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—
Chair

The Honourable Diane Marleau

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• (0900)

[English]

The Chair (Hon. Diane Marleau (Sudbury, Lib.)): I'm going to call the meeting to order.

I want to welcome back the Auditor General, Madame Fraser, and Mr. Marshall from Public Works. Perhaps you could introduce the officials who are with you. It will give everyone a better idea of who's with you. Then I'll let you make your statements. You know the drill.

Please, go ahead.

Ms. Sheila Fraser (Auditor General, Office of the Auditor General of Canada): Thank you, Madam Chair.

We thank you for this opportunity to present the results of chapter 7 of our May 2006 status report, called "Acquisition of Leased Office Space". I'm accompanied today by Ronnie Campbell, assistant auditor general, and Bruce Sloan, principal, who were responsible for this audit.

[Translation]

PWGSC manages 6.6 million square metres of rental space and spends \$3 billion annually to manage real property. As the department handles as many as 500 lease transactions every year, it needs complete, accurate and timely information to support its decisions.

The department's commitment to achieve the government's cost-reduction goal makes strong management practices even more vital for the Real Property Branch.

[English]

This audit has raised a number of important issues that affect the cost of office accommodation, and I would like to briefly elaborate on them.

Currently, Public Works, client departments, and Treasury Board share the responsibility for decisions that affect the cost of office accommodation. The shared responsibility makes it difficult for Public Works to impose and enforce government-wide standards for the quantity and quality of office accommodation. In our report we have noted instances where the department has not always enforced those standards, resulting in additional costs for taxpayers.

The committee may wish to ask the department about the steps it will take to ensure that its standards are enforced.

[Translation]

The second factor that has an impact on the cost of office accommodation is the fact that the current funding mechanisms do not always allow the selection of the most cost-effective accommodation options. In our current audit, we found that the department had made satisfactory progress and identified the most cost-effective options to meet the accommodation requirements of its customers.

In assessing the various options for office accommodation, PWGSC considers the full cost of each option over the expected life of the requirement. Accommodation requirements often are for 15 to 25 years and include crown construction, lease-purchase, purchase and lease.

The committee may wish to ask PWGSC and the Treasury Board Secretariat to establish a timeframe within which they will establish funding mechanisms that will allow the department to select and implement the most cost-effective accommodation options.

[English]

In 2002, we reported that Public Works needed to strengthen the integrity and availability of information to support the management of the acquisition of office space.

In our report this year, we reported unsatisfactory progress in this area. To make the right decisions, managers need information that is timely, accurate, and complete. We found that the basic information property managers need does not exist, is inadequate, or is difficult to get.

The committee may wish to ask the department to describe the steps it is taking to streamline the management of the real property portfolio and that it will take to establish the information systems needed to support its strategy.

[Translation]

Finally, Madam Chair, I would like to raise the following issue. Often government managers view office accommodation as a free good or service. However, at present, the cost of office accommodation is being paid by PWGSC and is being reported in the departmental public account as a service that is provided without cost. The government should ensure that the system provides the right incentive for good management, including selecting the most cost-effective options.

[English]

Madam Chair, that completes my opening statement. We would be pleased to answer any questions the committee members may have.

Thank you.

The Chair: Thank you.

Perhaps we will have Public Works now.

Mr. David Marshall (Deputy Minister, Department of Public Works and Government Services): Thank you, Madam Chair.

Madam Chair, members of the committee, thank you for inviting us to join you to discuss the Auditor General's status report on leased office space. With me today is Mr. Tim McGrath, who is the acting assistant deputy minister for the real property branch.

I think it is well understood by all, as the Auditor General has pointed out, that meeting the accommodation needs of federal public servants across the country is a very complex operation. It involves some \$3 billion a year, thousands of transactions, and many trade-offs that have to be made. Among these is the need for the government as a whole to consider various budgetary demands and pressures and various priorities for federal programs themselves.

As well, Public Works and Government Services must deal with the volatility of the real estate market in every region of the country and various pressures that arise on the cost of accommodation from one source or another. Despite these challenges, PWGSC has been making steady progress over the years. You will find as you examine our estimates, for example, that despite an increase in demand from our clients the cost of our accommodation program has not only levelled off but is actually going down as a result of actions that have been taken by our managers.

We've made good progress on most of the recommendations made in the last Auditor General's report on this subject, issued in 2002, notably in the area of better forward planning, and as the Auditor General has pointed out, in assessing the full cost of various options for office accommodation before we make a recommendation.

As well, over the past two years we've taken several steps to improve the management of the real property program, and these are yielding concrete results. Included among these steps is enforcing a tighter space allowance, as the Auditor General has just mentioned, for public servants and a less expensive fit-up package than previously allowed. I must say we are receiving very good cooperation in this matter from the Treasury Board Secretariat, and as well from our clients. The result is a saving of several millions of dollars to the Crown on an annual basis.

By doing more forward planning on lease negotiations and negotiating leases more aggressively in the market, we've reduced our average lease cost to below the industry average in most markets across Canada and we are now ahead of our plan in meeting our savings goals in this area. We've also been reducing our own overhead, taking out something close to 400 to 500 person years in the process from the effort. Finally, we are improving the management of our inventory, where we already have one of the lowest vacancy rates of any major real estate operation in the country.

Notwithstanding these achievements, much remains to be done. The Auditor General has pointed out that we need better information systems, and we fully agree.

Probably the most important issues that the AG has raised are, first, the shared or split responsibility for the cost of office accommodation that now exists, and secondly, the various anomalies of annual funding cycles.

In terms of shared responsibilities, decisions must take into account the operational needs of a department and so cannot entirely be assigned solely to Public Works or to one or the other party. As well, budgetary trade-offs need to be made, in this case by the ministers of the Treasury Board. So there's no simple solution to this problem. However, I do believe that improvements are possible and necessary, and we are working with the Treasury Board Secretariat to see how far we can go. In fact, in my opinion this area is probably the single most important area contributing to time delays and costs for the portfolio over the longer term.

Madam Chair, I would be pleased to answer questions you or any members of the committee may have.

● (0905)

The Chair: Thank you.

I'll turn it over to Mr. Alghabra.

Mr. Omar Alghabra (Mississauga—Erindale, Lib.): Thank you, Madam Chair.

Good morning, everybody. Thank you for coming here. Good morning, Madam Fraser. It's good to see you again.

This is probably one of the very few subjects where there are not necessarily any ideological ways of interpreting the audit or finding ways of getting it done. Hopefully, all of us today have the same goal, to understand specifically what the report is all about and to work with all of you here to ensure that we make it better.

I come from the private sector, in fact, from a large international corporation that always tries to balance between centralization and decentralization. This is an ideal case study, where the combination of centralization and autonomy is at play. How do you see this combination, the fact that different departments work with Public Works on identifying facilities and spaces? Is this the ideal way, or do you think there are ways of making it better?

● (0910)

Ms. Sheila Fraser: Thank you, Madam Chair.

At the Auditor General we are always reluctant to comment on what we call machinery of governments. Government can organize itself as it wishes. That being said, I think there are advantages obviously to having more centralized service and expertise in leasing of office accommodation.

The difficulty we were raising here is the department's view that this is a free good. Actually the charge comes into the department as charge without costs, or services provided without cost. So they don't in many cases actually see themselves as managing this cost. There's actually no incentive in the system for a government department to reduce its space, to find cheaper accommodation. They don't get any real benefit from that. What we're saying is yes, there can be the shared responsibility, but you have to have an incentive in the system so that people will move to reduced space or to a less expensive area of town. Otherwise why would they do that?

The other difficulty we note is the way the funding works. In many of the cases we present in the report, the analysis done by Public Works would show that purchasing is the least-cost option. We were told in many cases it's because the funding isn't available in that year to actually purchase, whereas there is a smaller amount available for a lease so leases are signed over a longer period of time. There needs to be better incentives to go to the less expensive options.

Mr. Omar Alghabra: Again, from the private sector, especially since I have been involved in several quality audits, typically the quality auditor puts forth afterwards a checklist of follow-up items that need to be improved on before giving the final okay. Is that something that perhaps we can implement in the future? Based on serious shortcomings or recommendations, maybe there needs to be some follow-up checklist to make sure it gets done and so a second visit could happen.

Ms. Sheila Fraser: Most definitely. In fact the whole purpose of this report is to follow up on previous audits to see what has been done with regard to recommendations that had been made in the past. We note that there is improvement in some areas, less improvement in others. What we are encouraging departments to do, and other committees of the House are also asking for, is a specific action plan to address the areas of improvement with clear responsibilities, clear timelines. We are encouraging committees as well at times to ask for updates on the action plan to make sure that the department remains focused on this. We use that action plan to determine when we will go back and re-audit an issue. If the department says they will complete the work within two years, we might go back in the third or fourth year to give them the chance to address it. Then we go in to see if it has actually been done.

Mr. Omar Alghabra: Thank you.

I have another question about one of the case studies or situations that you've looked at. I can't remember what it was. There was a bid that you looked at. I think it's the 800 Place Victoria in Montreal. They've been in that office for years. They've had an open bid and the current place where they were at was the fourth bidder. Did they take into account their relocation? Was that another cost that would have been accounted for, and would that have made a difference?

