



Second Session — Thirty-Second Legislature
of the
Legislative Assembly of Manitoba

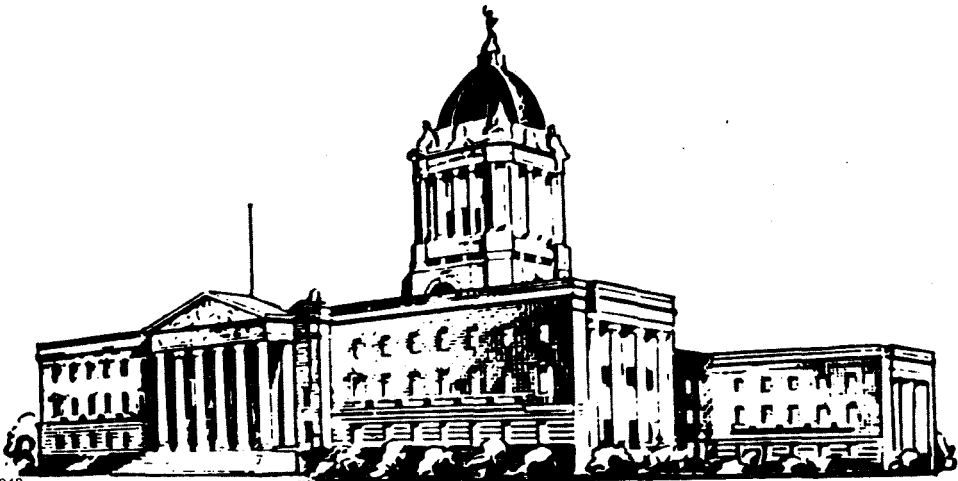
STANDING COMMITTEE

on

PUBLIC ACCOUNTS

31-32 Elizabeth II

Chairman
Mr. W. Steen
Constituency of River Heights



MG-8048

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MANITOBA LEGISLATIVE ASSEMBLY
Thirty-Second Legislature

Members, Constituencies and Political Affiliation

Name	Constituency	Party
ADAM, Hon. A.R. (Pete)	Ste. Rose	NDP
ANSTETT, Andy	Springfield	NDP
ASHTON, Steve	Thompson	NDP
BANMAN, Robert (Bob)	La Verendrye	PC
BLAKE, David R. (Dave)	Minnedosa	PC
BROWN, Arnold	Rhineland	PC
BUCKLASCHUK, Hon. John M.	Gimli	NDP
CARROLL, Q.C., Henry N.	Brandon West	IND
CORRIN, Brian	Ellice	NDP
COWAN, Hon. Jay	Churchill	NDP
DESJARDINS, Hon. Laurent	St. Boniface	NDP
DODICK, Doreen	Riel	NDP
DOERN, Russell	Elmwood	NDP
DOLIN, Hon. Mary Beth	Kildonan	NDP
DOWNEY, James E.	Arthur	PC
DRIEDGER, Albert	Emerson	PC
ENNS, Harry	Lakeside	PC
EVANS, Hon. Leonard S.	Brandon East	NDP
EYLER, Phil	River East	NDP
FILMON, Gary	Tuxedo	PC
FOX, Peter	Concordia	NDP
GOURLAY, D.M. (Doug)	Swan River	PC
GRAHAM, Harry	Virten	PC
HAMMOND, Gerrie	Kirkfield Park	PC
HARAPIAK, Harry M.	The Pas	NDP
HARPER, Elijah	Rupertsland	NDP
HEMPHILL, Hon. Maureen	Logan	NDP
HYDE, Lloyd	Portage la Prairie	PC
JOHNSTON, J. Frank	Sturgeon Creek	PC
KOSTYRA, Hon. Eugene	Seven Oaks	NDP
KOVNATS, Abe	Niakwa	PC
LECUYER, Gérard	Radisson	NDP
LYON, Q.C., Hon. Sterling	Charleswood	PC
MACKLING, Q.C., Hon. Al	St. James	NDP
MALINOWSKI, Donald M.	St. Johns	NDP
MANNES, Clayton	Morris	PC
McKENZIE, J. Wally	Roblin-Russell	PC
MERCIER, Q.C., G.W.J. (Gerry)	St. Norbert	PC
NORDMAN, Rurik (Ric)	Assiniboia	PC
OLESON, Charlotte	Gladstone	PC
ORCHARD, Donald	Pembina	PC
PAWLEY, Q.C., Hon. Howard R.	Selkirk	NDP
PARASIUK, Hon. Wilson	Transcona	NDP
PENNER, Q.C., Hon. Roland	Fort Rouge	NDP
PHILLIPS, Myrna A.	Wolseley	NDP
PLOHMAN, Hon. John	Dauphin	NDP
RANSOM, A. Brian	Turtle Mountain	PC
SANTOS, Conrad	Burrows	NDP
SCHROEDER, Hon. Vic	Rossmere	NDP
SCOTT, Don	Inkster	NDP
SHERMAN, L.R. (Bud)	Fort Garry	PC
SMITH, Hon. Muriel	Osborne	NDP
STEEN, Warren	River Heights	PC
STORIE, Hon. Jerry T.	Flin Flon	NDP
URUSKI, Hon. Bill	Interlake	NDP
USKIW, Hon. Samuel	Lac du Bonnet	NDP
WALDING, Hon. D. James	St. Vital	NDP

