labarge, as administrator of the Act we put the question to you: were these amounts owing to the Crown before the remission was made?

Mr. Labarge: I think the Minister covered this fairly completely. In an earlier statement I think I said that we have one of several criteria and we know, as officials, that these criteria will be taken into consideration. When we see that the criteria laid down in the tariff item have not been met, we do not take the attitude that the other criteria and the adjustments made with the industry to meet the objectives are not going to overweigh this failure which could be, as we say, a minor one up to a fairly large one depending on the circumstances of the particular company.

At that point, unless it is being suggested we say, "Here is your bill, but please pay no attention to it until it has been looked at by the government and the other negotiations which you have carried out with the government are considered in the light of the automotive objectives," sending a bill with that kind of thing is rather ludicrous.

• 1235

Mr. Winch: Can I ask one supplementary? I always try to be fair, but I also want to be sure. Are you saying, or have you just said, that it is not your responsibility to enforce tariff and customs as laid down by law or Order in Council and that you can foresee what the government may or may not do a few years hence? Do you get my point, Mr. Deputy Minister?

Mr. Labarge: Oh, yes.

Mr. Winch: I do not feel it is your responsibility that you have to collect customs and tariffs as laid down by law.

Mr. Labarge: I have no feelings in this matter, but Mr. Grey says he would like to answer this point.

Some hon. Member: Do not be afraid, we will not let them fire you.

Mr. Grey: Mr. Chairman. If it had been the intention that the duty should be collected

and then refunded only when it had been established that the conditions had been met, then the item would not have appeared in Schedule A but in Schedule B of the customs tariff which provides for precisely that procedure.

Just before you spoke, sir, Mr. Long observed that there was no authority for the non-collection of the duty prior to establishing whether or not the conditions have been met. As Mr. Pepin pointed out, that procedure—which Mr. Long says there is no authority for and I cannot say that in the Department we accept his view—applies for, I would suspect, hundreds of items in the customs tariff.

Many of them are approved by Parliament and this is the first time it has been suggested that all these be treated in a different manner.

That is a very serious point and I think I can assure the Committee, Mr. Chairman, that the implication of Mr. Long's observation will be regarded very carefully by the Department of Finance which is responsible for advising the Minister of Finance whether he should recommend to Parliament or to Council that an item should appear in Schedule B or Schedule A.

Mr. Grey: I think that until we have considered it, it would be difficult for me to take it any further.

The Chairman: Mr. Long.

Mr. Long: Might I just clarify this point? If I appeared to be referring to the collection before failure had been determined, this was not what I intended. I am referring to failure to meet the terms of the Motor Vehicle Order which had been determined. Our point was that at that time, the order had not been met, and that it was up to the Department to proceed to collect the duties which thereby became payable, because the companies were not manufacturers under the order under which they were ordering free of duty.

Now, I would like to have the Committee give us some guidance on one other thing. Should the Auditor General accept the opinions of officials, anticipating what the Governor in Council might do by way of remission? Can we possibly take those into consideration?

The Chairman: Mr. Gray has a question, and then Mr. Lefebvre.

Mr. Gray (Windsor West): Mr. Chairman, I gathered from what Mr. Long is saying that the Auditor General has now substantially modified the position he originally took and stated in the Auditor General's Report on page 89:

> ... we believe that all duties and taxes should be collected at the time of importation...

and that the government was not obliged to permit this type of duty free importation. It would appear from what Mr. Long has said that he is not holding to this original contention because, I presume, it has been rather effectively demonstrated that the government is, in fact, obligated under the automotive agreement to permit this type of duty free entry and, contrary to what is again suggested in the report, that the concept of paying duties and taxes at time of importation being inherent in the Customs Act there are dozens, if not hundreds, of other examples of duty free entries of items for end use purposes.

I do not know whether it has been brought out here, but the original Commonwealth Contents Provisions, beginning in 1936 if I am not mistaken, provided for duty free entry of parts destined for an end use in the automotive industry.

• 1240

The Chairman: Mr. Long.

Mr. Long: Mr. Chairman, I have not intended to modify in any way what has been said. The paragraph referred to by Mr. Gray is one subparagraph in quite a long paragraph dealing with a very complicated subject.

It was inherent in the Customs Act that duties be paid at time of importation, but there was an amendment to the act after we first drew this to attention which now permits importations without payment of duty.

Mr. Gray (Windsor West): What year was that? Was it 1965?

Mr. Long: This was contained in my statement to the Committee at the last meeting. I will have to locate it in that statement.

The Chairman: You may proceed. We will find it, Mr. Gray.

Mr. Gray (Windsor West): If the amendment was made prior to the presentation to Parliament and if this paragraph was in the

report, then the report failed to take that into account.

Mr. Long: It was mentioned in one of our reports somewhere that an amendment was made in the act.

The Chairman: I have the following names, Mr. Lefebvre and then Mr. Bigg.

Mr. Lefebvre: I just want to make a small comment on what Mr. Long said. I think it is the duty of the Auditor General's office—Mr. Henderson, Mr. Long and their staff—to bring this to the attention of the Committee as they have done. It is up to the Committee after studying Item 148 of this report which we have been doing for the last two or three meetings and after hearing the various witnesses from the department concerned and the hon. Minister this morning, to make up its mind on whether or not we are in agreement with what was done in this particular case. From what I have heard this morning, I think there will be a consensus that in this particular case we are in agreement with what the government did. However, I emphasize that it is up to the Auditor General's office to continue to bring this sort of thing to the attention of this Committee and it is up to us to dig into the facts. Mr. Long was correct when he said he has to observe the letter of the law. It is up to the elected officials, including the members of this Committee, to make up their minds on whether or not they are in agreement with the actions taken.