Ms. Sheila Fraser: The relocation costs would be considered in the analysis of the bids. In fact, in this case, as you mentioned, where the department or the agency was located was classified fourth on the list. The winning bidder was notified, and then there was a request to remain where they were, so government ended up having to pay two rental spaces. At the end of the day you have to ask, if there really was the significant need to stay where they were, why did they go out for a bid? If you're going out for a bid process, then you should respect that process.

• (0915)

Mr. Omar Alghabra: Do I have more time?

The Chair: You have half a minute.

Mr. Omar Alghabra: I was going to ask, Mr. Marshall, if you could elaborate a little bit more on this case.

Mr. David Marshall: From time to time there are reasons for clients, for departments, to change their minds and request that they not move. We've had that in very significant cases. The Department

of Agriculture faced a crisis with the mad cow situation. They didn't want to spend money moving while they had to fight an operational requirement. We can cite many situations like that. It's not unusual for a department or client to say they have changed their mind.

In this case the client came to us and said they didn't believe they really needed to expand. They wanted to stay where they were and didn't want to have the move take place. Since we had already advanced quite far in the bidding process, we felt it would be very unfair to the bidder to now renege on the lease, so we went ahead. As the Auditor General has pointed out, that resulted in paying for space that wasn't used for a while, until we were able to fill it. On the other hand, if you look at our portfolio as a whole, we have the lowest vacancy rate of any major real estate operator in the country. Some anomalies might exist, but it's certainly very small.

Mr. Omar Alghabra: Thank you, Madam Chair.

The Chair: Thank you.

Mr. Kramp.

Mr. Daryl Kramp (Prince Edward—Hastings, CPC): Madam Fraser, I've listened to you before when you've expounded upon the virtues of accrual accounting. Now we have a situation with accrual budgeting, or the lack of it.

My question then would be to Mr. Marshall. Why has there been such a reluctance or lack of decision on behalf of the government and/or your department to adopt the full measures of accrual budgeting? Has it been strictly a budgetary reason—cashflow requirements from the Treasury Board? Are they the problem, or is it reluctance in your department to accept the principles of accrual budgeting?

Mr. David Marshall: Madam Chair, we are providing a real estate service, which really involves long-term considerations to determine best value. It's not an annual consideration. From our point of view, a long-term funding envelope is by far the better solution. As well, when we look at the anomalies of annual funding, it causes a great deal of difficulty to try to maintain the portfolio as it should be and also to realize the theoretical business cases that we put forward, so our point of view is that we are certainly in favour of accrual appropriation and accrual accounting.

On the other hand—and we've been working with our colleagues in Treasury Board Secretariat—we do realize that the government's financial accounting and funding mechanisms and so on are very complex. We're mindful of the fact that in one case it might be a good thing, but it might introduce other complexities. I believe the secretariat of the board is examining this very issue.

Mr. Daryl Kramp: My point is about a measure of consistency. You have to have one system or another. If you're going to have conflicting systems of accounting, conflicting systems of money management, you can't properly evaluate the effectiveness of the system unless there's some form of consistency. I honestly believe we should either go one direction or the other. You can't take an expenditure of a building for x amount of millions or billions of dollars and decide you're going to expense it in year 14 when expenses are ongoing all the way through. I find it totally not acceptable that all of a sudden we can't have some form of consistency. When I see a reluctance to do that, I really want to know if it is coming from your department or from Treasury Board.

• (0920)

Mr. David Marshall: I would have to say it is more a case of trying to ensure that by switching from where we are today—an annual funding mechanism—the government is not going to introduce complexities or some other problems in its overall accounting. I think that's the issue the Comptroller General is trying to address, but if you wanted to know from our point of view, we would be in favour of portfolio accounting, and we are working with the secretariat on that basis.

Mr. Daryl Kramp: Thank you very much.

The Chair: Madam Fraser wanted to add something.

Ms. Sheila Fraser: I know we're studying the chapter on leasing, but I'd just like to add that there's another chapter in this report, the first one, on the whole question of managing financial information. The Government of Canada has moved to what is called accrual accounting, where you capitalize fixed assets, as one of the big differences for financial reporting purposes. At the end of each year, the public accounts are produced on this basis.

We note in that first chapter that departments, in their ongoing day-to-day management, do not really use accrual accounting, largely because the appropriations process is not on an accrual basis. We have been bringing this forward, I would say, for close to 10 years. Other committees of the House have made recommendations in this sense; the government continues to say they are studying it. What we're saying in this chapter is: enough study; it's time to get on with this, because as long as you have these different bases of accounting, you will never use the full accrual method on a day-to-day basis. And I think the acquisition of property is one example of that.

Mr. Daryl Kramp: Well, thank you for your clarity. I don't think anything could be clearer. We have to get on with it.

You're right, Madam Fraser, I sat on another committee when accrual accounting was once again discussed, and you expanded upon the virtues. We have seen so many examples where we have to have some form of consistency in our accounting procedures. So I would hope this committee would take a very serious look at this matter, because the information we are going to report—and for this government the importance of the Auditor General's report—has to be accurate in its finance and has to be consistent in its delivery. Unless we have one consistent method of reporting and managing our functions, it's not going to work.

So thank you very kindly, Madam Fraser, for the recommendation on this. I would hope this committee would take a very serious look

at seeing if we can come up with some form of recommendation so we could have some enforcement procedures for this kind of process.

I would like to go back, if I could, to 800 Place Victoria. It's a sad example.

Mr. Marshall, you gave a reason why the client changed their mind, or changed their direction, or changed their thought. Quite honestly, it sounds like a cop-out. It looks as though we've had some interference in this bidding process or in this tendering process. I hope I'm wrong, but that's just what I would read from this.

Can you give me the name of the individual who made this decision to go ahead and waste \$4.6 million by double-tendering a process? Who is responsible for this, so we could look further into this?

Mr. David Marshall: Madam Chair, the decision did cost the Crown money. It was unfortunate. However, from our point of view as a service provider, we received a legitimate request from the minister in charge of that agency. Our department, the officials at the time, responded to that request in a straightforward manner and satisfied the wishes of the client.

Now, I must say this has changed considerably over the years. Today, Public Works, with the support of the secretariat of the Treasury Board, is much more rigorous in not allowing clients to have sole discretion over what they want to do. We are much more mindful of value to the public purse.

• (0925)

Mr. Daryl Kramp: Could you identify who asked you to make this request?

Mr. David Marshall: Yes, I believe we have on file the official request in writing from the minister of the agency in Quebec. We can probably table that for you.

Mr. Daryl Kramp: Would you table that to this committee? I'd appreciate that very much.

Mr. David Marshall: Sure, yes.

The Chair: We'll go on. I'm going to take a moment here.

[Translation]

I apologize, Ms. Thibault. It should have been your turn. That is very much my fault. I moved too quickly.

Ms. Louise Thibault (Rimouski-Neigette—Témiscouata—Les Basques, BQ): I was pleased to give Mr. Kramp my turn, to show him that I really do work very collegially. I did not object to his taking my turn.

Thank you for being here once again, Ms. Fraser. We are always pleased to have you with us. I would also like to thank Mr. Marshall and the colleagues from the Treasury Board Secretariat.

We have already dealt with this subject, but I would like to come back to it. In your statements, Mr. Marshall and Ms. Fraser, you spoke to us about the important matter of sharing responsibilities.

I would like you to break down the responsibility in the case of the lease on Bay Street in Hamilton, where Treasury Board chose one option over another, the Centennial Towers and the Jean-Edmonds Towers in Ottawa—did the shared responsibility involve shared accountability as well?

As parliamentarians working on behalf of the people of Canada, how do we define who is responsible—Public Works, Treasury Board or the departments? In this way, we could detect errors that have been made and correct them so that they do not recur in the future.

Is it possible that you will always have to deal with this triumvirate in the future? Or should we be thinking of a different philosophy or a practical approach to ensure, as you've just said, that all the partners are fully aware of the fact that they are spending public money?

I will start with Ms. Fraser. Do you see a way of doing that? Do you have any recommendations along these lines? I would then ask Mr. Marshall and Mr. Libbey to give me their views on this.

Ms. Sheila Fraser: First of all, Madam Chair, the issue of the parliamentary votes must be dealt with within the examples mentioned. A more expensive option should not be chosen simply because there are inadequate funds in the annual budget.

It is illogical for that to cost more. We understand that there may be other reasons why leasing is chosen over purchase or construction. In the files we studied, we did not find any other factors justifying the selection of one option over another. Of course, as auditors, we recommend that the least expensive option be chosen.

I think we must start by reviewing the way in which parliamentary votes discourage the purchase or construction of a building. Second, as we mentioned—and Mr. Marshall will be able to say more about this—it is the client department that should normally be responsible. However, given that the responsibilities are so divided—it may be difficult to tell—ultimately, no one is really responsible.

Ms. Louise Thibault: That is our impression as well.

Thank you.

Ms. Sheila Fraser: Mr. Marshall could perhaps...

Ms. Louise Thibault: Yes, I would like to hear from him. Thank you.

[English]

Mr. David Marshall: Thank you, Madam Fraser.

Voices: Oh, oh!

Mr. David Marshall: I wish I had the wisdom to solve this one.

