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—
Chair

The Honourable Diane Marleau

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• (1530)

[English]

The Chair (Hon. Diane Marleau (Sudbury, Lib.)): I'll call the meeting to order, now that our minister is here.

[Translation]

Welcome Mr. Fortier, Mr. Guimont and Mr. McGrath. You know how things work here. We will give you 7 to 10 minutes to make a small presentation, if you like. If not, we will move directly to questions.

Hon. Michael Fortier (Minister of Public Works and Government Services): Thank you Ms. Marleau.

[English]

Thank you for asking me to come to the committee to review the real estate transaction that closed this past October.

I'm here with François Guimont, who is our new deputy minister. François joined us in June 2007, as we were in the latter stages of the transaction. François' help was critical in allowing this transaction to cross over the goal line.

[Translation]

There is Tim McGrath, whom you know well. Mr. McGrath is responsible for all the real property within Public Works and Government Services Canada, both our real estate property and our leasehold interests. Tim also played a very important role in this transaction.

Ms. Marleau, my office, or the department, has submitted to the committee all the documents relevant to this transaction,

[English]

whether it be the Bank of Montreal or Royal Bank of Canada analyses, or whether it be the information memorandum that was used during the auction process.

I was handed copies of the Deutsche Bank's fairness opinions, which were tabled in support of this transaction, dated October 15. So it goes back a few weeks already.

So I believe the committee has all the documents it requires and basically can ascertain not only the data but why this transaction was undertaken and the benefits to taxpayers.

[Translation]

Having said that, Ms. Marleau, it would be my pleasure to take questions from the committee members.

I am here with Mr. Guimont and Mr. McGrath, in case their help is needed, and I suspect it will be needed at times.

The Chair: Okay.

We will start with Mr. Holland.

[English]

Mr. Mark Holland (Ajax—Pickering, Lib.): Thank you, Madam Chair.

Thank you, Minister, for appearing before the committee today. I appreciate your appearance.

I wonder if I could just start by confirming something Mr. Warkentin had told committee at the last meeting, and that is with respect to phase two.

As you know, the committee has been concerned about the leaseback program in general, and specifically with its continuance in phase two. Can you confirm that the government will not be proceeding with phase two?

• (1535)

Hon. Michael Fortier: I can confirm with you that we currently are not envisaging any other disposals at this point.

Mr. Mark Holland: Okay, "at this point".

Does that mean that phase two is something you would like to pursue later?

Hon. Michael Fortier: This report—and you've seen the report—is all very interesting and valuable work that has been performed by these folks. I think there are some neat ideas in there. But at this point, Mr. Holland, we're not in a mode to embark on a phase two.

Mr. Mark Holland: Are you supportive of the leaseback program generally, though? I'm trying to ascertain. You keep saying "at this point". Is this something you would like to pursue down the road, at a different moment in time, if this is not the right moment in time?

Hon. Michael Fortier: Mr. Holland, we've done this transaction. I think we need to step back and digest the transaction, and time will tell whether there will be another transaction. I'm not trying to be cute here. At this current time, there are no plans for another transaction.

Mr. Mark Holland: Okay. That's a little different from saying that phase two is off the table, but I appreciate the clarification.

On heritage, I want to go to consultations that took place between the government and the Musqueam Nation with respect to the properties in Vancouver, and specifically the Thomas D'Arcy McGee Building and the Skyline Campus in Ottawa.

It was stated here in the committee, I believe by Mr. Albrecht, that adequate consultations had taken place. Is that also your feeling, that the consultations that had taken place were adequate?

Hon. Michael Fortier: Very much, Mr. Holland.

The consultations began as early as March. Once the government decided to authorize the auction—not the sale, but just the auction—immediately the department consulted the first nation. So it goes back several months, even before, I would say, the confidential information memorandum was circulated.

Mr. Mark Holland: My concern on that, Minister, is that a Federal Court judge issued an injunction on the basis that the consultations were not adequate. What concerns me about that, and maybe you can help me with this, is that if a Federal Court judge came to the decision that the consultations were not adequate, and you feel they are, in further buildings—in fact, even in these seven buildings—there are first nations interests, including the Algonquins. If the previous consultations were adequate, in your mind, and a federal court judge disagrees with you, aren't we going to be into this same quagmire all over again, potentially, if, when the time is right, you want to pursue?