The Chairman: Mr. Guay on a supplementary.

[*Interpretation*]

Mr. Guay (Lévis): To add to what Mr. Lefebvre has just said, I would like to ask the following question of Mr. Long. Could the Auditor General's Report have been different has it been drafted this morning after having heard what the Minister and the witnesses have said, and which, as Mr. Lefebvre just said, seemed very clear and specific? In fact, the letter of the law has not been respected, but it does not seem that anything very reprehensible can be held against the companies or the Government. I think that the Committee is unanimous in saying that the letter of the law has been respected. Now, could the Auditor General have written the same recommendation or note into his report following the testimony we have heard this morning? In so far as I am concerned, it is very clear in the evidence we have heard this morning.

[*English*]

The Chairman: Mr. Long, do you have any observations here? If not, I will call on Mr. Bigg.

Mr. Long: Mr. Chairman, the contents of the report would have been different had it been written after January 1969 when the remission took place because from that day on there was no money owing. The contents might have been different because recognition would be given to anything taking place before this Committee, but I would suggest, Mr. Chairman, that the Auditor General cannot undertake to set out his understanding of government policy in his report. This would make a terrific document and I think we would be open to accusation all over the place that we were misrepresenting it. I do not think the report would be any different now except for the remission that took place and the proceedings that have taken place before the Public Accounts Committee.

Mr. Gray (Windsor West): But, Mr. Long, were you not making comments on policy in your report in those paragraphs where you said what the system of the Customs Act was supposed to be and when you said that you think all the duty should be collected at the time of importation?

Mr. Long: The report was aimed at the Department of National Revenue for not recording the amount of duties that were accruing as a possible debt due to the Crown.

• 1245

You come back to that one paragraph, again, where we did point out that for the proper protection of the revenue, accounts should be paid when the goods enter Canada. It is obviously very difficult to collect $75 million after a year's business has gone by. There would not have been the same difficulty had the duty been paid and then refunded when the conditions of the order were met.

Mr. Gray (Windsor West): Then you would not have had the auto pact and the 15,000 additional jobs.

The Chairman: Mr. Guay has a supplementary and then Mr. Bigg.

[*Interpretation*]

Mr. Guay (Lévis): If I have understood Mr. Long's answer, he said that in fact the content of the report could have been different. Now, the question I want to ask is the following. I wonder whether the Auditor General, when he wrote his report could have access to all the information we have this morning.

Was it available? Did he make an inquiry, did he try to obtain all the information that we got this morning, before writing a report?

[*English*]

The Chairman: Mr. Long.

Mr. Long: Mr. Chairman, the Auditor General, I think, with the exception of the explanations that have been given of the things that were desired to be accomplished with the auto pact, did have access to any of the other information—documentary information.

Mr. Pepin: If I may make a comment, Mr. Chairman, it was fairly obvious by the letter Mr. Drury exchanged with the Ford corporation that the government intended to have some flexibility in the implementation of the agreement. You might have been generous and referred to that in your report in order not to create the impression that the funds were misallocated.

Mr. Long: Mr. Chairman, if we have created the impression that funds were misallocated, I apologize, but I do not think we created that impression. All we said was that the Department of National Revenue was not keeping track of what was owing and was not trying to collect what was owing. I still have not heard whether the Committee thinks this amount was, in fact, owing before the remission order went through last January.

Mr. Pepin: As far as Ford was concerned, it was fairly obvious from the beginning from the correspondence to which you had access that the government intended to take into account the factors brought into the conversation.

The Chairman: As far as the other companies are concerned, they may owe the money. Would that be a fair statement?

Mr. Pepin: Technically, I think there is no doubt about it. It all depends on whether you are trying to develop the Canadian automobile industry or whether you are trying to hamper its development.

The Chairman: We have a situation here where 14 companies owed money which you have stated that technically they did and, I think, Mr. Labarge would say that, too. While one company was given remission because it had a letter, the others never had any letter, so why did we not collect the money from the other 13?

Mr. Pepin: Because it might have killed a few.

The Chairman: I know, but here is the problem. We operate by Orders in Council and legislation passed by elected members in the House of Commons. Fourteen people owed money and we said that one of them should be forgiven because he wrote a letter. However, the other 13 did not write any letters, but we let them off, too. Why did we not collect from the other 13 companies?

Mr. R. Grey: Mr. Chairman, I wonder if I could answer that question. I would like to reiterate, because to my mind it is an important point, that as soon as the Department of National Revenue completes their audit and establishes if any company under the program, technically, is liable for the duty, it is drawn to the attention of the Deputy Minister of Finance on the assumption, I presume, that he is responsible in part for the administration under the Financial Administration Act and it is drawn to the attention of the Deputy Minister of Industry. I think if there has been any delay in deciding whether or not the duty should be collected or whether there should be a remission, it is not the responsibility of the Department of National Revenue. The Department of National Revenue, in a sense, has awaited our instructions. This may be a procedure which has some elements of novelty about it, but it was devised to take account of the fact that this is a very complex program and that it takes time to establish whether the individual company which has

• 1250

not qualified under the order, in fact, has done other things which substantially achieve the objectives of the program. We knew in the case of Ford that while they technically owed the Crown a debt for duties, they had over-performed to the extent of $200 million. It took some time to establish just what these other much smaller companies had done. It is for this reason that there was a delay between the obligation being established and the disposition of it by the Order in Council.