Madam Thibault, look, the fact is that we do 500 leases a year. We are now discussing some cases that, even though they're few, are important in terms of the principles that we might use to improve things. I don't want to minimize that, but I also want to put it in context, because there's a lot going on. However, we do want to examine the issues that help us do better.

In the case of the shared responsibilities, clearly the departments need to have responsibility for their operations. If they tell us they

need to be downtown, or they need to be in a certain region, we have to respect that in terms of at least the reasonableness of that requirement. In that sense, we endeavour to help departments do what they need to do and meet their operational needs.

In terms of the split for funding and so forth, there is an issue here. Up until now, the departments have been responsible for finding money for the fitting up of their own accommodations, which is quite a considerable amount of money. What happens in that case is that in order to get that funding from Treasury Board or other sources, it takes quite a bit of time. What happens then is that time stretches in between trying to get them what they need and when we can execute, which in the real estate market often means extra cost delays and so on.

In the relationship with a department, we certainly would favour... and many departments have come to us and asked why we don't have a turnkey solution, where they say, "Here's what we want; you are the real estate professionals, so why don't you get us what we need and tell us what it's going to cost? Then let's agree on it and go ahead."

We think that is very sensible. We've been discussing that with the secretariat. If we can make that happen, that's going to help.

In terms of responsibility for whether we put money up front or whether we take a lease, I must say we would need to take into account the obligation of the government to decide whether they want to invest or whether they want to rent and so forth, given the pressures that exist at the time and the trade-offs for all the different things the government has to fund. The Treasury Board ministers, of course, weigh that up before they give us a decision as to what they want us to do.

However, we come back to the fact that, as Madam Fraser pointed out earlier, if you have accrual appropriation, then the impact of dispensing capital in a single year will be minimized from a financial point of view, because it will be spread over the period of the actual usage of the asset. So an accounting change may well help ministers make better decisions, there's no doubt about it.

Ultimately we are all responsible. It's not very easy to just simply say it's the Treasury Board, or it's Public Works. Departments are responsible for telling us what they need and so on. But I think we're getting better. Partly by being prodded by the Auditor General and partly by being accountable to Parliament and so on, things are improving.

● (0930)

[Translation]

Ms. Louise Thibault: Do I still have some time left?

The Chair: You may ask a brief question if you wish.

Ms. Louise Thibault: I would just like to hear what Mr. Libbey has to say about this.

What does Treasury Board think with respect to the issue I raised and to which your two colleagues have already replied in part?

[English]

Mr. Jim Libbey (Executive Director, Financial Systems Acceptance Authority, Office of the Comptroller General, Treasury Board of Canada Secretariat): Thank you. Yes, it is a complex situation, and no doubt when you discuss the first chapter, we'll discuss this whole issue in considerably more depth.

I have a couple of things to point out. First, I don't think there is a panacea here in terms of accrual accounting being the final solution and once you have that you're done, because other things do come to bear on these decisions.

I would just reflect on Mr. Marshall's comments towards the end, where ultimately the Treasury Board ministers have to look at all the things that are in front of them. It may well be that even if you're in an accrual mode, the lack of cash is still a matter of interest to government. Do you have to go into further debt in order to acquire the lease? They may not want to do that. They may prefer to pay cash up front, and I think those kinds of decisions will still be in front of us. But the accrual basis of accounting used for appropriations and budgeting does definitely bias these decision-makings in favour of long-term thinking, which is what I'm hearing around the table here. So perhaps what we need is to understand that the decisions are influenced by different things and that the transparency of the rationale for a particular decision is perhaps one of the things we need to focus on.

I would just add that one of the problems we have with this issue of when and how we move to accrual-based appropriations is that we, the accountants—and I represent the Office of the Comptroller General in this matter—are responsible for establishing accounting principles related to reporting externally, as we do in the public accounts, for example. The appropriations, on the other hand, are legal matters, and the way they unfold and are calculated is governed by another group, which is the expenditure management sector. Hopefully when you look at chapter one, both those groups will be represented. Right now, the expenditure management sector people were not available on the short notice of yesterday.

I guess the bottom line is that it is not a panacea, but it certainly is a move in the right direction.

• (0935)

The Chair: Thank you.

Madame Nash.

Ms. Peggy Nash (Parkdale—High Park, NDP): Thank you, Madam Chair, and thank you to all of you for being here this morning—and especially to you, Ms. Fraser, for once again making something that always seems very murky seem much clearer. I found it very helpful reading your documents.

I was interested in your comments around the cost of accommodation, concerning short-term versus long-term costs, and that sometimes what seems like a smart decision in the short run ends up costing a lot more in the long run. I would like to pursue what mechanisms you think would help deal with that more effectively. I'm wondering if you have some general advice as to how to solve this, because one can be penny-wise and pound foolish, as my granny used to say, and certainly when we're dealing with billions of dollars it adds up to a significant amount of money.

Ms. Sheila Fraser: As noted in the report, there are some examples where space has been leased for a very long period of time but using short-term leases. I think all would agree that a short-term lease is going to be more expensive than a long-term lease, so what we're saying is that there should be a better analysis of this, and where possible—and there will obviously be cases where short-term leases are appropriate—there should be longer-term leases negotiated, and not have these renewals after what I think in some cases was five years, going five-year to five-year.

Mr. Marshall might want to mention this, but I believe the government has agreed with that and is in fact trying to move towards longer-term leases and to eliminate all these short-term leases.

Ms. Peggy Nash: Yes, rollovers.

I suppose sometimes it is actually cheaper to purchase property than to lease it, depending on how the costs come out. I know there was a high-profile case recently—it was in the media—where there was an opportunity for the government to purchase a property here in Ottawa for around \$30 million in 2003. That was rejected, and now it appears there's going to be a leaseback of the property that was subsequently purchased for in that neighbourhood—\$28 million to \$30 million—by Minto. The number that was put out for the leaseback was \$670 million, which doesn't seem to be the most cost-effective way of doing business.

Mr. James, can you explain to us the analysis that went into this tendering process? How was this deemed to be the most cost-effective course of action?

Mr. Blair James (Executive Director, Assets and Acquired Services Directorate, Government Operations Sector, Treasury Board of Canada Secretariat): Madam Chair, I'll defer to my colleagues at Public Works.

I'm at the Treasury Board. I'm familiar with the case. We are working quite closely with our colleagues at Public Works and Government Services right now to look at that transaction.

Regarding the specifics of the case, for commercial confidentiality purposes I'm not sure how much we can divulge right now, but I'll defer to my Public Works colleagues, who can explain some of the general background at this time.

• (0940)

The Chair: Mr. Marshall.

Mr. David Marshall: Thank you, Madam Chair.

As the Auditor General has observed, we have been moving quite aggressively over the past year to lengthen the terms of the leases we sign in order to get better value. We've done this, to some extent, using our own judgment, if you like, because often departments say to us, "I'm not going to need that space for very long. I only need it for three years", and then we have this issue of renewing.

So we have, to some extent, gone out on a limb and said we're just going to look at history and try to get better value. We may sometimes get caught out, but on the whole we will save a lot of money—and we have been doing that, which is very helpful.

In terms of purchasing versus leasing, you could say it is intuitive that if you're going to be occupying a place for 25 years or more, it might be better to buy than to lease. But that equation has to constantly be re-examined, because economic conditions are changing quite rapidly. For example, there is a lot of excess capital available in the capital markets; pension funds and so forth are ready to invest money. So the cost of capital for private developers versus the cost of capital for the government is narrowing very sharply. It's not as wide as it used to be. The decision to buy versus lease has to re-examined to see if advantages still exist.

This is a relatively new phenomenon, and we're looking at it closely. In each case for which we make a recommendation, we will endeavour to make sure all these factors are taken into account.

In terms of the specific lease or purchase that you referred to, Madam, it is the JDS Uniphase campus that was reported in the newspapers. Certainly, I would expect you to be quite alarmed if we recommended paying \$600 million versus \$30 million. I'm not sure I'd want to be in town when I dropped that file on someone's desk.

But the reality, Madam Chair, is that various numbers are being reported. We are handicapped by not being able to discuss it. Ministers of the board have not received the file to exercise their judgment on it. We can assure you that we have analyzed the case to determine the implied cost of the property within the lease payments that are being negotiated. So you have a series of lease payments, and they cover not only the implied cost of the property, but also the fit-ups and the maintenance over 25 years.

You have to tease out, if you like, what the implied cost of buying it would be and then what it would cost you, if you bought it, to do the fit-ups and the maintenance, and then compare those two numbers—discounted to net present value.

We have done analyses and we believe the proposal the ministers will be asked to examine is a good value for taxpayers. I hope when you're able to see it in all of its detail you will agree with us.

Obviously we may yet be asked by ministers to go back and.... We can't really discuss the details now.

Ms. Peggy Nash: Was this transaction tendered publicly?

Mr. David Marshall: No, it wasn't tendered, Madam. The reason is that we received an unsolicited proposal by an owner of the property, Minto.

In looking at how we obtain space, there are specific preconditions under which we may consider an unsolicited proposal. Quite often these are advantageous to the Crown, and there is no reason to reject them simply because they're unsolicited.