LEGISLATIVE ASSEMBLY OF MANITOBA
THE STANDING COMMITTEE ON PUBLIC ACCOUNTS
Thursday, 23 June, 1983

TIME — 10:00 a.m.

LOCATION — Winnipeg, Manitoba

CHAIRMAN — W. Steen

ATTENDANCE — QUORUM - 6

Members of the Committee present:

Hon. Schroeder, Hon. Smith, Messrs. Eyer, Lecuyer, Malinowski, Manness, Ransom, Santos and Steen

APPEARING: Mr. C. Curtis, Deputy Minister of Finance;

Mr. W. Ziprick, Provincial Auditor

MATTERS UNDER DISCUSSION:

Public Accounts of the Province of Manitoba for the fiscal year ended March 31, 1982

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MR. DEPUTY CLERK, G. Mackintosh: Call committee to order. Due to the replacement of the Chairman, is it the will of the committee to nominate a replacement? Mr. Ransom.

MR. B. RANSOM: Yes, I would like to nominate Mr. Steen.

MR. DEPUTY CLERK: Mr. Steen has been nominated by Mr. Ransom, seconded by Mr. Malinowski. Is it the pleasure of the committee? (Agreed)
Mr. Steen.

MR. CHAIRMAN, W. Steen: I am lead to believe that in previous meetings the discussion has been on the Provincial Auditor's Report and the Minister of Finance tells me that page 35 was the page that there was some questioning being done at the most recent meeting.

What is the will of the committee? Mr. Ransom.

MR. B. RANSOM: Mr. Chairman, I just have a couple more questions. I think we were having some discussion concerning Dr. Barber's report. First of all, I guess I would ask the Minister whether he has had any opportunity for further consideration of this report since the committee last met?

HON. V. SCHROEDER: No, Mr. Chairman, I have not.

MR. B. RANSOM: Then just a specific that perhaps Mr. Curtis or Mr. Ziprick would care to comment on. The recommendation that Dr. Barber makes concerning the handling of foreign exchange or borrowing in foreign currencies, I gather he is making at least a suggestion

about an alternative approach which would involve the amortizing of the costs related to the fluctuation in the foreign currency relative to the Canadian currency. Is that recommendation that he is making, is that something similar to what is now being done in Manitoba Telephone System, for instance? Is it a recommendation that is apt to be given serious consideration to as far as the presentation of the government accounts are concerned?

MR. CHAIRMAN: Mr. Curtis.

MR. C. CURTIS: Mr. Chairman, that is one of the methods that has currently been under review by various accounting bodies. There hadn't been unanimity of opinion as to how to treat the foreign exchange losses or gains. That is certainly one we've looked at. It has a number of drawbacks though that concern us. We will, however, be looking at it again in view of Dr. Barber's report.

MR. CHAIRMAN: Mr. Ziprick.

MR. W. ZIPRICK: I don't completely recollect the way the recommendation was made, but I feel that that recommendation would fall into the category of additional information because within the present context of accounting any amortization of foreign exchange would be inconsistent with everything else because we're not amortizing any other costs. For instance, in pensions there are substantial liabilities that are being incurred against future obligations and there's no amortization for that, so I think that any amortization of that kind would be inconsistent with the present policy of only voting money and recording what's required to be paid.

MR. CHAIRMAN: Mr. Ransom.

MR. B. RANSOM: Another area of questions for the Auditor relating to conflict of interest, Mr. Chairman: Has there been any circumstances, any situations within the government or the Crown corporations within the past 10 years, for example, where there have been examples of conflict of interest where some action has been taken to deal with them by way of reprimands or people being let go or that sort of thing?

MR. W. ZIPRICK: I suppose if they searched the records there would be instances where people would have been let go for some actions that were inconsistent and some of them would have been charged, just like the recent one in the Department of Government Services, but I don't recollect any major ones.