Mr. Winch: It is just by Order in Council that you forgive them, is it not?

Mr. Grey: Well, of course.

The Chairman: Then what you are saying, Mr. Grey, is that the Crown could still assess these people even though they have been remitted by the Order in Council. Is this what you were thinking of when you were speaking about the novelty of the situation? After

the audit is taken, could the Crown go back and re-assess these 13 companies for failure to fulfil the auto fact?

Mr. Grey: Mr. Chairman, until an investigation of what had actually happened in the production of those individual companies took place, it was impossible to advise ministers as to whether or not the duty should be collected, or whether there should be a remission. The point of the Auditor General's comments, I take it is, that in the interval the duty should have been collected. I do not wish to comment on whether or not that is correct in law. I think the point made by Mr. Pepin and by a number of officials is that that would have done great damage to the production plant and to the employment and production in Canada of those companies concerned.

The Chairman: I think that the Committee would like to know why the 13 companies, even though they did not have any letters explaining the problems that they were going to have like Ford did, were given a remission. If you are going to re-assess these companies after an audit, how is Mr. Labarge going to give you the amount of money that is to be collected from each one?

Mr. Gray: Mr. Chairman, let us find out whether these 13 companies have, in fact, been audited. It has been alleged that they have not been audited. Let us find out if they have been.

The Chairman: All right. Mr. Gray's question is, have these 13 companies been audited?

An hon. Member: There are 14.

Mr. Labarge: Those were audited. I believe they were actually given to the Committee.

Mr. Gray: They must have been. I just remembered that the Deputy Minister gave us the names and the amounts.

The Chairman: I presume that is correct, Mr. Long, as far as the audit end of it is concerned.

Mr. Long: Certainly it has been determined that they had failed to meet the conditions of the Orders.

Mr. Grey: The original Order.

Mr. Long: Mr. Chairman, there are two questions that I would like to ask. First, I would like to emphasize again that Mr. Drury's undertaking to Ford was, "I am confident the government will give sympathetic consideration to Ford's problems". Can any official take that as an indication that the Governor in Council is going to remit anything owing? If they cannot, then is it not the responsibility of the Department of National Revenue to collect the tax? This is my other point. I was surprised to hear it suggested that before the Department of National Revenue can proceed and collect tax owing, according to law, they have to have clearance from other departments.

Mr. Grey: Mr. Chairman, I did not say that. The evidence will show I did not. Mr. Long is perfectly aware that I did not say it. I chose my words very carefully. I simply described the procedure. I made no comment on the legalities.

The Chairman: Mr. Long, if you wish to correct the statement there.

Mr. Long: I am sorry, Mr. Chairman, that is the impression I received from what Mr. Grey had said.

Mr. Winch: I also got the impression that you referred this matter to two other ministers, the Minister of Finance and the Deputy Minister of Trade and Commerce. Is that not what you said? You said that you referred the matter to them and awaited their reply.

Mr. Grey: I said that Mr. Labarge, who is the Deputy Minister of National Revenue, had notified us of this information. I made no comment as to whether he could or could not have collected the duty. I very carefully did not make any comment. I simply described the procedure and I implied, I think, that it was a procedure which was worked out to deal with a very novel and important industrial program.

Mr. Long: Mr. Chairman, the question was originally directed at Mr. Labarge as to why he had not collected. I think that was the question to which the answer was being given by Mr. Grey.

• 1255

Mr. Labarge: Mr. Chairman, no two situations are the same. However, basically some of the principles are uniform throughout. I do not know that the officials of the Department should act without consideration as to what is government policy, what has been a statement of intent; to consider, for instance,

whether or not these objectives have been met. I can give you a host of other cases. I would like to give a few of them, because they pertain to the small man who some newspapers are saying never gets any kind of a break. If you think of all the tractors that are brought into this country as farm implements, and of all the grain dryers that are brought into this country to be used on the farm,—and that is where they have got to be used to enjoy the exemption—the moment they step out into some other enterprise they have had it. We can go in and seize those right off the bat. However, if we have a disastrous snow storm and perhaps 300, 400 or 500 tractors in the area are out opening the roads, on the municipal highways and on the county highways, they have gone off farm use and we could technically seize each one of those. Before we do that, what do we do? We communicate with the Department of Agriculture and say, "Look, you have got a bunch of farmers in trouble. They have gone off and they are snow clearing on the highways."

We had the grain situation. Grain had to be dried out. People moved the mop in this emergency without asking for permission or anything else. They faced a crisis. What do you do about those grain dryers under those circumstances? Do you go in as officials and say, "This is the law. You have stepped off your farm. You have had it. You must pay the duties and taxes on this equipment." No, we can again consult with the Department of Agriculture and say, "What is this? What is your public interest angle on this thing?" They say, "My God, that is going to have to be remitted. You cannot do this to the farmers. You are doing this in the public interest."

Mr. Winch: You would lose that argument in a court of law, because opening a highway to a farm is farm use.

Mr. Labarge: I did not say opening a highway. I said clearing the highway. Oh no, not on your life, it is not.

Mr. Bigg: A bit of a hassle occurred back there about whether or not the Auditor General was right in suggesting that the law had been circumvented or broken since 1936. Perhaps we could prevent a lot of trouble by merely saying that in our opinion, the law has been broken since 1936.

Mr. Gray: May I raise a question of privilege.