In this case, it is a very large property. We are well aware of the real estate situation in the national capital region—what's available, what it would cost us to go out and buy a greenfield site and build buildings, and so on. All of this has been taken into account in considering the proposal.

So that could happen yet.

• (0945)

Ms. Peggy Nash: Thank you, Mr. Marshall.

The Chair: I'm going to take the prerogative of the chair and ask a question, I guess because I have a little knowledge about how it works somewhat.

My question would be to the Treasury Board. Is there an overall plan for accommodation, and does it take in all of the country? My experience tells me that, for the most part, client departments will ask Public Works to find them space, whatever, and Public Works will go ahead and do this. Is there some function in the background that looks overall at whether or not we should be housing another 4,500 employees in this area? Are there some better ways of using our tax dollars, either in the regions or...? My experience is that a lot of these decisions are sometimes made by middle management. They make them according to what they know. The lease or the space that they use is extremely expensive. It isn't a function that has to be in that area; it could be in any area of the country. My sense is that nobody ever looks at that overall, that it's done case by case, and it's not necessarily the best thing for the country or for taxpayers.

Mr. Blair James: Madam Chair, what we've tried to do at the Treasury Board is recognize that we're not only talking about office space, but about what we call special purpose space as well. So for example, DND, the RCMP, or Agriculture Canada would have their own facilities in a certain geographical area, in addition to the office accommodation that their public servants may require in order to perform their functions.

We have been encouraging departments in specific geographical areas to, if nothing else, communicate what their requirements are to make sure they understand the overall federal presence in a particular area, so that if they're looking to offload some space, if it's excess to their needs, or if they're looking to acquire space, at least their colleagues in the other federal departments will be aware of that.

We have undertaken at the Treasury Board a number of what we call regional overviews. For example, we've done one on Vancouver, on Kingston, on Halifax, and on Ottawa over the past five or six years, where we have got together the real property managers of each department. We've put them in a room like this and indicated, "Give us your plans for the next five years in terms of your real property—where do you see it divesting and acquiring?—so that at least we have an idea".

The office accommodation specifically, as you know, being the former minister, is the sole statutory responsibility of our colleagues at Public Works. Of course, they can't operate in a vacuum, because you can't be looking at an office space, whereas next door you have a special purpose space that may be more appropriate to look at as a package deal. So to the extent we are able, we coordinate the activities of real property managers to ensure that at least they're aware of what's going on, so that they're not working at cross-purposes, and more particularly, to take advantage of economic opportunities as they would come up.

Specifically on office accommodation, our colleagues at Public Works do ongoing reports on individual municipalities so that they are aware of housing public servants and what that would entail.

The Chair: It's just that at times over the years, I've seen decisions taken to locate call centres in places like Mississauga, where the vacancy rate is nil. The cost of locating that particular function there is not exactly the best economic decision. So I wonder how these decisions are actually arrived at. Does anybody overview them to say that perhaps it would be better if that function were housed somewhere else? I've noticed that happening on and on in a number of areas, so I felt that there really wasn't much of an overall plan.

Mr. Blair James: You're probably accurate in your assessment.

We always say that the program requirement for the individual minister takes precedence. So if the individual minister makes a compelling case that the call centre needs to be in Mississauga and convinces her cabinet or the ministers at Treasury Board that this is the case, it's difficult to challenge them, other than with the back-and-forth banter that we would like to...

• (0950)

The Chair: It's not always the best decision; let's put it that way.

I'll go to Mr. Dhaliwal.

Mr. Sukh Dhaliwal (Newton—North Delta, Lib.): Thank you, Madam Chair.

It might be a bit off topic, but I'm one of the new MPs on this block, and I see Chris agreeing on that one as well.

There is a question here about the constituency offices. Because I came from a small business background, I felt that if it was my own practice and I had to rent an office and get it running, I would be able to do it in a week. Being a member of Parliament, I was lucky enough to have an office from the previous MP. But I've noticed that it took the MP next door to me almost two to three months to move into her office.

I have a question for the Department of Public Works and Government Services here. Is there a way that we can centralize this leasing option, so that the office does not belong to an MP? It should belong to Public Works, so we can carry on.

It's just like the Prime Minister. If one moves out, the other takes charge. If he can move to the parliamentary office in a day, why can't another MP move into a similar situation?

It's going to save the taxpayers a lot of money. It's going to save them a lot of hassles as well, because the telephone number changes. They will know where to find them, so it's more consistent.

Could you elaborate on this one, please?

And there's insurance as well. I was looking at insurance cost, and Hedy Fry, another MP, had the same insurance company as I have, but there were two different rates. We had to go through a lot of hassles on that issue.

As someone with a small businessman's background, I would love to see if we could simplify these things.

The Chair: Who wants to try to answer that?

Some hon. members: Oh, oh!

Mr. David Marshall: I think often the newest members to an organization see what has happened over a long period of time, which we've all assumed is the way to do it, then seize an opportunity to improve it.

Certainly the issue of having standardized space and so forth means it will be faster and probably better. It's a hugely complicated affair. I think at present, individual political parties arrange for constituency offices. I'm not sure, is that...?

The Chair: Each member of Parliament is responsible for his or her own space and has a budget. It's taxpayers' dollars, but you're allocated an amount and that's what you do.

There's a lot of unfairness in it. If you come from an area where real estate values are low, it doesn't cost you very much for your office. If you represent an area in downtown Vancouver, it probably costs you a fortune, and I'm surprised you have space for staff. That's the kind of issue that, as MPs, we deal with a lot.

Mr. Sukh Dhaliwal: Madam Chair, it's not only the cost; it is the inconvenience to the constituents. If it takes three months to set up an office in a minority Parliament when the term of an MP is 18 months, this is a concern.

In fact, I have run my business for the past many years. If I had to move from one office to another, it didn't take more than a week or two. Even though the red tape we have to go through in all the processes—getting the lease approved—is a tremendous amount of work, I tell you there should be a way to resolve this.

The Chair: Please.

Mr. David Marshall: We could look at it. You know, it's one of those things that—

Some hon. members: Oh, oh!

The Chair: I think it's something you could take up with the group that looks after the members' allowances and accommodation on Parliament Hill, and that's the Board of Internal Economy.

It's a good suggestion. It's not something I've thought of, because I've had the same office for a very long time. But it's a good suggestion.

We'll go to Mr. Wallace.

• (0955)

Mr. Mike Wallace (Burlington, CPC): Thank you, Madam Chair.

Thank you for being here.

I did move offices, and I saved us \$5,000 a year, so there you go.

I have a few questions, and because I'm new, some of them are probably fairly elementary.

Could you tell me what the inputs and criteria are in the investment analysis report? What are we looking at when deciding between leasing and buying? What are the criteria?

Mr. David Marshall: I'm going to ask Tim McGrath to go through that for you.

Mr. Tim McGrath (Acting Assistant Deputy Minister, Real Property Branch, Department of Public Works and Government Services): When we do the cost comparison between the two, we essentially look at the cost of money and use the Government of Canada prevailing interest rates, the cost of fit-up that's required, the cost of construction, and the ongoing lease costs in a particular market.

We also look at the length of requirement for that client department. We determine whether it's in a market that offers us more or less risk. Certainly it's tougher to buy and maintain an ongoing presence in smaller communities if your requirement is only a five-year or shorter-term period. All these various factors are taken into account when we do an investment analysis.

Mr. Mike Wallace: Let's take the length of time issue. Say these guys told you they were going to be there for five or ten years, do you ever do an analysis afterward on whether they were telling the truth or whether the thing got extended?

Mr. Tim McGrath: In order to support moving to longer lease terms, we actually did that. In the past, we were generally going with five years and three one-year options. We found that in 98% of the cases we would exercise all three one-year options to bring us to an eight-year term. When you count the transactions and resources, that's five individual transactions.

In addition, we also found that in almost 90% of the cases, most of the clients wanted to remain in that space because they had made an investment and hadn't fully amortized their entire cost. It supported our going to 10- and 15-year leases. We recognize the difference between the short-term and long-term lease requirements and we're finding that the risk of going with the longer term is substantially diminished as a result of people wanting to stay in the space.

Mr. Mike Wallace: As a rule of thumb—I know it would vary between different communities—based on present value and other analysis, if they're going to be there for 13 years, is there normally a point where you say, yes, we really should be buying. Is there a number of years where you would come to that?

Mr. Tim McGrath: There are really two factors, Madam Chair. One is the type of client and the amount of fit-up required. High-security clients usually require a higher level of fit-up. When we're looking at that, we like to get a long-term situation. We always consider buying as the best option.

We're finding, though, that a 15-year lease is really the trade-off point. When you're doing an analysis, and landlords are looking at that, at the 15 year-point it starts to move from being a pure operating rental type to an economic rent. At the 15-year mark, you're also starting to incur some additional costs for rehabilitation of the asset. We try to really look at those numbers between 15 to 20 to 25 years as to whether we should be leasing or owning. But the 15-year mark is really the turning point between an operating rent and an economic rent.

Mr. Mike Wallace: Again, I obviously have some naive questions, but when the department submits its spending requests for the year, are they split between major capital and operating? Is it in the sense that if you want to spend more on capital, it's coming out of the operating side? In terms of a department making its decisions, and where the Auditor General says we should be buying more

often—not always, I don't imagine, but more often—if I'm a head of a department, can you just explain the process?