MR. B. RANSOM: Well, maybe I should have been more specific in asking the Auditor whether he had been involved in investigation of any that had led to

any kind of action. Apparently, I take it that the Auditor has not been.

MR. W. ZIPRICK: I just wouldn't want to categorically say, without reviewing. We have been involved in a number of situations where we found that employees have done something and, over the past ten years I vaguely recollect instances where charges have been laid and action has been taken and the matter properly disposed of, so I wouldn't want to . . . as a matter of fact, I know we were involved in various situations of that kind, but they were not major conflict of interests.

MR. B. RANSOM: But I take it that there is no legal requirement that says that civil servants can't do business, for instance, with the government. Is that a legal requirement that they can't do that or is that simply a guideline that's set down?

MR. W. ZIPRICK: There hasn't been any specific guidelines to my knowledge. Now as far as the legal requirements, obviously if you gain improperly then you can be charged and be accountable for it. On the other hand, if it's a kind that no criminal charges can be laid, then, of course, the decision is up to the government what action should be taken.

MR. CHAIRMAN: Mr. Schroeder.

HON. V. SCHROEDER: Yes, Mr. Chairman, I should add that as a result of the McKenzie Seed incident that the Member for Turtle Mountain had raised, we have asked all Crown corporations and government agencies to let us know what their current policies are with respect to conflict of interest, what they've been telling their employees and those items have now come into us. The Crown Investments Department is currently formulating more specific conflict of interest guidelines for employees. I should say that I know, for instance, that in the past civil servants have contracted with government. I can think of one example where a civil servant, during his off hours, was doing some cleaning for a government department, but it was made known to that department - this is about three or four years ago. Before he entered into the contract it was tendered, he got the contract and everyone was fully aware of what was happening. Under those circumstances, I'm not sure that I would want to say that an employee shouldn't be able to do it. I guess the only concern is, as in any case where people are doing a lot of outside work, will that affect their work on the job on the one hand; on the other hand, was there any kind of inside knowledge that an individual might have or did he get an advantage in terms of getting the contract. If those areas could all be covered off and I think that they can more easily be covered off with junior employees than they can with senior employees, who might have more influence over what is going on. For myself, I think that we should be somewhat flexible in those areas. On the other hand, when it gets to more senior employees, who could very clearly influence decisions in a department or in an agency or in a Crown corporation, then I think that we have to be much more careful about any dealings with Crown corporations or agencies.

MR. B. RANSOM: Well, there is, what I'll call, a guideline for the moment then, because I'm not sure that it is law, but there is a requirement that prohibits full-time civil servants from entering into business with the government for profit. There may be some means of making exceptions to that and it's my understanding that we have not had very many problems in the Civil Service of Manitoba, either because that guideline is there or simply because people have made judgments on their own as to what is proper and improper. Is that a fair assessment that the government service itself has been remarkably free of conflict of interest situations?

MR. W. ZIPRICK: Yes, I would say that that's a fair assessment. The matter that you're referring to if I recollect correctly, under The Civil Service Act no employee is to get any kind of money from the Consolidated Fund except the approved salaries, without the proper approval, so that if you're dealing in any way with the government as you say, for some personal gain, then by all means that has to be disclosed to the department and be approved by the Civil Service Commission as being appropriate. Generally, there has been no major problem in this area. There have been exceptions here and there that have been noted, but by and large it's been quite good. Then, of course, there is a fidelity bonding arrangement that it is reported on and recoveries are made in instances where money has been lost by the province.

MR. CHAIRMAN: Pass? Any further questions? Maybe I can seek some guidance from the committee. What has been your practice in the past? Have you been going page-by-page or just the report in general? — (Interjection) — Pass the report.

It is agreed that the report of the Provincial Auditor be passed? (Agreed) Pass.

HON. V. SCHROEDER: There are also a couple of motions that I had made earlier. If we could maybe deal with the reports first.

MR. CHAIRMAN: Can we go onto the financial statements, Volume 1? Is it the wish of the committee to deal with the report as a whole and ask questions? Mr. Ransom.

MR. B. RANSOM: On page 318, the outstanding borrowing authority is listed and there is an item for the Manitoba Housing and Renewal Corporation showing \$32,918,336 in outstanding borrowing authority, I gather dating back to 1975. Is that borrowing authority set out for a specific purpose within Manitoba Housing and Renewal Corporation or is that for the general programs of Manitoba Housing and Renewal Corporation?

MR. W. ZIPRICK: As far as I know it's just for the general purposes of the Manitoba Housing and Renewal Corporation.

MR. B. RANSOM: Why would that authority be outstanding for so long and not be used and at the same time we have been passing additional authority for Manitoba Housing and Renewal Corporation?