Mr. Bigg: I had the floor if you do not mind, Mr. Gray.

The Chairman: If Mr. Gray is on a point of privilege, I will take it; if not, continue.

Mr. Gray: I assumed that what Mr. Bigg was referring to was something I said when I stated that under the Commonwealth arrangements for entry of auto parts into Canada, which was in existence from 1936 up to the time of the auto pact, the parts came in without duty being collected at the time of import because they were destined for an end use in the auto industry. I did not say that the law had been broken. I said that is what the law said. That was the scheme. I was just stating that the auto pact arrangements were within the same approach as has been followed since 1936. You could say then that if the Auditor General says that what is being done in the auto pact is not proper policy, then why did he never criticize the Commonwealth free entry provisions.

The Chairman: Mr. Bigg.

Mr. Bigg: Obviously, Mr. Gray was not listening to me. I suggested that the Auditor General, not Mr. Gray, stated that the law may have been circumvented in this respect.

Mr. Gray: Oh, I am sorry.

Mr. Bigg: I suggest that sometimes in the opinion of the Auditor General, or in the opinion of the members of this Committee, the law has been circumvented. Our job is to try and find out by mutual talk and agreement whether or not it has, and to make suggestions as to how to improve it. This covers a multitude of things. The Auditor General, in my opinion, has the right to suggest to us, even on matters of government policy, if we ask him, how to put the finger in the hole of the dike to stop the flood of government money being wasted or not collected. I think that perhaps the law was circumvented by custom or prescription, and that the government saw fit not to change the law from what it had already been over the period of years. We amend the Customs Act to cover that sort of thing. 1965, if I am not mistaken, was the date. This is what we are trying to do now. When was the Act amended

• 1300

to cover what has been done over the period of years? That is also what we are now trying to do. I am satisfied that the letter of the law

was broken—I am just giving my own opinion, because I have heard a lot of arguments and I do not think we are getting very far—but my mind is clear on it.

I am satisfied that Ford helped the automotive situation in Canada and created thousands of jobs, but I would like to see a clarification of the law and the agreement so that we know exactly what is expected of them and so that they also know.

If the other 13 companies have to keep books in order that the Auditor General can read them, see what was done and advise us as to whether or not the taxpayer is being beaten, I think that could be done by a sophisticated company like Ford, as well as any other company, no matter how large or small. We are not on any witch hunt here, except to protect the taxpayer.

The Chairman: Thank you, Mr. Bigg. Well, gentlemen, I think we must adjourn, but before we do so, I would like to say that this has been a very useful exercise for all concerned.

It would appear, as Mr. McIntyre was saying earlier, what great lengths they went to to communicate with the car companies and to be in touch with them at all times and I think that if we had the same amount of communications between the departments of Industry, Finance, National Revenue and the Auditor General, we may not have been in this position this morning. I think there has been a lack of communication among all four.

It would appear that the administration of the Act needs tightening up and other observations will be made when the Committee makes its report. Mr. Lefebvre.

Mr. Lefebvre: I think there is another thing you could add. We learned a hell of a lot about the auto pact that no one else knew about.

The Chairman: That is right.

Mr. Gray: Mr. Chairman, when we change the administration, we must be sure not to kill the 15,000 jobs which the Pact has given us so far.

The Chairman: That is understood. The meeting is adjourned.

APPENDIX "T"

March 1, 1965.

Dear Mr. Scott:

I refer to your letter of January 14, 1965 in which you inform me of Ford's plan to invest $50 million to increase production in Canada of automotive engines.

You point out that this new investment will result in a substantial increase in the Canadian value added in Ford's production. You mention that because a portion of the new engine production will be shipped to your parent company, this may decrease your company's direct contribution to Canadian value added in vehicle assembly. You state, however, that in the event Ford's contribution to Canadian value added in vehicle assembly should fall below the level attained in model year 1964, that not only will Ford's purchases from independent vendors be maintained at least at the level of model year 1964, but that Ford will also increase its purchases from independent vendors by the amount of shortfall in Canadian value added in Ford's vehicle production.

In the event that the foregoing situation should develop, I am confident that the Government will give sympathetic consideration to Ford's problem and to your request that Ford should not be disqualified from the benefits of the automotive program.

Yours sincerely,
(Signed) C. M. Drury.

K. E. Scott, Esq.,
President,
Ford Motor Company of Canada Limited,
Oakville, Ontario.

The Queen's Printer, Ottawa, 1969

APPENDIX "T"

March 1, 1965.

Dear Mr. Scott:

I refer to your letter of January 14, 1965 in which you inform me of Ford's plan to invest $40 million to increase production in Canada of automotive engines.

You point out that this new investment will result in a substantial increase in the Canadian value added in Ford's production. You mention that because a portion of the new engine production will be shipped to your parent company, this may decrease your company's direct contribution to Canadian value added in vehicle assembly. You state, however, that in the event Ford's contribution to Canadian value added in vehicle assembly should fall below the level attained in model year 1964, that not only will Ford's purchases from independent vendors be maintained at least at the level of model year 1964, but that Ford will also increase its purchases from independent vendors by the amount of shortfall in Canadian value added in Ford's vehicle production.

In the event that the foregoing situation should prevail, I am confident that the Government will give sympathetic consideration to Ford's problem and to your request that Ford should not be disqualified from the benefits of the automotive program.

Yours sincerely,
(Signed) C. M. Drury.