• (1000)

Mr. Tim McGrath: In our case, we have what I would call a unique funding situation with Treasury Board in that we have a national investment strategy that is approved by Treasury Board in terms of the funding protocol. Based on the size of our inventory, we receive a fairly consistent capital fund, on an ongoing basis, for both the recapitalization of the assets and the ongoing capital requirements. So in our case, in the case of Public Works, we do receive some funding for capital reinvestment in the assets.

When we get a request from a client department, they're subject to what's called the 13% rule, which is that funds are allocated to Public Works based on the number of employees a particular program will house. We then take that funding into our appropriation and proceed with the financial analysis to determine the best way to deliver that particular program. If we need to move money from our operating vote to our capital vote, we do that as part of a Treasury Board submission to Treasury Board ministers to make that recommendation.

Mr. Mike Wallace: Okay, now I know how that works.

I have a question for the Auditor General. I've seen you twice now. Both times you talked about information systems, management systems, one that was way over cost and one that doesn't work. Based on your experience, do we have a general problem with information services and the management of information here in Ottawa?

Ms. Sheila Fraser: Madam Chair, that is an issue that comes up in many of the audits, that the systems do not provide all the information that managers need to manage well. I think that is due to a number of reasons.

First, the complexity of managing the federal government has certainly increased over time. The departments too—and even within departments—tend to be very stovepiped, so when information does exist, often the systems don't communicate with other systems. So you can't get all the information you need, simply because of technological limitations.

I think the other reality is that when government is allocating funds, the programs and the direct services are obviously going to be given higher priority than some of the information management systems. I suspect that this is the reality.

Mr. Mike Wallace: Do I have more time, or not?

The Chair: No, I think that's it, but I think you'll have more time later.

Mr. Alghabra.

Mr. Omar Alghabra: Thank you, Madam Chair.

The Chair: We are now down to five minutes.

Mr. Omar Alhabra: Madam Fraser, to follow up on that question, I looked for exhibits and pictures. I didn't see any. So can you help me understand better—because I'm slow—the problems with the information system, exactly? What were the difficulties with the information system? I know it says that there is no information available. What exactly does that mean?

Ms. Sheila Fraser: I will let Mr. Sloan respond to that.

Mr. Bruce Sloan (Principal, Office of the Auditor General of Canada): Thank you.

I think, as Mrs. Fraser said, that there are some problems with stand-alone systems that don't communicate well with each other. In one example we were specifically looking for in the audit, we were trying to understand what the original budgets were for the fit-up costs and how those budgets had changed over time and what the actual expenditures were against those.

What the department was indicating to us was that it was going to take a fair amount of manual intervention to get at that information. It did exist in their hard files, but to readily retrieve it in a quick way was not an easy task. So I think that's some of it.

I know the department is moving to a new financial system shortly, which should help.

Mr. Omar Alhabra: Okay. Mr. Marshall, can you maybe tell us a little bit about the future plans for the information systems management?

Mr. David Marshall: Certainly. Obviously moving to big information systems is a big investment, and it's complex. We have been working on reorganizing, reorienting, how we do our business before we launch into a new systems investment. So that's been happening over the last couple of years.

As Bruce Sloan has pointed out, we do have information it's difficult to get at sometimes. Whenever we do make a decision, we are very careful to ensure that all the information is brought together. But on an ongoing basis, on any one day, you can't push a button and say, you know, here's the status. And we would like to get there.

So we are shortly going to go out to the business community to see if we can acquire a service provider or acquire systems that are used by big real estate operators and adapt them to our needs. That's what we're about to do.

• (1005)

Mr. Omar Alhabra: That's exactly what I was going to ask. I'm sure there are tonnes of large private corporations that are managing large sizes of real estate that probably have some systems. I think this will play into what Madam Chair was asking about, an overarching or a long-term strategy that looks after the long-term vision for the various departments. I think having a system that provides that information is essential for us to understand where we are at and where are the holes that probably can fulfill someone else's needs. I look forward to seeing an information system, hopefully that doesn't over-cost the way the gun registry did. I think that would help us a lot.

Thank you, Madam Chair.

The Chair: I think you'll see a lot of over-costs in any system. It just appears to be a problem with them.

Mr. Omar Alhabra: Especially with information systems, they are very difficult, but if we find somebody and share some of the best practices with any of the other private corporations, we can probably benefit a lot and find a shortcut to get to the answers.

[*Translation*]

The Chair: Ms. Thibault.

Ms. Louise Thibault: In your statement, Mr. Marshall, you said that you intended to reduce the space allocated to public servants in the interest of a pragmatic exercise and that you obviously were counting on certain partners.

In this regard, the Auditor General's report tells us something that is rather out of the ordinary. As you mentioned earlier, of the leases reviewed, it was found that some departments had used their own budget to fit up their premises. When there were cost overruns, the Auditor General told us that there was a problem. So this is not a trivial matter; it has to do with the whole matter of accountability.

What do you plan to do or what are you doing, because I assume that your objective is to comply with standards, to act on this? What will Treasury Board do with respect to accountability? This must be done in other cases when departments are slightly or very delinquent, if I may use that word. What steps will be put in place and what will the timelines be to ensure that this happens as infrequently as possible, or never again?

[*English*]

Mr. David Marshall: Madam Thibault and Madam Chair, the issue of enforcing standards is very important, because everybody has reasons for being special, and different, and so on and so forth. We've done two things. In the past, if a department said they wanted more space than the standard or they wanted a better fit-up, as long as they had a budget to do that, they went ahead and did it, so we really couldn't control that.

Where we are now is that we have reached two situations. First of all, we have taken the standard that has existed for a while of 18 square metres per person. We have created models or samples of that and are showing people and organizations. In fact, the Auditor General's office complies with that standard. We have taken people to see these offices and have shown them that it's not scary, it's perfectly reasonable, and so forth. We have created a fit-up package that's less expensive than the older one by about \$87 per square metre. As I pointed out, the secretariat has been very helpful to us in getting very strict with departments about not overspending those limits.

So it's a combination of basically cutting budgets—they have cut our budget to comply with the standards, so the money is gone—and not allowing departments, even if they have a budget, to do so easily. Today, first of all in terms of the space, there is no option, we simply enforce it. We have brought down the average usage of space from 21.4 square metres per person to 20.5 square metres a person. That's already quite a reduction, and we're moving to about 18 square metres. In terms of the fit-up, even if the department has the money, the Treasury Board has asked them to come to Public Works to approve such extras and we haven't approved any so far, so it's starting to bite now. I think that good sense is prevailing now.

• (1010)

[Translation]

Ms. Louise Thibault: I have a question for the Treasury Board representatives regarding the recommendation on page 218 of the English version of the report. It states that Treasury Board should develop a plan for departments to use financial information on an accrual-based budgeting and appropriation approach, and so on. I was surprised to see the Treasury Board Secretariat's response, which said, and I quote: “[...] the engagement of an independent contractor to conduct a comprehensive study [...]”. That was the first initiative.

The second, which I think is a better idea, is to develop a pilot project. I would like you to tell us how long it will last, how you will select the departments, and who will evaluate it, because that is very important as well.

I cannot believe that yet another study would be done. You represent an office in which both Canadians and parliamentarians have absolute confidence, and yet you were talking about another comprehensive study to be done by a private contractor. Do we not have the data and the expertise required? Why are you going to do that, and how much will it cost? I would be very interested in knowing that, Mr. Libbey. How much will the study cost? When do you expect it to be done? When will you be implementing it? How will you evaluate whether or not it was useful?

[English]

Mr. Jim Libbey: Thank you for the question.

Madam Chair, I can address the question of the study of the concepts of accrual accounting, and with respect to the pilot project, I'll pass that over to my colleague Mr. James.

The study has actually been completed, Madam Chair. It was carried out over the period from September to March this past year. It has been presented internally to one of our policy committees in the Treasury Board Secretariat, and the next step is to work on how we actually go about making a final decision.

We asked the consultants to give us some options to look at, to give us a rough idea of what it would take to implement these options, in terms of time and cost and approach and the readiness of departments and agencies to actually do this work. So we need to do that.

In the context of other things that are happening, we did the study as a joint project between the Office of the Comptroller General and the expenditure management sector. As I mentioned earlier, both those groups have a strong interest in the study because there are

appropriations that are legal concepts and there is accounting, which is a concept that we have more control over.

I think we have good ground to work from, but we do need to go through some consultations. There are other exercises that have been launched. One is the review of the expenditure management system that was launched in budget 2006. The other one was launched more recently in the context of the Federal Accountability Act, and that was a committee—a blue-ribbon panel perhaps—which is in the process of being established to look at financial management in government and financial management policies. So these things should all come together. I think those two initiatives are expected to be reported upon by the end of this calendar year, so hopefully we can put some sort of package together there. Unfortunately, I don't have details on how those things will unfold yet. I don't think anybody does.

Perhaps Mr. James could talk about the pilot project.