MR. W. ZIPRICK: I don't have that information. We would have to take a look and see just how the authority flows and why this is still outstanding and others have been encumbered.

HON. V. SCHROEDER: Mr. Chairman, I don't have a satisfactory explanation. The suggestion of the member makes sense to me. I don't know that . . . well, apparently the money was voted in 1975 for program. The program obviously wasn't as full and complete as was expected and the money has stayed on the books, the authority has stayed in there for all these years. Why we didn't deduct that amount from the authority required when we asked for more is something that I just, quite frankly, don't know.

MR. B. RANSOM: On whose authority would money be spent under that loan provision? Does it require any authorization by Cabinet or by the Minister?

MR. W. ZIPRICK: Of course, there are two provisions for supplying money to Manitoba Housing and Renewal Corporation. There is the regular vote in the appropriations each year and that's to do with the subsidies in running the housing programs, then there's the capital authority, and this is the capital authority for construction of various programs. Substantial amount of this construction is on the basis of arrangements with CMHC and so there are recoveries and we'd have to go through the process just to see how this capital authority flowed. Basically each project that's undertaken has to be submitted through to the Treasury Board and then approved for undertaking by the Manitoba Housing and Renewal Corporation, so that they do not undertake capital projects without government approval.

MR. B. RANSOM: We passed a loan authority, Loan Act, last year, I think, for some \$50 million for Manitoba Housing and Renewal Corporation for the Homes in Manitoba Program. That would be for a specific purpose. I assume then that that can only be used for that purpose as outlined in the act. Is it fair to assume then that there was some other specific purpose attached to this borrowing authority?

MR. W. ZIPRICK: I'd have to research this. I don't fully know the particulars at this time.

HON. V. SCHROEDER: Yes, Mr. Chairman, we're looking into that right now and we should have an answer relatively quickly this morning.

MR. B. RANSOM: Is this borrowing authority something that should be reviewed every few years? Has the Department of Finance looked at this kind of thing? It seems to me that perhaps there comes a time when borrowing authority should be revoked and it should go back to the Legislature again to receive new authority.

MR. C. CURTIS: Mr. Chairman, the way we have been requesting capital authority from departments and even Crown agencies has been on the basis of utilizing, first, unused authority generally, providing it wasn't specific

authority. We have from time to time cleared out existing approved capital authority that was no longer required for specific projects. Our recollection is the last time we did this was about 1979 or '80. You're right, if the authority is specifically for projects that aren't proceeding or have been completed, they should be cleared out.

MR. B. RANSOM: On another area, Mr. Chairman, relating to the credit rating of the province. We, unfortunately, have recently undergone a reduction in the credit rating. I'd like to ask this of Mr. Curtis. How is that going to affect Manitoba's position in the market?

MR. C. CURTIS: Mr. Chairman, we've had lengthy discussions with our underwriting firms in various countries that we've used for market purposes. The opinion that we've received is that the only market it will have a major effect on, and that effect is in the range of 10 to 20 basis points, would be the U.S. We're advised that it had no effect whatsoever on our rating in the Eurodollar market. We did complete an issue in the Euromarket at a price that is now trading better than Ontario, which is a AAA rated province. It had no effect on our Japanese loan that we are aware of. We haven't as yet tested it in Canada, but we're advised that it would not be expected that it would be any effect on our borrowing in Canada.

MR. B. RANSOM: Is there a point, a particular level, then of credit rating where it does have a wider effect - I think Mr. Curtis used the term "major effect in the U.S. market, but not in the others" - is this something that goes gradually and there's only a slow impact, or is there a breaking point where it would have a much wider impact in other markets?

MR. C. CURTIS: I would suspect that from talking to various banking groups and underwriters that the effect that would be expensive to the province would be if we were in a single A rate, that we're still considered AA, quite rightly so by both Moody's and Standard and Poor's, and if we did drop a single A, then I think you expect an additional cost.

One of the important situations, however, is the amount that you're involved in borrowing in the specific markets. I'm afraid that it is a saturation point that could be reached if the market is touched too often. The prime example of that would be the Province of Quebec that is into every market constantly. While they're rated the same as Manitoba, they're paying 25, 35 basis points more for their borrowing, and that's becoming very expensive for them.

Similarly, Ontario is in the market also very frequently. They're rated triple A. We're pressing them in the markets for the same rate most of the time.

MR. B. RANSOM: I believe Mr. Curtis indicated that we were considered AA by both Moody's and Standard and Poor's. Has Moody's made an adjustment in recent weeks or months?