H. E. Scott, Esq.,
President,
Ford Motor Company of Canada Limited,
Oakville, Ontario.

The Queen's Printer, Ottawa, 1969

HOUSE OF COMMONS

First Session—Twenty-eighth Parliament

1968-69

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: Mr. A. D. HALES

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 45

THURSDAY, JUNE 19, 1969

Public Accounts, Volumes I, II and III (1966 and 1967)
Reports of the Auditor General to the House of Commons (1966 and 1967)

WITNESSES:

(*See Minutes of Proceedings*)

INCLUDING FOURTH AND FIFTH REPORTS TO THE HOUSE

20573—1

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. A. D. Hales

Vice-Chairman: Mr. T. Lefebvre

and Messrs.

Bigg,	Gray,	Noble,
[1] Boulanger,	Guay (*Levis*),	Noël,
Cafik,	Harding,	Rodrigue,
Crouse,	Leblanc (*Laurier*),	Tétrault,
Cullen,	Major,	Thomas (*Maisonneuve*),
Flemming,	Mazankowski,	Winch—(20).

(Quorum 11)

Edouard Thomas,
Clerk of the Committee.

Pursuant to Standing Order 65(4)(*b*),

[1] Mr. Boulanger replaced Mr. Jerome on June 19, 1969.

ORDER OF REFERENCE

TUESDAY, October 29, 1968.

Ordered,—That the Public Accounts Volumes I, II and III for the fiscal year ended March 31, 1966, laid before the House on January 9, 1967, and the Report of the Auditor General thereon, and the Public Accounts Volumes I, II and III for the fiscal year ended March 31, 1967, laid before the House on January 22, 1968, and the Report of the Auditor General thereon, be referred to the Standing Committee on Public Accounts.

ATTEST:

ALISTAIR FRASER,
The Clerk of the House of Commons.

20573—1½

REPORTS TO THE HOUSE

FRIDAY, June 20, 1969.

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

FOURTH REPORT

In its study of the Auditor General's Reports for the fiscal years ended March 31, 1966 and March 31, 1967, your Committee devoted ten meetings to the consideration of the development of the hydrofoil, *HMCS Bras D'Or*, and actually inspected the ship in the Halifax harbour.

The witnesses heard in respect to the hydrofoil were:

From the Auditor General's Office:
Mr. A. M. Henderson, Auditor General of Canada,
Mr. G. R. Long,
Mr. H. E. Hayes,
Mr. J. R. Douglas,
Mr. A. M. Buzza,
Mr. A. G. Cross,
Mr. J. M. Laroche;

From the Department of National Defence:
Mr. E. B. Armstrong, Deputy Minister,
Commodore A. G. Bridgman,
Captain T. S. Allan,
Captain C. W. Ross,
Mr. C. Eames,
Mr. R. O. McGee;

From the Department of Supply and Services:
Mr. G. W. Hunter, Deputy Minister of Supply,
Mr. S. G. Glassford;

From De Havilland Aircraft of Canada Ltd.:
Mr. D. B. Annan, Vice-President Operations,
Mr. William T. Heaslip, Vice-President Engineering,
Mr. John Brown, Counsel,
Mr. R. W. Becker, Program Manager.

Your Committee wishes to commend the witnesses for their cooperative and forthright manner in responding to the questions of the members during this particular phase of the investigations.

Your Committee is concerned that this project was embarked upon with an initial cost estimate of $9.1 million which, by January 1968, had increased to $50 million. It considers this to be particularly serious in view of the statement made in the Department's submission to the Treasury Board:

> "The Contractor's estimates for this program are recommended for funding purposes. The methods used though based on broad parameters are considered conservative and it is our considered opinion the program as now understood, but not including Contractor's and user's trials, will be

accomplished within the $9.1 million allocated." (Auditor General's Report for the fiscal year ended March 31, 1966, page 48.)

It is the opinion of your Committee that the Treasury Board was not provided with a proper estimate of the probable overall costs of this project at the time initial approval of the project was sought. It urges all departments to see to it that the Treasury Board and Parliament are provided with full information and estimates of probable overall costs concerning any project at the time that initial authorization of the Board is sought and that the Treasury Board cause a full investigation to be made in cases where it subsequently becomes apparent that this was not done.

While the departmental officials have indicated that there was liaison with United States naval authorities on development information of hydrofoils, your Committee is of the opinion that a good deal of money expended on research was a duplication of effort. Greater reliance on the experience of other countries could have effected large economies in the programme.

Your Committee questions the decision of the departmental authorities in completing the hydrofoil, *HMCS Bras D'Or*, to the extent it has—viz. inclusion of messing facilities, bunks, cabin furniture, etc. in what is still a test ship. Your Committee also questions the decision of the departmental authorities in purchasing $10 million of fighting equipment before the basic ship has been proved. Evidence was given that some equipment was purchased and other rented. Your Committee is of the opinion that more of the equipment should have been rented—again pending the proving of the basic ship.

Your Committee was amazed to learn that in developing the prototype hydrofoil; no patents were taken out. For the dollar value expended on this programme, one would naturally assume that some clearly defined patents would result, e.g. though a compact, efficient and light compass was developed for the hydrofoil, there are no patents and lack of initiative in selling this compass to other countries was evident.

FIRE ABOARD THE HYDROFOIL—NOVEMBER 5, 1966

A thorough investigation was conducted by your Committee into the circumstances surrounding the fire which occurred in the engine room of the hydrofoil on November 5, 1966. This fire cost the taxpayers of this country over three million dollars directly and soared to $6.5 million when time loss and other factors were considered.