Mr. Blair James: We think these pilots are extremely important because of the principle at play here. We undertook a review of all capital assets across government in the past couple of years. The number one recommendation that came out of departments had to do with the barrier that departments face at the end of the fiscal year, in that you either spend the money or lose it; it lapses. So they asked us if we could do anything to try to fix that.

Fixing it, of course, is a little more difficult than just proposing it, because there are legalities involved here. We are talking about the Financial Administration Act and ministerial responsibilities. So with the concurrence of our colleagues in the Department of Finance—because this would have significant influence in moving money from one year to another—we've identified three individual departments that have representative large capital assets, and they are in good standing with us. They have long-term capital plans in place that we think are achievable.

On that basis, we will provide them with the authority to not have to worry about the end of the fiscal year, so they don't have to make what we call suboptimal decisions. If they are renovating a building or buying a piece of capital equipment and something happens to the contract very late in March, right now they're stuck. They lapse the money for a very useful thing, only to have the invoice show up in April. Then they have to rejig their budget.

So it creates a tremendous amount of consternation within departments to try to manage that. Individual managers have told me that they have two or three individuals who, from January to the end of March, do nothing but look at contracts and make sure deliveries are being made so they don't lapse them.

I think this is a very important principle. We support the pilot and will be recommending it to ministers within the next couple of weeks. We hope to get the results of that. We think we'll have significant results within the first year of operation. Our plan is to try to expand that to all departments because of the factors that Madam Fraser alluded to earlier with this artificial barrier at the end of the fiscal year.

•(1015)

The Chair: Mr. Albrecht.

Mr. Harold Albrecht (Kitchener—Conestoga, CPC): Thank you, Madam Chair, and thanks again to Ms. Fraser and all the officials who have taken their time to be here today.

I think all members of this committee, and probably all members of Parliament, are concerned about the expenditure of taxpayers' dollars, but we are particularly concerned when we see what we perceive to be the wastage of taxpayers' dollars, or the example of 800 Victoria Place. Sometimes I think it's too easy for us to depersonalize that over-expenditure by calling it expenditure of the Crown. We need to remind ourselves every time that individual taxpayers are paying those extra dollars—often the hard-earned dollars of people who are working very hard to meet their own needs.

I also understand the shared responsibility issue we face, but I still feel that at the end of the day one department, person, or subgroup needs to make the final call. I'm hopeful that it's made on the basis of some clearly established policy. So I'm happy to see the objective of reaching 18 square metres as the average amount of space.

If I understand the figures correctly and my math is somewhat accurate, going from 21.6 square metres to 18 square metres is roughly a 16% reduction. Is it realistic for us to get to that, at least in a very short period of time? If that's the average, to get to 18 square metres you'll need to have some smaller groups as well. Are you finding a lot of resistance to that smaller demand, if I can say that, or at least expectation?

Have we considered the long-term consequences of that, since many of these leases are for 10 to 15 years? Certainly we're not going to start knocking out walls just to achieve an objective on paper, so that will mean renegotiating, and all of those things.

If you could address some of those questions, I would appreciate that.

Mr. David Marshall: Certainly. This is a very important driver of total cost, so if you did nothing else and reduced the amount of space you used over a period of time by 15%, you should have a 15% lower cost. On \$3 billion a year, that's a very important goal.

So we took a forward look at the leases that are expiring each year and what the opportunity will be. Not all of them will be relocations, as some will be in situ. We have a very detailed plan worked out for what opportunity exists each year, and we are steadily closing in on that opportunity as we go forward. I'll turn to my colleague to elaborate more.

Tim, I believe we have a five-year or longer plan.

•(1020)

Mr. Tim McGrath: We're very conscious of the issue raised about expiring leases and not going partway through a lease and doing a major investment. As the deputy has pointed out, we have put a plan in place. We have 40 major projects that we've already engaged the client. Generally in Crown-owned facilities, as part of the mid-life retrofit, we would go in and do that at the same time as the reduction in the amount of space occupied.

We also have 80 other projects that are on the way through expiring leases. We have over 500 leases a year that expire and as part of that exercise we are doing the space optimization. Often it's as simple as adding two or three or four or five additional people into a current office facility and reconfiguring some of the workstations in order to get to that average. Since we've started the program, we've moved from what was on average 21.4 metres a square person down to 20.5 metres. This may not sound significant as it's only close to 1 metre savings, but one metre for 235,000 public servants is a significant amount of space and a significant cost driver. It amounts to the tune of in excess of \$44 million a year already saved through the application of this program. Client departments have acted extremely responsibly in their acceptance of the new space standards and there has been very little argument when it comes to the allocation that's being attributed to each of the client departments.

The Chair: Mr. Alhabra.

Mr. Omar Alhabra: I don't have any more questions.

The Chair: I'm going to ask you a question. Do you still have in a lot of towns and cities underutilized spaces that are owned by the federal government, and there are leased accommodation in that same place? There were decisions made to do that at some point. I don't know why. I'm wondering how extensive that is still, because I know it's still occurring.

Mr. Tim McGrath: It is extensive, there is no doubt about that. When Canada Post decided on a different service delivery structure, that also added to some of the vacancies that we have in the Crown facilities. We are looking at rationalizing federal buildings within the various communities to ensure that we are backfilling when opportunities exist. We are also taking a serious look at the state of some of these buildings and doing that investment analysis as to how much do we invest in a particular building when there are other options available. We put the same rigour around the investment analysis we do in urban centres as we do in smaller communities to ensure it is best value for taxpayers.

It is a problem and we're hoping to be able to rationalize it, not only at the federal level, but we've also engaged provincial governments and municipal governments to see if we can get a rationalization of use of inventory amongst all three levels of government, as different levels start to take a view at how services are being offered to the one taxpayer. We've had some success with that program, particularly in Winnipeg. We have some situations here in Ottawa. We're trying to push that agenda as well in order to get the best use of everybody's inventory.

The Chair: I think Mr. Alghabra did have a short question. I took his spot.

Mr. Omar Alghabra: I realized I did have a question. My question is to the officials from Public Works.

Regarding the maintenance of those properties, especially the properties that we own, I assume the ones that we lease are probably the responsibility of the landlord, but maybe not. Do we have any central strategy where we can leverage our real estate across the country that looks after the maintenance—mechanical, electrical, etc.?

Mr. Tim McGrath: Actually, back in the mid 1990s, we embarked on a major outsourcing activity in which Brookfield LePage Johnson Controls won the contract for managing almost 80% of our inventory, from which we achieved over a \$20 million savings. That contract came due; we retendered it. SNC-Lavalin ProFac recently won the contract that was put in place at the start of April 1, 2005, which produced a further savings of \$18.4 million on just the fees. We were able to reduce the oversight of that contract to the tune of \$12 million on an annual basis. We very much have a national strategy in place for the operations and maintenance of the federal holds.

• (1025)

Mr. Omar Alghabra: Okay.

The Chair: You have a few minutes.

Mr. Omar Alghabra: The other question is about the JDS property. What stage has it reached? Was there a letter of intent signed? Was there a lease signed? Where is the file right now?

Mr. Tim McGrath: Essentially we have an agreement in principle, but as in all of our transactions that require Treasury Board ministers' approval, it's very clear in that agreement that this is subject to the Treasury Board ministers' approval. It's quite standard in any project over \$30 million that needs consideration by ministers. That is a clause in the agreements that we put in place, and it's well known in the industry. That is this case with Minto Developments.

Mr. Omar Alghabra: Is there a waiting period? Is there a time for us to get back to them?

Mr. Tim McGrath: There is time. Certainly there was an adequate amount of time negotiated to allow full consideration by ministers.

Mr. Omar Alghabra: When does that time expire, do you know?

Mr. Tim McGrath: Yes, I do know; it's June 15. We've been working with colleagues for a number of months on this.

Mr. Omar Alghabra: Thank you.

Thank you, Madam Chair.

The Chair: Mr. Warkentin.

Mr. Chris Warkentin (Peace River, CPC): Thank you, Madam Chair.

Thank you very much, all of you, for coming in.

I appreciate the job it must be to manage all the properties. I have had some experience with building and with owning properties, so I know some of the issues. Mine were only matters of hundreds of

thousands of dollars. Yours, on the other hand, are far more expensive.

I guess this would be a question for Public Works. In making your assessment as to whether a building should be purchased or leased over the long term, there are a number of assumptions that have to be made by the government or by Public Works. Those assumptions include, obviously, where inflation might take us as we look toward what the following five-year or ten-year leases will look like. When looking at purchasing a building, there also has to be a future value forecast, the idea that these buildings will be worth something.

I'm curious as to how you make those assessments. Has it been your experience that the assessments made in the past have been correct when those time periods are finished? And are the forecasted appraisals differentiated across the country? That would be my first question.

Mr. David Marshall: Madam Chair, a very extensive set of factors is taken into account, built into the equations we use. If you like, we would be happy to walk you through them. There are probably close to 100 factors. They include inflation, include discounting the future value to net present value in order to compare like with like in assessing purchasing versus leasing, and so on. We also include the mid-life fit-ups that are necessary if you buy a building, so that we can take that into account.

The issue about whether our forecasting is good and valid or we should change it is a very important one. The reason I'm going to pause on that and elaborate a little bit is that very often we will make a forecast of that kind and then find that various pressures of one kind and another, budgetary and otherwise, mean we don't get the money to do the mid-life fit-up.