MR. C. CURTIS: No. We've had discussions with them as we do normally on a continuing basis. There's been no indication to us at all that they're contemplating any change.

MR. B. RANSOM: But was the rating that they had in place then, was it comparable to the rating that Standard and Poor's now puts on? Was Standard and Poor's higher than Moody's before and have dropped to the same level? How are they compared?

MR. C. CURTIS: The readings that both use would be considered to be the same. The Standard and Poor's rating now is a little less than Moody's. I don't believe Moody's has a plus or minus rating. I think they would go from AA to A if they were making a change, or AA to AAA. I'm not aware that they have differences.

MR. B. RANSOM: I'd like to deal with the borrowing strategy that the government was following going back to 1981. In 1981 in the Budget, there were certain requirements set out for borrowing based upon the strategy at the time that the government was going to borrow fairly substantially in the short term market and not to the same extent in the long term market, on the belief that rates over the longer term were likely to come down, and that the government would be in a better position because of that.

I believe that was still the strategy that was in place at the time that we left government in October-November of 1981, and subsequent to that the borrowing done by the government increased substantially, and the Minister has provided information as to where that money went, to Crown corporations and to general government purposes, etc, but the strategy changed somewhere between November and the end of March in 1982. The government went to the market and borrowed a U.S. issue in March of '82 that came to, I think, something like \$238 million in Canadian funds at an interest rate of 14.75 percent for a period of 15 years.

I'd like to ask Mr. Curtis then, what happened to all the basic assumptions that had gone into the borrowing strategy of the government that would lead to this kind of action of doing that sort of borrowing at that rate and for that extended period of time, which seems to be a fairly long term as well as a high rate?

MR. C. CURTIS: Mr. Chairman, we were continuing with the advice to government about staying short for the longest point in time that we could, or until the market opened up with rates that were lower than the then existing 18-20 percent. It did reach a point where we were concerned about the extent or the size of our short term borrowing, knowing that we needed additional funding over and above the amounts borrowed at that time in the short term market. The fact that the markets opened up and the rates came down quite significantly made us recommend that we should provide funding for a part of our outstanding debt. We did, in fact, save somewhere between three and five full points of interest by having waited, so in our view it was very worthwhile.

If we had not of undertaken borrowing and if the rates had again gone up or stayed at the same level, we would have run the risk of having, at some point, to borrow at extremely high rates. The economists and underwriting people, the banks, at that time were not suggesting with any certainty that rates would be coming down, or would be coming down significantly.

There was quite a divided opinion, so we felt quite comfortable with undertaking some of the borrowing at the rates of 14.75 that we did at the time.

MR. B. RANSOM: These recommendations are strictly the recommendations of the Department of Finance and of their outside advisers. Is that the case?

MR. C. CURTIS: That's correct, Mr. Chairman. As Mr. Ransom knows we do receive a great deal of advice from banking groups and underwriting groups which we have to weigh and look at carefully before we make a recommendation to government. This is what we've, in fact, done.

MR. B. RANSOM: Mr. Cherniack had been serving as a financial adviser to the Minister, among other things. Can we be assured then that Mr. Cherniack did not have any hand in making this decision, that it was strictly and purely a decision of the professional people within the department and the professional advisers normally used by government?

MR. C. CURTIS: That's correct.

MR. CHAIRMAN: Mr. Schroeder.

HON. V. SCHROEDER: Just one further point and that is that there's been frequent reference made to the first prospectus put out by the government after we took office. I would just like to point out that the work on that prospectus had started back in August or September of 1981. That doesn't mean that people would have had to go to the market, but it was certainly taking place and people were clearly looking at that time to be sure that when there was an opportunity to go to the market, that they would. I've produced figures to the Legislature to show that if you look at 1982, we did very well in terms of our interest rates on our new borrowings as compared to other provinces and that's not something that I say because the government did something as a Cabinet, did something great, it's because I think that the people in the Department of Finance are professional money managers, have done an extremely good job overall. On looking back one can always point to troughs where there were lower rates and maybe we could have gotten an eighth-of-a-point here or a couple-of-points there, and that might well be true but, I think, that if you recognize that overall there's also the concern for making sure that we're going to be having an even flow then, I think, they've really done a very good job. I'm quite happy with them.

MR. B. RANSOM: Indeed, that's the case, Mr. Chairman. The staff have done a good job one can always point to troughs where there were lower rates and maybe we could have gotten an eighth-of-a-point here or a couple-of-points there, and that might well be true but, I think, that if you recognize that overall there's also the concern for making sure that we're going to be having an even flow then, I think, they've really done a very good job. I'm quite happy with them.