Your Committee has grave reservations about the propriety of the Crown having insured this contractor against fire, for the sole reason of reducing the contract price by the amount of a premium the contractor would have had to pay to obtain fire insurance coverage from a private fire insurance company. Your Committee has no reservations about the Crown acting as the insurer in the course of ordinary construction but has these reservations about development projects or projects involving highly inflammable fluids and, or, materials. In brief, where a standard form of marine fire insurance coverage

would suffice then, in that eventuality, the Committee does not have the same reservations.

If however, the Crown continues to act as the insurer on development projects and projects involving highly inflammable materials and fluids then the Committee recommends more careful consideration should be given to the terms of the fire insurance coverage and not to use the standard form of marine fire insurance coverage as was the case with the hydrofoil.

Your Committee feels that the following at least should have been covered in clauses in a special form of an insurance coverage contract with De Havilland, namely:

1. That flammable fluid be isolated where practicable from potential ignition sources;
2. That the Department of National Defence representatives be informed in writing in advance of any testing;
3. That investigation continue to determine areas of design which were potentially dangerous or inadequate for the intended purpose;
4. A clause requiring De Havilland to notify the Naval Overseers or staff in advance the conducting of important tests. (On future Navy work whether of a development or construction nature the policy should call for a written understanding and not a verbal one that Naval Overseers or staff be notified in advance of the conducting of important tests);
5. A clause calling for more than one experienced employee to be stationed at the location of the test;
6. A clause for the sake of protection calling for not less than two experienced employees to be stationed at the mechanical fire protection equipment, in order that same could be activated if required;
7. A clause requiring that in all engine, electrical rooms and other of similar nature when tests are to be conducted that electrically operated warning systems be operational;
8. A clause requiring that all high temperature engine joints, piping or areas be adequately insulated before tests are conducted on engine or electrical equipment;
9. A clause requiring that when engine or electrical room tests are to be conducted where there is proximity to hydraulic or flammable fluids having a potential of ignition that adequate fire fighting provisions be available.

A Board of Inquiry investigated the cause and their conclusions were made available to your Committee. It is to be noted that at the time of the test there was only one man in the engine room and another outside stationed alongside a mechancial device to bring into operation after a fifteen second warning signal the fire extinguishing apparatus.

Evidence given to your Committee was conclusive that at the time of the fire certain flexible joints installed on engine room piping were not as called for in the specifications and that some areas of metal surfaces including a temporary exhaust where temperatures reach approximately 1,000 degrees F had not been insulated and therefore hot metal surfaces were exposed.

The investigation conducted by the Department of Supply and Services and the Department of National Defence resulted in the information that the

probable source of the fire was a hydraulic fluid leak which impinged on an exposed portion of the auxiliary gas turbine duct and thus ignited. Further conclusions were that the fire fighting provisions and organization were inadequate to cope with a fire of this magnitude; the inspection records did not afford proof that the hydraulic system in use had been fully inspected; documentary evidence of quality assurance was incomplete and thus inadequate and that National Defence personnel had not been advised that this particular test was planned for Saturday, November 5, 1966.

In view of all the evidence, the Public Accounts Committee is of the opinion that the fire occurred because of negligence by the De Havilland Company. Your Committee endorses the five recommendations made by the Board of Inquiry:

(*a*) That the fire-fighting provisions and organization be improved;

(*b*) That improved fire-proof fluid couplings be utilized in lieu of the hose and clamp connections in those systems where a risk of fire would occur if a leak developed;

(*c*) That flammable fluid be isolated where practicable from potential ignition sources;

(*d*) That the Department of National Defence representatives be informed in writing in advance of any testing;

(*e*) That investigation continue to determine other areas of design which were potentially dangerous or inadequate for the intended purpose.

The Public Accounts Committee is much concerned about the insurance provisions relative to the hydrofoil project. Your Committee found it somewhat amazing that the Government contract with the De Havilland Company exempted it from having to carry any insurance irrespective of the cause or amount of damage through fire or other unforeseen circumstances. The provision is such that even if the Company were guilty of negligence in causing the fire with millions of dollars of loss incurred, no recovery could be made from the Company because the Government Department was the insurer.

Your Committee was pleased to learn that this entire matter of insurance coverage has been studied by the Department of Supply and Services and the Department of National Defence and some changes have been, or are anticipated to be made. However, in view of its investigation the Committee would most strongly urge that on major development or construction the company or companies involved be required to insure against damage resulting from their own negligence.

Your Committee viewed a film of the preliminary tests of the hydrofoil and was pleased to note that the foil-borne tests augur well for eventual acceptance of the craft.

A copy of the relevant Minutes of Proceedings and Evidence (*Issues Nos. 18 to 25 inclusive, 35, 38 and 45*) is tabled.

Respectfully submitted,

A. D. HALES,
Chairman.

THURSDAY, June 26, 1969.

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

FIFTH REPORT

Your Committee held fifteen meetings to consider the Auditor General's Reports for the fiscal years ended March 31, 1966 and March 31, 1967, and the follow-up report related thereto.

The present Report covers miscellaneous items which were investigated. A subsequent report will deal specifically with the refit costs of the *HMCS Bonaventure*.