That leads me to ask you to outline for me the consultations that took place with respect to these two properties.

Hon. Michael Fortier: I'll start with the front end and I'll let my officials deal with the back end in terms of the exact consultation that took place.

My understanding of the decision is not that we didn't consult. My understanding of this injunction is that a judge decided that on the balance of inconvenience, it weighed in favour of the first nations, because obviously if we sold the buildings, the ability for the first nations to advance their arguments and make their point, given that the assets would be sold, would disappear.

The issue hasn't been resolved. We need to be very prudent here, because this case is before the courts. As you know, we are taking this to appeal, but I wouldn't want you to read into the decision of the judge, if I may say so, that we didn't consult; we consulted, but a judge decided that should we sell, the damages that would be suffered by the first nations would be greater, in his opinion, than if he allowed the sale and allowed us and them to negotiate on other terms.

Mr. Mark Holland: Can you specifically outline what those consultations were?

We heard through the course of the last meeting that two meetings may have taken place. What, in your mind, constitutes adequate consultation? Maybe you could give the specific case of the Musqueam Nation in terms of the consultations that took place directly with regard to the sale.

Hon. Michael Fortier: I'll give you what I know took place, but I'll ask François and Tim to give you more specific data points, if you don't mind.

Consulting, to me, means meeting.... First of all, there are guidelines in the federal government, as you know, as to how one can dispose of a federal asset, so you need to tick several boxes. When you're dealing with the first nations, you need to consult and you need to let them know exactly what you're planning to sell,

where the asset is situated, and what the terms of the sale are going to be. Then, if they believe they have rights over these assets—over the land or even over the building itself—they obviously need to manifest themselves.

This consultation took place, and I'll ask François or Tim to perhaps fill in the blanks.

• (1540)

Mr. François Guimont (Deputy Minister, Department of Public Works and Government Services): Thank you, Minister.

I'll just make two points, and I'll defer to my colleague, Mr. McGrath, to fill in the blanks.

The approach Public Works took is essentially based on what the Department of Justice considers to be proper steps vis-à-vis consultation with aboriginal people, whether it is the Musqueam band or the Algonquin band. Essentially we got what I would call the framework from the Department of Justice. There is no set threshold for that. It's just that we had a number of steps in mind. We interacted with them and we went through those steps systematically, so that's the first thing.

The second thing is that this is also why the lease was built to be a 25-year lease that at the end would revert back to us. That's another element that was considered to be critical.

The third point I would make is simply that we had the capacity, in view of the reality that existed vis-à-vis the Musqueam band, to essentially sever those two properties and still move ahead with the transaction, which we did.

Essentially I just want to say here that the framework was followed and proper risk mitigation measures taken vis-à-vis the Musqueam Nation.

Now I'll turn to your question about specifics, and I'll turn to my colleague, Tim McGrath, who can give you examples of the steps we took in that consultation.

Mr. Mark Holland: Okay, and perhaps you can explain the discrepancy of why a Federal Court judge would feel, as he stated, that it was consultations. He didn't feel there were adequate consultations. Could you describe that discrepancy to me? It just doesn't add up.

Mr. François Guimont: Madame Chair, on that point about the judgment, the injunction was given with a view to not proceeding with the actual sale of those two buildings; the judge did not pronounce on the level or adequacy of consultation. My point here—and this is an important point—is that this is the subject of judicial review. To be clear on this, it's not as though it was felt that what we had done was not sufficient consultation.

I do agree with you that an injunction was granted—there is no question about that—and we set the building aside, but the whole discussion about whether it was sufficient or not sufficient or whether you should have done this or that has not yet taken place.

Mr. Tim McGrath (Assistant Deputy Minister, Real Property Branch, Department of Public Works and Government Services): Just adding to the point the deputy minister makes, the judgment was that they would wait for the judicial review. If the judicial review is carried out and goes in our favour, we will then have the right to proceed with the sale of the two assets.

So as the minister was pointing out, to rectify that situation if the judicial review were to find in favour of the Musqueam, the judge felt that our proceeding now would be too detrimental or too financially punitive to the crown in order to buy the properties back at that point in time.

It wasn't that it was an injunction against the sale. It was an injunction waiting for the judicial review to be carried out. We're appealing that decision, but the judicial review should also be carried out within the next twelve months.