MR. B. RANSOM: Indeed, that's the case, Mr. Chairman. The staff have done a good job over the

years and they have done it partly because they have not had to be in the markets too frequently. I can only hope that the affairs of the province, the decisions that the Minister of Finance and his colleagues have to make, will not cause the province to have to be in the markets too frequently, because then the capacity of the province and of the staff might be strained to the point where we wouldn't be able to both agree on that point.

Mr. Chairman, I asked some questions in review of the Estimates of the Department of Finance and received answers to them. One of the questions that I had asked was why, when there had been an approximately \$160 million in the deficit in '82 - '83 from what was projected, why the borrowing requirements had not gone up? I was provided with some information showing that what the projected borrowing requirements had been for the province in hydro and telephones, MACC and MHRC and find that they actually borrowed there \$163 million less than was projected and the most outstanding item, for example, was a projected requirement of \$70 million for MACC and borrowing of \$1.1 million, whereas the previous year there had been either no projected requirement or a small projected requirement for MACC and the actual funding was substantially above that. Why do we have this kind of variation? Why is there a projected requirement of \$70 million and an actual of \$1.1?

HON. V. SCHROEDER: Mr. Chairman, I believe, first of all, there was the \$50 million for the Homes in Manitoba Program and the cash didn't flow in the year and the other part of it I'm really not sure about. It would have had to do, I believe, with the CMHC type programs. CMHC funds a lot of programs, or doesn't fund them, they lend them money up to 90 percent and we put in 5 percent now, why we didn't use the \$20 million is something we would have to take a look at. Maybe we can get something this morning on it.

MR. B. RANSOM: This question was related to MACC specifically, the Manitoba Agricultural Credit Corporation, which had projected \$70 million and actually used \$1.1.

HON. V. SCHROEDER: Yes, Mr. Chairman, we're going to have to check that and get back to the member on it.

MR. B. RANSOM: Just another couple of questions then relating to the advances by way of explanation, if the advances of the loans that are made to Agricultural Credit Corporation, Water Services Board and Housing Renewal Corporation, etc. My understanding is that when they make a request to the government for long-term funding that it is the approximate borrowing cost to the government at that time that is used to provide that long-term funding, irrespective of the point in time at which the government actually borrows the money. Is that the case with respect to Agricultural Credit Corporation, which I'm sure it is, but to how many others does that apply?

MR. C. CURTIS: Mr. Chairman, if we were undertaking borrowing for a Crown corporation or agency, we try and match their needs as they request the funding or

the authority to be set in place with the current market rates. We set the current market rates quite frequently in order that we can use the existing market rate at the time and we establish this rate from existing published rates and in consultation with our underwriters and banks.

MR. B. RANSOM: That applies to which corporations?

MR. C. CURTIS: Such corporations as MACC. It would include all of the corporations that we are providing the funding for.

MR. B. RANSOM: So there can be situations where the Water Services Board might ask for long-term funding when the rate is 12 percent and the government doesn't provide it until the rate goes up to 14 percent and they still provide it at 12 percent. Where does the additional borrowing cost show up then? Is that in the general debt servicing costs of the Provincial Government?

MR. C. CURTIS: That's correct, Mr. Chairman, if we've agreed on a rate at a time and if, in finding the funds, it is more expensive, then it becomes part of the public debt cost.

MR. CHAIRMAN: The Member for Burrows.

MR. C. SANTOS: I'd like to ask some questions because I don't understand how the operating trusts relating to the Manitoba Lotteries and Gaming Commission works. For example, it appears here there are several categories in which the receipts could be allocated. Are these receipts from several cultural . . .

HON. V. SCHROEDER: Which page are you on?

MR. C. SANTOS: On page 512 and following. How does the money earned become earmarked whether they are cultural fund, amateur and fitness or recreation development funds?

HON. V. SCHROEDER: Mr. Chairman, that would be done through the Department of Fitness and Amateur Sport and Cultural Affairs, where there are decisions made between those two departments as to dividing up the proceeds. Of course, they have to be approved at Treasury Board and ultimately by Cabinet.

MR. C. SANTOS: So the decisional authority resides with the Department of Fitness and Recreation Sport?

HON. V. SCHROEDER: And Cultural Affairs.

MR. C. SANTOS: And also Cultural Affairs. Now, when they go to the separate operating trust funds, they make grants from each of these separate operating trust fund categories. Who recommends the grant?

HON. V. SCHROEDER: Who recommends the grant?

MR. C. SANTOS: Right.