So what we forecast should be the value of a property 25 years down turns out.... We end up with a property that needs to be torn down, because it hasn't been maintained, and so the business case, if you like, doesn't pan out in reality, because if we had leased and had had the landlord do the maintenance, it might have looked more expensive, but in the end you might have been still in a building that is worth occupying.

Those are the very serious issues we want to deal with. In government it's very hard to look back, pull your file out from 25 years ago, and say it did pan out as we thought it would.

What we have right now is an inventory of federally owned properties that have several billion dollars' worth of backlog to bring them up to standard. Now we are faced with trying to figure out how to access enough funds to get that done. Even if we got the funds, could we do it in a timeframe that is reasonable? These are issues we're grappling with right now.

• (1030)

Mr. Chris Warkentin: Yes, certainly, and that concerns me a little bit, only because I know the reality, which is that if buildings don't have the care, as you say; they don't have the lifespan we might expect.

Has there been any consideration from any government department or from your particular department to individual buildings to allocate funds as if it were being leased within the marketplace—to ensure that the building has a pot of money, in a way similar to that of a condo association, and ensure a certain dollar allocation for that particular building to ensure that in the future we aren't looking to get these huge pots of money or huge allocations of money to do the necessary repairs or renovations?

Mr. David Marshall: Yes, we do what we call an allowance for capital improvements. A pool of money is allocated to us by Parliament. That is calculated based on a certain percentage of the value of the building. Then we're responsible for actually maintaining those buildings, but then reality creeps in, and what happens is two things.

First of all, when we are leasing to purchase, the leases are considered operating leases, and therefore we don't get any money to maintain them. Then when we finally buy them for a dollar at the end of the lease, they're not as good as we would like them to be, so we need that corrected—and that is partly an accountant's nightmare: Is this a lease? Do you want it or don't you want it? Of course, who's going to walk away from a building when you pay a dollar and take it, so in effect you own it. In fact, the lease payments imply you're paying for the whole building over 25 years anyway, so that's an issue we've got to work with. That really ends up resulting in the fact that the pool of capital is not sufficient to do the maintenance.

The second reality that intrudes is that we are judged on so many different factors. One of them is whether we have space we're not using, so that means we don't have swing space. If you don't have swing space, it's very hard to tell the Department of Agriculture to please vacate and get out of this building so we can do something to it, so we defer maintenance based on the fact that we can't get at the place, and it stretches out, and so forth. In the end, we lapse the money—give it back to Parliament—but the buildings don't get maintained as they should. These are realities we have to deal with.

Mr. Chris Warkentin: Is it your assessment that maybe we're going down the wrong road, in terms of the space allocation per person, when it comes to this whole question as to how we go about renovating spaces to ensure the long-term investments pay off? I mean, I know the importance of saving money today, but are we going to shoot ourselves in the foot by doing this?

Mr. David Marshall: No, not really. I mean, the space standard that we—

Mr. Chris Warkentin: Sorry, I should qualify. I meant in terms of allowing for some swing space.

Mr. David Marshall: No, the amount of space used for day-to-day purposes is a standard that is used by insurance companies, banks...and they all have decent buildings. The issue of swing space is much more the ability to have a place that you can move people into and then rehabilitate.

What happens with private developers is that when leases come due, they use the window before other people move in to renovate their buildings, whereas in our own buildings people don't move; they're there. We don't have tenants coming in and out, so we don't have those windows. What we need is some spare footage, so that

we can tell people that in three years we're going to move two floors there, do this, and move you back, but that does result...

Maybe the point you're making is that if you calculated that swing space into the average, it would increase it, yes.

• (1035)

Mr. Chris Warkentin: That's exactly what I'm asking.

Mr. David Marshall: Yes, I see what you're saying, but when you walk onto any particular floor, people would be at 18 square metres.

Mr. Chris Warkentin: Great.

Mr. David Marshall: Yes, I see.

Mr. Chris Warkentin: Yes, certainly, because—

The Chair: I think you've gone way beyond.

[Translation]

Ms. Thibault, it's your turn. Did you have some questions?

Ms. Louise Thibault: I have just one question, and it may not be relevant. I will take this opportunity to ask it, however, since we have the pleasure of having you with us today, Mr. Marshall.

Under the previous government, your department was considering a study about the cost effectiveness and feasibility of getting rid of a number of federal buildings and turning them over to the private sector.

I would like to know whether that is still on the books or whether the new minister and his government cancelled this feasibility study.

[English]

Mr. David Marshall: Madam Chair, Madam Thibault, the previous effort to go out to the private sector to seek opportunities did not continue, because when we put out the request for proposals we attempted a very complex transaction. We attempted to capture many factors concerning our whole portfolio, and in retrospect that was overly ambitious, so that study, or that effort, has been terminated.

However, we are very much at present looking at how to deal with this issue about finding capital for recapitalization. We have buildings where it's cheaper for us to tear them down than to rehabilitate them, and that's something we really have to address if we are being responsible. What we are doing now is discussing with our minister a study that will be less broad, less ambitious, and more focused, to see if it's possible to take some of the buildings in those conditions and ask the private sector for proposals. This is not to say we will implement them, but at least we can put them on the table. If they come to us and say, how we would approach this is that we would build another building on the Gatineau side, we would rehabilitate perhaps a particular campus and then move other people in and so forth...and the whole journey will be of this kind of economics.

I think we should invite that kind of analysis, and we are discussing that with our minister right now.

[Translation]

Ms. Louise Thibault: I certainly like the example you mentioned about building on the Gatineau side of the river, because when you come back to a future meeting, I would be very interested in discussing with you the ratio of buildings, leases, and so on in the National Capital Region in the context of equity toward the two sides of the river, of course.

Thank you, sir.

[English]

The Chair: Madam Nash.

Ms. Peggy Nash: Thank you, Madam Chair.

I don't envy the people who have to plan for the investment in renovations. It seems like a Rubik's cube, trying to move everybody into a space while the renovations are being done.

I want to return to the JDS property and I have a couple more questions on that, because it's a big facility, 10,000 people, as I understand it, working for the RCMP. According to the media reports the cost of the lease is \$670 million. Mr. James said that there was commercial confidentiality, but we know that there is a period before this is finally signed off.

I'm wondering, Mr. Marshall, if you can confirm with us that is the cost of the lease, \$670 million.

Mr. David Marshall: Madam Nash, I really would love to go through it with you. We have gone through this at very great length. In fact, if I can give you some comfort, we have employed outside experts to give us an independent opinion of the value of such a transaction.

I don't know what else to say, other than that I promise you that once it's either approved or not approved we will take you through it in very great detail. The issue is that the ministers of the board might very well tell us to go back and negotiate something else. We really have to make sure we don't jeopardize the position of the taxpayer as we deal with this.

Clearly, as you had indicated, it's a unique property, it's a sole source, so it's not as easy for us to talk about it until there is some decision. Of course, we and ministers of the Crown will be accountable for that decision and we will answer to it in due course.

But if the intent of your question is, as I take it, please make sure we don't throw money away, we're very conscious of that.

• (1040)

Ms. Peggy Nash: In terms of something that happened in the past, can you give us some comfort or explain to us what went into the decision not to purchase the property back in 2003? As I understand it, it was available for purchase at a cost of \$30 million. What were some of the factors that went into deciding not to purchase the property at that time?

Mr. David Marshall: Yes, I can talk about that a little more, some of its history. The property, of course, was available because of the shrinkage in the high tech industry and JDS Uniphase wanting to reduce their cost and move out of the facility. They had spent, I think, something close to \$260 million to refit the building and on the value of the land and so forth, and it's in first-class condition. We were aware that there were various large tenants, such as National Defence and others, for which such a facility would be quite suitable.

Now, how we operate is that we cannot speculate in real estate. We can't buy a property on the assumption that we're sure it's going to be needed. Even though we are pretty sure it's going to be a useful property, we just can't go out and have it in the inventory, so to speak.

Most real estate operators would. They would land bank or they would buy properties based on their reading of the market. Well, we can't do that. So we have to act only when there's somebody who has a need for it and then we go out and get it.

When you have that kind of a regime, which is necessary for public policy, because you don't want the government buying and selling real estate as a business, then we have to find a tenant. So we had negotiated with one of our big clients, Defence, and said, "Listen, would you be interested? This is coming available." At the time they felt they were interested and we had a long discussion. We went and inspected the property and so forth. We discussed a particular price, which wasn't what it ended up selling for, because then the seller got even more desperate when we didn't buy. But we had a figure in mind that was a pretty good figure. We discussed it with our client.

At that point the client felt, "We have so many pressing needs for military equipment, for more troops. We don't think it's a wise decision to be paying a lot of money to move ourselves from one end of the city to another, so please cease and desist." And so we ceased and desisted. That was life, even though we could see that that was really a good thing and we should take advantage of it. That's how public policy plays out in reality. We ended up saying no thanks.