In terms of what we did, our first contact was March 7, 2007. We then had to send a follow-up notice on April 17, and then another letter asking for a meeting and explaining to the Musqueam the type of information required to determine rights on the particular property.

There were almost twelve different points of contact between March 7 and August 30, 2007, including two face-to-face meetings with the Musqueam themselves, seeking information to determine the rights on those particular two pieces of property. At that point, we never received any type of information ascertaining that they had rights on those two particular pieces of property. In any event, the injunction was granted and we'll wait for the judicial review.

The Chair: Thank you very much.

Madame Bourgeois.

[Translation]

Ms. Diane Bourgeois (Terrebonne—Blainville, BQ): Thank you Madam Chair.

Hello Mr. Minister, Mr. Deputy Minister and Mr. Assistant Deputy Minister.

In the past few days I have re-read various reports, including a report by the firm CB Richard Ellis that Mr. McGrath had commissioned in April 2004. I also re-read a report by the Auditor General of Canada.

According to the report by CB Richard Ellis of 2003-04, the real property inventory was poorly managed. The report noted, among other things: lack of sufficient capital reinvestment; too many real property advisors, from a human resources perspective; poor internal management capacity in the department; high turnover of project managers; overlap of technical reviews; ineffective and costly implementation processes; inadequate infrastructure to assess the final cost of projects, and so forth.

In 2005, Public Works and Government Services Canada, PWGSC, did what it could to lower the cost of the buildings and governmental expenses, because the federal government's Expenditure Review Committee had determined that real property activities could be a source for saving a billion dollars. The Auditor General of Canada verified that and even congratulated PWGSC for proposing a

plan that could save not just a billion dollars, but \$1.5 billion in property management.

Mr. Minister, in light of the report that I read, it is obvious that things needed to be cleaned up. Either the department needs to be cleaned up, which would take a lot of political courage, in my opinion, or, like Pontius Pilate, the department needs to wash its hands of the whole thing and sell off its buildings.

Mr. Minister, is \$1.2 billion of the taxpayers' money, the net cost we will pay out in 25 years, not a high price to pay for lack of leadership?

• (1545)

Hon. Michael Fortier: Where do I begin? First, I do not know where you got \$1.2 billion from. On the contrary, my findings and those of the reports submitted by the firms that were retained, namely Deutsche Bank, Royal Bank and the Bank of Montreal, confirm that this transaction undeniably benefits the taxpayer.

The observations of Richard Ellis from the years 2000, 2003, 2004 and 2005, are accurate. The Government of Canada's real property portfolio is enormous. It is one of the largest in North America. Not only is it enormous, but it also includes office buildings, museums, police detachments, prisons, laboratories, in short, a wide range of very different categories. Some buildings are more suitable to the recent operation than others.

There is always an underlying risk associated with property. All these reports, even the more recent ones I alluded to earlier, say directly or indirectly that at the end of the day, the taxpayer is still the one who pays the bill. Investment is not set in stone. When investments do materialize, it is usually later. The men and women who manage our real property inventory, under the leadership of Mr. McGrath, are doing their best in a situation that is not necessarily well suited to real property management. Real property management is outside the government's mandate, Ms. Bourgeois.

Ms. Diane Bourgeois: That is what I was saying in my preamble, Mr. Minister. However, I forgot to talk about inadequate funding. The Government of Canada has never invested 1% of its equity in government assets. I am with you on that. I know that your response will be that you had a problem with the buildings. But what I am saying, and what all the reports are saying, is that there were problems within your department in terms of human resources management and overlapping technical reviews, which cost the government money and you know it.

You had the choice to clean house in your department or to sell. The easiest choice was to sell. You sold the seven most beautiful buildings. The only thing left to do is to keep mismanaging the buildings that are left, which are worth less than the buildings that were sold. The surplus spending this will cause will be \$1.2 billion. It would cost us \$2.5 billion at the end of the lease, or after 25 years. If this is so profitable to the taxpayer, then tell me why Larco Investments went ahead with the purchase.

• (1550)

Hon. Michael Fortier: Perhaps you are not familiar with real estate, but with all due respect, frankly you are displaying total ignorance of how this file is being managed.

Ms. Diane Bourgeois: Okay then, tell me what it is all about. I do not have your documents.