The witnesses heard in respect to these items were:

From the Auditor General's Office:
Mr. A. M. Henderson, Auditor General of Canada,
Mr. G. R. Long,
Mr. H. E. Hayes,
Mr. J. R. Douglas,
Mr. A. M. Buzza,
Mr. A. G. Cross,
Mr. J. M. Laroche;

From the Department of National Defence:
Mr. E. B. Armstrong, Deputy Minister,
Mr. B. D. Irvin,
Mr. G. T. Holmes;

From the Department of Supply and Services:
Mr. G. W. Hunter, Deputy Minister of Supply,
Mr. J. R. Brisson, former President, Canadian Arsenals Ltd.,
Mr. J. G. Glassford;

From the Canadian Government Printing Bureau:
Mr. C. B. Watt, Director General, Printing and Publishing,
Mr. F. E. Everett,
Mr. J. A. Kiefl,
Mr. N. J. George,
Mr. L. J. Walsh.

STATEMENTS REQUESTED BY THE PUBLIC ACCOUNTS COMMITTEE

Paragraph 144 of the Auditor General's Report for the fiscal year ended March 31, 1966, includes comment on a previous recommendation by the Standing Committee on Public Accounts that "losses due to accidental destruction of, or damage to, assets which would normally be covered by insurance had such coverage existed", be listed in the Public Accounts.

In the course of its study of the development of the hydrofoil, your Committee noted that the losses incurred as a result of the fire on that ship were not included in the Public Accounts. Your Committee wishes to stress that there should be no exception to the inclusion of losses under this heading if the total information is to be of value.

EXCESSIVE ADVANCE PAYMENTS UNDER CONTRACTS

In considering the circumstances surrounding the payment in advance of $6.7 million, the full amount of a contract for the re-engining of Cosmopolitan aircraft, your Committee noted that this payment had been forwarded to the United States Government in March 1966 and 90-day United States

treasury notes purchased on behalf of Canada although, as the contract was entered into only on March 21, there could be no work performed, goods received or services rendered in the fiscal year 1965-66. Your Committee can only conclude that the purpose of writing into the contract a requirement that full payment be made in advance was to enable the amount to be paid from 1965-66 appropriations in order to avoid the lapsing of this amount. Your Committee does not approve of the circumventing of the lapsing provision of section 35 of the Financial Administration Act in this way and recommends that the Treasury Board instruct departments not to contract themselves into obligations to make advance payments in order to avoid the lapsing of any portion of an appropriation.

THE COUNTER-MORTAR RADAR

Paragraph 103 of the 1967 Report concerns the manufacture of a prototype vehicle-mounted radar system for locating enemy mortars. Your Committee recommends that a more vigorous sales campaign be conducted by the Department of Supply and Services when it has a saleable commodity such as the counter-mortar radar which has no equal throughout the world.

NAVAL ARCHITECTS' FEES

Paragraph 105 of the 1967 Report concerns naval architects' fees. Evidence received by your Committee points to the fact that an increase in the fees is directly attributable to a breakdown in the channels of communication between the Department of National Defence and the architects. The poor communications are of the type that should not be tolerated and your Committee recommends that, in future, the Department make its requirements know explicitly.

PURCHASE OF BUSES WHICH PROVED TO BE UNSATISFACTORY

Paragraph 106 of the 1967 Report covers the purchase of buses which proved to be unsatisfactory. In view of the fact that the particular type of bus was a first purchase for the Department of National Defence, the Committee was surprised to learn from the Quality Assurance Division that these buses were bought sight unseen and recommends that more care be taken in checking vehicles. A long list of defects required subsequent repairs. This would not have been necessary if adequate and thorough inspection of the buses had been made.

During the study of this item, evidence was given to the existence of separate specifications for the RCAF and Army. Your Committee recommends that one set of specifications apply to all armed services in Canada.

ASSISTANCE TO PROVINCES BY THE ARMED FORCES IN CIVIL EMERGENCIES

In Appendix 1 to the Auditor General's Report for the fiscal year ended March 31, 1967, are listed the recommendations and observations by the Standing Committee on Public Accounts not yet implemented or dealt with by Executive Action. One item concerns assistance to provinces by the armed forces in civil emergencies (floods, forest fires, etc.). While your Committee considers that the federal government should continue to assist the provinces in civil emergencies, it is of the opinion that proper accounts should be kept,

outstanding accounts should be settled in view of the agreements to pay, or agreement must be reached on cost-sharing. Your Committee considers that this item should be included on the agenda of a future Federal-Provincial Conference for clarification. The Auditor General has been requested by your Committee to keep it informed on further developments in this matter.

WAR VETERANS ALLOWANCES

With reference to paragraph 24 of Appendix 1 of the 1967 Report, your Committee was concerned that its previous recommendation that cases of fraud with respect to War Veterans Allowances "be vigorously prosecuted" could be interpreted by some that the Committee's sole interest is in the recovery of the money. Your Committee is aware that there may be mitigating circumstances and therefore recommends that the word "vigorously" be deleted.

PROPOSED REMOVAL ALLOWANCE

Paragraph 47 of Appendix 1 to the 1967 Report contains a previous recommendation of the Committee concerning the proposed removal allowance for members of the Armed Forces equivalent to 90% of the estimated cost of moving their furniture. The Deputy Minister of National Defence advised that disadvantages in such a scheme are such as to make it unwise to establish a cash allowance. Your Committee is still of the opinion that serious consideration should be given to such a plan, particularly in view of the large number of service personnel who will be transferred to Canada as a result of the reduction in NATO forces. Your Committee has requested the Deputy Minister of National Defence to review this subject and report.