HON. V. SCHROEDER: Well, as with any grant there are groups out there who are pressuring government

departments and government departments look at the grants, go to their Ministers with them, and Ministers then in this particular case - the two Ministers - try to come up with something that both can live with, then it goes to Treasury Board and to Cabinet.

MR. C. SANTOS: Well, Mr. Chairman, before the Minister can make his decision, there must be some people who are doing the groundwork? Who are these people who make such recommendations?

HON. V. SCHROEDER: Mr. Chairman, it would be the senior staff in each department.

MR. C. SANTOS: Is it primarily on the basis of allocations and grant as of the last fiscal year that these grants are renewed every succeeding year?

HON. V. SCHROEDER: Mr. Chairman, one of the limitations obviously is the amount of money that is available. The organizations who have been getting funding would be organizations that you would certainly take a look at. They would come with their budgets and senior staff would look at them. Of course sometimes new groups appear and ask for funding then a decision has to be made, and if they are funded it has to come from somewhere.

I think in every year there are always new groups that do get funding. I know that there are always people coming to see, not only the people in the department, but the Ministers as well. There's always lobbying going on.

MR. C. SANTOS: Mr. Chairman, given that an old grantee normally expects a renewal of a grant, either at the same level, an increased grant, what are the chances if any, of a new group getting any grant given that the resources are almost always limited?

HON. V. SCHROEDER: Mr. Chairman, that's a pretty hard question to answer. I guess it depends on how effective their lobbying is on the senior staff, how effective their lobbying is on the politicians. I'm sure that there are new groups listed in this list, although I can't point to one and say that particular one is a new one.

MR. C. SANTOS: Are there any standing criteria or standards by which grants are made even of a very general nature, or is it purely discretionary on the part of the Minister?

HON. V. SCHROEDER: Mr. Chairman, I really can't answer that. I think it would be more appropriate if it was asked of the Ministers involved directly with those departments. I do believe that there criteria. The agencies that receive grants would have to have very clear objectives, there would have to be some indication that the money was used for those objectives as opposed to the benefit of some individual, and that type of thing. But exactly what the criteria are, I really wouldn't be able to get into.

MR. C. SANTOS: Mr. Chairman, assuming that there is no such criteria, it would appear that a zero base

system of budgeting would be a better system for these kind of grants, in the sense that every year it would be a new slate, every applicant will have to justify what it is applying funds for, instead of just proceeding on the basis of past year's allocation. Otherwise, new groups will have either no chance or very little chance of obtaining grants that are necessary, and all groups that had been established as recipients of the grants would have, by that time, developed a habit of being dependent on these grants, instead of individually justifying their allocations for grants.

I would suggest a new policy for the distribution and allocation of these trust funds.

Thank you, Mr. Chairman.

MR. CHAIRMAN: Any further discussion on Volume 1, Financial Statements? If not—pass. Volume 2, Supplementary Information—pass.

HON. V. SCHROEDER: Mr. Chairman, Mr. Curtis has some information.

MR. CHAIRMAN: Mr. Curtis.

MR. C. CURTIS: Mr. Chairman, in response to Mr. Ransom's questions earlier on the MHRC authority. First of all there were four separate items that are shown on Page 3-18, outstanding as at March 31, 1981. Four items were cancelled as the authority was taken out and eliminated.

With respect to the MHRC the listing of authority has been, to some large extent, committed under Housing Programs. If you went to Page 319, you'd notice there was a comment made that funds received from CMHC on projects for which there has not yet been any authority abatement. — (Interjection) — I'm sorry, pardon me, it's 1981, but we made the note on that page that there was 88,500,000 of projects approved by CMHC where there had not been any authority abatement because the requests haven't come in for the authority of the CMHC. The funding has been provided by CMHC, monies advanced, and then in due course the authority is abated and we provide debentures back to Canada.

MR. CHAIRMAN: Mr. Schroeder.

HON. V. SCHROEDER: I had provided members of the committee with a couple of recommendations at the first meeting. I would ask that we deal with them now. The first one would be the Public Accounts reporting levels. Do members have copies if they have questions? I recommend that the recommendations made by myself be approved by the committee.

MR. CHAIRMAN: Mr. Ransom.

MR. B. RANSOM: Mr. Chairman, I don't really have any problem with this. I see by the comparisons that we're perhaps going fairly high on the salary side, but I expect within a couple of years that it will level out again, so I'm prepared to support this.

MR. CHAIRMAN: Pass the motion? Pass.

HON. V. SCHROEDER: Yes. The other item, Mr. Chairman, deals with the expenditure object codes recommending approval of that item as well.

MR. CHAIRMAN: Mr. Ransom.