Hon. Michael Fortier: After treating me like a monster this summer—for which you still have not apologized—now you are accusing me of acting like Pontius Pilate. Ms. Bourgeois, listen carefully, it is not complicated: real property inventory is outside the government's mandate. I know the Constitution does not interest you, but you should know that in sections 91 and 92, you will not find the words, “management of a real property portfolio”, Ms. Bourgeois.

Ms. Diane Bourgeois: And yet, PWGSC was compared to [*Note: inaudible*] and we are better than that.

Hon. Michael Fortier: I will answer your question, Ms. Bourgeois—

Ms. Marleau, may I answer the question?

The Chair: Can you let him answer?

Hon. Michael Fortier: Ms. Bourgeois is tossing out figures she does not understand or she does understand but wants us to misinterpret. The total amount in 2007 dollars that we are receiving from Larco Investments is \$1.4 billion. Over 25 years, this amount—and it can easily be checked, Ms. Bourgeois—is equivalent to roughly \$4 billion. The lease, which in inflation-adjusted dollars equals roughly \$1.15 billion, is worth roughly \$3 billion over 25 years.

I do not know how you came up with this \$1.2 billion shortfall, Ms. Bourgeois. It is not a shortfall, it is a surplus. What is more, at the end of 25 years, taxpayers will not have to deal with what they have been dealing with for decades and that is worthless real property.

Ms. Diane Bourgeois: Mr. Minister, I have to—

The Chair: Thank you Ms. Bourgeois. Your time is up.

We will now move on to Mr. Moore.

[*English*]

Mr. James Moore (Port Moody—Westwood—Port Coquitlam, CPC): Thank you very much, Madam Chair.

I want to thank the minister for coming before the committee. I believe it's his sixth time before our committee. When you actually compare that to other ministers of our government, he has been before this committee more than any other ministers have been before the committees for which they're responsible, so we appreciate the access he has shown to members of this committee. On this committee, we appreciate that access to ministers.

[*Translation*]

I also want to point out that Canadians across the country find it funny to see the Bloc Québécois getting upset at the idea of the federal government wanting to sell its buildings to the Province of Quebec.

[*English*]

I want to ask the minister, though, if he can tell us about Larco Investments Ltd., with whom we've gone into business. Who are they? Are these good people for us to be doing business with?

Hon. Michael Fortier: Yes, we actually did quite a lot of due diligence on them because they will become, as a result of this transaction, the single most important landlord we will be dealing with as a government. More than 12,000 people employed by the Government of Canada will be housed in those office buildings.

This is a company that obviously has a very sound balance sheet. They have a very good track record in real estate. They have holdings around the world and in the U.S. and Canada.

They are Canadian, which was one of the conditions we had put in the auction. We wanted the winning bidder to be controlled by a Canadian resident, and Larco and the family behind Larco are Canadian residents.

So the department and I feel we have embarked on a 25-year relationship that we look at very optimistically, given their track record and their financial acumen.

Mr. James Moore: Just going through one of the two motions—Madame Bourgeois had a motion and Mark Holland had a motion—to bring you before the committee, I just want to go through each of the bullets of the reasons and the questions behind why they wanted to have you appear before the committee on this issue of the real estate deal.

Paul Dewar is here. I almost said I'm a resident of his riding. I visit his riding from time to time in Ottawa Centre, and I received in the mail a flyer in which he raised the issue and a concern he has regarding the property taxes of the federal government. I'm sure he'll ask about it again, but take a first run, if you will, at the idea that the City of Ottawa is somehow going to lose money because of this transaction.

● (1555)

Hon. Michael Fortier: They won't. The PILT, which is the payment in lieu of taxes that we had been paying all the municipalities in which these buildings were situated, was basically the taxes that any other company would have paid had we not been the owner. By transferring ownership to Larco, Larco will have to pay municipal taxes in accordance with regulations applicable in different communities.

I understand there has been an issue here in the province of Ontario because of some provincial regulations that regulate how a municipality can deploy the funds it receives as part of municipal taxes, but nothing is gained and nothing is lost. The City of Ottawa will get the same amount of money, but it's how they can spend it that's in question here. But this is not a federal law matter; this is a provincial law issue.

Mr. James Moore: I only have a minute or so left, but compare, if you could, the approach we've taken. We've talked about this issue quite a bit, kicking it around in committee.

I remember when I was in opposition in 2002, and then again when Scott Brison was the Minister of Public Works. He actually put pen to paper on the issue of the federal government dealing with this.