SUMMARY OF THE POSITIONS OF THE RECOMMENDATIONS AND OBSERVATIONS OF YOUR COMMITTEE

The following is a summary of the positions of the recommendations and observations of your Committee contained in Appendix 1 of the 1967 Report as of June 5, 1969:

Category	Items	Number
No action as yet	7, 8, 14, 15, 21, 22, 23, 26, 30, 33, 34, 35, 45, 51	14
Executive has indicated disagreement with recommendation	9, 13, 18, 27, 28, 29, 31, 36, 37, 39, 41, 47, 48, 49	14
Progress being made	1, 6, 17, 24, 38, 43	6
Implemented	32, 42, 44, 50, 55	5
Partially implemented	25, 54	2
Soon to be implemented	40	1
Action taken not satisfactory	20	1
Withdrawn by Public Accounts Committee	10, 52	2
Referred back to Auditor General	2, 3, 4, 5, 11, 12, 16, 19, 46, 53	10
	Total	55

GENERAL

On a number of occasions, your Committee in questioning the witnesses came to the conclusion that the Deputy Ministers should act more expeditiously in providing replies to the Auditor General's draft comments which he proposes for inclusion in his report. Thus, where there is disagreement, the parties concerned should make every effort to resolve differences of opinion prior to publication.

CANADIAN GOVERNMENT PRINTING BUREAU

Following your Committee's decision to make periodical visits to various departments each session, a visit was made to the Canadian Government Printing Bureau. Such visits are planned to give the members a first hand opportunity to see the operations of a department. Since there is usually a representative of the Auditor General in the department, items in the Auditor General's Reports may be studied on the spot and checks made of inventory controls.

A copy of the relevant Minutes of Proceedings and Evidence (*Issues Nos. 1, 2, 11, 12, 13, 19, 25 to 30 inclusive, 39 to 41 inclusive and 45*) is tabled.

Respectfully submitted,

A. D. HALES,
Chairman.

MINUTES OF PROCEEDINGS

THURSDAY, June 19, 1969.
(50)

The Standing Committee on Public Accounts met this day at 9:40 a.m., *in camera,* the Chairman, Mr. A. D. Hales, presiding.

Members present: Messrs. Boulanger, Crouse, Cullen, Gray, Guay (*Lévis*), Hales, Leblanc (*Laurier*), Lefebvre, Major, Mazankowski, Noble, Thomas (*Maisonneuve*), Winch (13).

The Committee considered a draft, fourth report to the House.

At 11:02 a.m., the Committee adjourned to 3:30 p.m. this same day.

AFTERNOON SITTING
(51)

The Standing Committee on Public Accounts met this afternoon at 3:30 p.m., *in camera,* the Chairman, Mr. A. D. Hales, presiding.

Members present: Messrs. Crouse, Cullen, Guay (*Lévis*), Hales, Lefebvre, Major, Mazankowski, Noble, Noël, Rodrigue, Thomas (*Maisonneuve*) (11).

The Committee considered the amended fourth report to the House and instructed the Chairman to present it.

The Committee considered the draft fifth report to the House and instructed the Chairman to present it as amended.

At 4:30 p.m., the Committee adjourned to the call of the Chair.

Edouard Thomas,
Clerk of the Committee.

MINUTES OF PROCEEDINGS

THURSDAY, June 19, 1969.
(50)

The Standing Committee on Public Accounts met this day at 9:40 a.m., in camera, the Chairman, Mr. A. D. Hales, presiding.

Members present: Messrs. Boulanger, Crouse, Cullen, Gray, Guay (Lévis), Hales, Leblanc (Laurier), Lefebvre, Major, Mazankowski, Noble, Thomas (Maisonneuve), Winch (13).

The Committee considered a draft, fourth report to the House.

At 11:02 a.m., the Committee adjourned to 3:30 p.m. this same day.

AFTERNOON SITTING
(51)

The Standing Committee on Public Accounts met this afternoon at 3:30 p.m., in camera, the Chairman, Mr. A. D. Hales, presiding.

Members present: Messrs. Crouse, Cullen, Guay (Lévis), Hales, Lefebvre, Major, Mazankowski, Noble, Noël, Rodrigue, Thomas (Maisonneuve) (11).

The Committee considered the amended fourth report to the House and instructed the Chairman to present it.

The Committee considered the draft fifth report to the House and instructed the Chairman to present it as amended.

At 4:30 p.m., the Committee adjourned to the call of the Chair.

Edouard Thomas,
Clerk of the Committee.

The Queen's Printer, Ottawa, 1969

HOUSE OF COMMONS
Standing Committee on
Public Accounts
28th Parliament 1st Session 1968.

INDEX
(Incomplete. Number 1 only indexed)

Compiled by Reference Branch, Library of Parliament.

	Page
AUDITOR GENERAL	
Employment of private firm for legal advice, report	3-5
International Civil Aviation Organization audit	11
International Lead and Zinc Study Group audit	10,11
International Monetary Fund audit	10,11
Letter to Committee re agenda	5-8
Staff, number	11
United Nations audit	8-13
United Nations Board of Auditors member	9
AUDITOR GENERAL'S ACT	
Proposal for new act	10
INTERNATIONAL CIVIL AVIATION ORGANIZATION	
Audit by Auditor General	11
INTERNATIONAL LEAD AND ZINC STUDY GROUP	
Audit by Auditor General	10,11
INTERNATIONAL MONETARY FUND	
Audit by Auditor General	10,11
REPORT TO THE HOUSE	
Follow-up report of recommendations submitted	13-18
UNITED NATIONS	
Audit by Auditor General	8-13