MR. B. RANSOM: I note on the Appendix to this recommendation that under Point 2, the proposed nine summary level codes report on an economic sector basis, and it speaks about the purchase of capital. Is this a new category of a code that's going to be used and if so, what definition then is to be used here?

HON. V. SCHROEDER: Is Mr. Ransom referring to Point 3 on the Appendix? They're not numbered, but the third paragraph.

MR. B. RANSOM: No, I'm referring to Point 2. It's the last page of the three pages that I have. Point No. 2 says, "The proposed nine summary level codes." Then it speaks about the purchase of capital as being one of those codes.

MR. C. CURTIS: Mr. Chairman, we've used a definition for several years now, outlined on Page 12 of Volume 1, and as a result of discussions with Mr. Ziprick, we're expanding it somewhat to include the three areas that have been used in this year's capital acquisition. It's not an area that would have been excluded if one had looked carefully at the definition, but in order to make certain that it's clear, we'll be adding the three areas of Housing, MHSC and Education grants to that definition.

MR. B. RANSOM: Could I just be directed to that definition.

MR. C. CURTIS: I'm sorry, it's on Page 12, left-hand side and the second column, and it's under 2 in the last paragraph.

MR. B. RANSOM: My concern here is that whatever definition of capital is going to be used that it be used consistently throughout, that it be used in the presentation of the Estimates and in the reporting within Public Accounts. Is the definition that is going to be used now the one which the Minister and the department are satisfied with as a definition and that it isn't likely to be changed again, for instance, as a consequence of Professor Barber's report?

MR. C. CURTIS: I'm not aware that Dr. Barber was not in agreement with our definitions in that respect. I would expect that there would likely not be any changes in the future of any consequence. It's interesting to note that when we were meeting with Standard and Poor's they felt that we had under-expressed our capital payments and they were supportive of our expanding to include the items that we have included.

MR. B. RANSOM: By expanding to include the items that you have included, are we now talking about the maintenance expenditures for instance, . . .

MR. C. CURTIS: They felt that if there were long-term maintenance improvements, they should be included, but we hadn't gotten to the point of analysis with them of the accounts. They did feel that wherever an asset

or expenditure under our definitions could be shown to be clearly within the guidelines, that it should be shown.

MR. B. RANSOM: I still have some problem with that. Is this going to include maintenance on highways having to do with snowplowing, for instance?

MR. C. CURTIS: No, it's not, Mr. Chairman.

MR. B. RANSOM: On Page 12, the definition -the term is used "Acquisition and Construction of Physical Assets." That terminology used to be used in the presentation of the Estimates. I take it then that this definition is not the same as the one that used to appear in the Estimates under Acquisition and Construction of Physical Assets?

MR. C. CURTIS: I guess the only major difference, if you like, is the inclusion of capital grants that are being made to other operations such as municipalities, school divisions and so on. Those were the kinds of capital formation grants that certainly S & P, Standard and Poor's, felt were legitimate capital outlays.

MR. B. RANSOM: I can't just find it in Dr. Barber's Report, but if my recollection is correct he spoke about attributing labour costs to physical assets as well. Now, at the moment, are the salaries of highway engineers, for instance, are those included in the cost of the construction of a highway?

MR. C. CURTIS: Those that are attributable to the specific projects are included.

MR. B. RANSOM: On the codes that will deal with personnel costs, the personnel costs then will not be total personnel costs of the government, because some of those have already been assigned to other areas of capital costs, for example.

MR. C. CURTIS: We would show them as the salary or labour component of the projects. They would be shown in total salary or labour calculations.

MR. B. RANSOM: On Page 418 and 419 there is a category, Salaries and Wages. As that stands at the moment, that covers the entire salaries and wages of personnel in the government?

MR. C. CURTIS: Yes it does, Mr. Chairman.

MR. B. RANSOM: Now, when we add in another code that's going to deal with purchase of capital, and Mr. Curtis has indicated that some salary costs will be included in the capital costs, then what will happen to the code dealing with personnel costs?

MR. C. CURTIS: Our intention would be to show the gross expenditure, that is for salaries and wages, in the statement here, and then you show a transfer out or recovery from the capital project; but this statement would include all of the wages that were paid by the Crown.

MR. B. RANSOM: Mr. Chairman, I trust that we will have some detailed definitions presented in the Public Accounts of what we're dealing with in these various categories, especially as they relate to capital assets. I suppose it's equally important to know what's included in the others as well.

MR. C. CURTIS: That's certainly our intention, Mr. Chairman.

MR. CHAIRMAN: Any further questions?

MR. B. RANSOM: Pass.

MR. CHAIRMAN: The second motion, Expenditure Object Codes—pass.
Committee rise.