Then you move forward and you have another client who says, "I really need to move." Again, it is a case where their campus is so deteriorated that it is more expensive to rehabilitate it than to move, and then we look at various options. What would it take for us to buy a greenfield site, when you look at the RCMP with all its security requirements, and build something for them? What would that cost? What would it cost to move them out piecemeal, floor by floor, and rehabilitate the site, and then move them all back again. Or what would it cost if we took this unsolicited option? And that's what we've all considered and that's what we're putting forward to ministers of the board. So that's how it all worked out.

It wasn't that we suddenly...there was a real rationale for why we didn't buy it, when we didn't buy it, and that's what it was.

The Chair: Thank you very much.

Mr. Goldring.

Mr. Peter Goldring (Edmonton East, CPC): Thank you, Madam Chair.

Thank you, Madam Fraser, gentlemen, for appearing here today.

I think that perhaps many of us have had business experience, although on a smaller scale, on property owning, rental, and management. We certainly can understand that circumstances change. It's far better to save your business and not make that move to the new plant that you're projecting to do, and to eat the losses of your commitments on your lease, even before you move in and indeed have two rental properties at the same time under way, than to have the alternative, which might be to lose your business.

So there certainly are circumstances, but those types of circumstances would be substantial circumstances that would be readily identifiable. They wouldn't simply be—and I don't want to call it a clerical error—a management error on making a decision. They would be a change, a dramatic shift in circumstances.

My questions that I want to talk about are more about buying versus leasing and circumstances in Edmonton, where recently they built two armouries on a long-lease basis for the military. I understand that military properties are under Public Works too.

My concern there is this. When we travel around the country we see armouries that are 100 years old, 150 years old, in other words, armouries aren't for short-term usage. They're long term, and very seldom do you see an armoury that is torn down, other than in order maybe to build a new one.

I would like to know how a decision is made to do that, or is that more just to simply offload those building costs and download it to another generation under lower-cost lease payments, rather than the higher cost, at the front end, of building an armoury? Is that what really would happen on that, or would there be a decision made to lease an armoury or lease a building that you know you're going to be in all likelihood using for a hundred years?

• (1045)

Mr. David Marshall: Madam Chair, the reality is that Public Works manages just 23% of the government's real property holdings. In this case, the armouries are managed by the Department of National Defence. They don't come to us, we don't work on them,

and we don't know what they're doing with them. The Minister of Defence and his officials would have made those kinds of decisions.

Mr. Peter Goldring: So you're looking at it purely as a capital acquisition rather than at the usage of it. You're not exploring what might be the usage. In this case, the usage of an armoury would be extremely long term as opposed to the usage of an office building, which might be relatively short term.

Mr. David Marshall: I'm sure there was some logic for it, but really what I'm saying is that I don't know the case. The officials at National Defence made those decisions. They wouldn't come to Public Works at all.

Mr. Peter Goldring: This is just the type of thing that some of us with experience would know full well, that if you're looking at an extremely long use on a piece of property, you buy the property, you don't lease it, unless you think it's going to go through serious modifications down the road. Many of the other levels of government are talking this type of thing for hospitals and schools and things. You wonder about the same aspect, because those are generally longer term.

The second aspect I'd like to discuss is the disposal of properties, particularly in the case of Griesbach, the military base in Edmonton. It's currently handled by Canada Lands. Is there not interaction with other ministerial levels here? It's been clearly identified—and again, this comes from building owning and management experience—that a military base within the confines of the city of Edmonton, with modest houses, schools in place, and community halls in place would lend itself absolutely ideally to infilling, with affordable housing, walk-up apartments, and other modest housing units in virtually a square mile or two of property area.

I think that was an opportunity that was just totally lost. It was turned over to Canada Lands, and I would imagine their mandate is to sell to the highest bidder. They do have high-end housing on this property that they're doing the infilling on.

Is there not some interaction between the departments, or can there not be? It's unconscionable that in this country we would have such a problem in terms of the lack of affordable housing, not utilizing some of the most wonderful, basic means we have to be able to accommodate it.

What would you comment on that?

Mr. Blair James: Madam Chair, the honourable member makes a valid point in terms of the coordination required in the disposal of properties such as old military bases. There is a requirement for the minister, in this case the Minister of National Defence, to confirm with other departments whether or not other federal requirements could go on there. Specifically the homelessness initiative has been identified by cabinet as being a priority. The homelessness secretariat would have had an opportunity to play on that file.

With similar properties in the past—you may be familiar with the base in Calgary that has been rehabilitated, and we're currently looking at Rockcliffe—when the Minister of National Defence comes to the Treasury Board for approval, we generally impose certain conditions that require Canada Lands Company, when it gets its hands on the property, to take into account such things as municipal considerations, homelessness, and aboriginal groups.

Again, I'm not familiar with exactly what happened at Griesbach, but I'm trusting that DND did have discussions with the homelessness secretariat, which is part of the federal government. We know that in Calgary they have taken that into consideration, and we know that in Rockcliffe they will take it into consideration when that property is developed.

So you make a very valid point. There are, of course, other public policy initiatives that we are conscious of, and one of the Treasury Board's roles is to make sure that those public policy objectives are adhered to.

•(1050)

Mr. Peter Goldring: Perhaps I could point to what this would have meant to one city, the city of Edmonton, had it happened there. Edmonton has just identified a need and a plan to try to produce 2,500 units of affordable housing within five years. I seriously doubt they can do it with the resources that are available, just because of the cost of land now and the limitation on how much is available. This would have meant that those 2,500 units of housing could have been dropped into that one place, very comfortably, for a wonderful community of very affordable housing.

Really, who exactly dropped the ball here? And how would you find that out?

Mr. Blair James: We can certainly endeavour to look into that.

Canada Lands operates with an implementation mandate when these properties have passed over. If a requirement was identified, it should have been brought to the attention of the Minister of Defence and, as part of his proposal to the Treasury Board, he would have indicated that affordable housing needs to be part of the solution that Canada Lands puts in place.

The mandate of Canada Lands is dictated by the terms and conditions approved by the Treasury Board. As I indicated, we have recent examples where we have clearly articulated five or six needs out there that Canada Lands has to take into consideration when it develops its property.

Mr. Peter Goldring: Madam Chair, could we have that delivered to the committee here in response—

The Chair: Yes.

Mr. Peter Goldring: I appreciate that very much. Thank you.

The Chair: I'm going to allow Mr. Kramp to have one last question before we terminate.

Mr. Daryl Kramp: Thank you.

Mr. Marshall, you can only make intelligent decisions if you have proper information. The Auditor General has reported that basically your department spends \$50 million a year on system information and management material, and yet it's cumbersome. It does not give

you the information that you need to be able to adequately perform your duty.

I see that you have undertaken some efforts for improvements, but this, to me, appears just to be tinkering. Why has your department—and this has been an ongoing problem for years—not really had achievable results with this? Have you not had the budget to make the proper changes to a system of reporting so your managers can make good decisions? Or has it been an in-house decision that it's just not a priority?

Mr. David Marshall: No, Madam Chair, honourable members. I should say that it's not a void. I mean, we have information. The fact that we don't, for example, capture the expenses that a department puts into their fit-ups as part of our system is because they're part of their budget and so forth. These are the kinds of improvements we want to make.

You just heard from a representative of the Auditor General's office that we do have an approval process for when we increase expenditures on a particular project, but we don't track the original budget to it and so forth. We are now discussing improvements that will help to manage expenses as a whole and look at trends and so forth.

Certainly whenever we look at a specific investment, there's very intensive work undertaken. I think everybody would recognize that we do a very thorough job of that.

So it's not black and white, but—

•(1055)

Mr. Daryl Kramp: Perhaps I could interrupt you just for a second and slip back to the Auditor General.

You appear to be semi-comfortable with the status of your information system, and yet the Auditor General in a report basically says the systems do not provide the information or allow the input that would enable managers to make well-informed decisions.

We can't have it both ways. You can't be semi-satisfied, and the Auditor General can't basically say you don't have the information to make intelligent, capable decisions. Where's the saw-off here?

Mr. David Marshall: Well, Madam Chair, I'm not going to say that our systems are perfect. I will definitely accept that we're going to have to do a lot more to get better and—

Mr. Daryl Kramp: Is it budget, though, or is lack of budget to do it?

Mr. David Marshall: It's not really lack of budget, no. It's a need, first, to properly understand what we need. There is so much going on. There are leases, improvements, outsourcing, and on and on. And so—

Mr. Daryl Kramp: Are there models in other jurisdictions? As an example, I can recall being in small business many years ago. I needed a system. It was going to cost me \$120,000 to design a system to suit my business needs. Instead, I went out and bought one off the shelf for \$25,000 that just did a wonderful job. Are there other jurisdictions or other administrations that you could take a look at, that you could sample, instead of spending—we saw what happened with the gun registry, with systems that we try to evolve and develop. Is there nothing out there in the rest of this world that is working really well that you could possibly emulate?

Mr. David Marshall: There certainly is. And what you will find shortly is that we will be going out with a request for proposals to identify just that. We are—

Mr. Daryl Kramp: Thank you very kindly.

The Chair: Thank you very much for attending and for your good answers that contribute to the understanding of what happens with Public Works, which is a tremendously large department.

To the committee, next Tuesday morning we will be having the Canadian Union of Postal Workers; and on Thursday, a week from today, Mr. Fortier is coming at 8 o'clock.

Thank you very much.

The meeting is adjourned.

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