This is one of the bullets of the motion that brought you here. It's to discuss the plans that pre-existed your tenure as Minister of Public Works, on the issue of sale/leasebacks and what the previous Liberal government was prepared to do, and to juxtapose that with what we're actually doing.

Hon. Michael Fortier: As you said earlier, I've been here several times and we've talked about this.

The previous government had a plan. This was the RFP. RFP was a fraction of this, and it basically put everything into play. I don't think it would be an exaggeration to say that the RFP suggested that they wanted to turn everything into a global REIT. Reading this objectively from the outside, this was my perception. Actually, it was the perception of many of the professionals who were quite honestly salivating at the idea of being involved in the mother of all REITs.

But as I said earlier, I think you need to divide these different real estate assets into the right categories. The transaction that we proposed and that we closed was I think the right one in terms of the number of buildings. We have far more than nine or seven office buildings.

Isn't it close to 50, Tim?

Mr. Tim McGrath: It's 50 large ones.

Hon. Michael Fortier: It's 50 large office buildings. It wasn't 50 that we tried to sell, and it wasn't 45. We picked a small number because this was our first attempt as a government—ever, I think, in Canada—to do this type of transaction, and we wanted it to be properly executed. There was also a question of whether the market could actually do the transaction. You can't consider a 370-building REIT and believe that the market can do such a transaction.

This is what was waiting for me on my desk when I joined the government, and obviously we did something very different.

Mr. James Moore: I have one final question, just to close—

The Chair: You have time.

Mr. James Moore: I would like to close the circle, then, of the question that Mark Holland raised regarding the two buildings in Vancouver, my hometown, with regard to the Musqueam. It was originally going to be the sale/leaseback of nine; now it is seven. What is the government's next step with regard to the two buildings? Are they now permanently off the list for future...?

Hon. Michael Fortier: That's regrettably so. I'm being as objective as I can. I think as independent observers of the real estate scene have commented, we actually ran a very robust auction and received tremendous consideration for the assets. This auction was timed perfectly.

However, obviously there was an injunction that was obtained by the Musqueam, so these buildings are not on the block. We're going to fight the injunction, as I said earlier, so I really can't comment more than that for the time being.

Mr. James Moore: Thank you.

The Chair: Thank you.

Mr. Angus is next.

Mr. Charlie Angus (Timmins—James Bay, NDP): Thank you for that, Madam Chair.

Thank you, Mr. Minister, for coming before us today.

We've been looking at this deal now of seven pieces of prime urban real estate across the country, as opposed to nine. We look at the numbers it was costing Canadians before and the numbers, based on your request for proposals that went out, that will be accrued afterwards.

For example, the Harry Hays Building started off with the taxpayer paying \$5 million a year; that will jump to \$20 million a year, but that \$20 million does not include the \$6.3 million that's allocated in this year's 2007-08 supplementary estimates.

Is that for building costs? Why is the Canadian public paying, on top of what they're already going to be paying in rent, for a building that no longer belongs to them?

• (1600)

Hon. Michael Fortier: On this, we negotiated with Larco a bill of approximately \$60 million—

Mr. Tim McGrath: It's \$57 million.

Hon. Michael Fortier: —\$57 million of capital repairs that will apply for the next 10 years. They will pay that for the seven buildings.

Mr. Angus, this is work and maintenance that we identified specifically with respect to each building. It is being performed by them and funded by them, the new owners.

I can't comment on the \$5 million. I apologize, Mr. Angus. I'll ask Tim to....

Mr. Tim McGrath: On that particular item, Madam Chair, we had quite a severe flood in Calgary, from quite a significant rainstorm that caused some severe damage. The building was closed for a couple of days. We had to start those emergency repairs right away, before the building was actually sold, and as a result it's just entered into our budget.

Everything else—all the other responsibilities for the Harry Hays Building—reverts to Larco. We're just finishing up this one project, and that required a significant amount of investment.

Mr. Charlie Angus: It was \$3 million?

Mr. Tim McGrath: That's correct.

Mr. Charlie Angus: The 2007-08 supplementary estimates include \$32 million for "Funding for the sale and leaseback of office complexes and lands". Who's getting that money, and what's it for?

Mr. Tim McGrath: Most of that money is for work at the Skyline building, the Skyline asset itself. We had purchased the Skyline building for the new headquarters for agriculture and the Canadian Food Inspection Agency.

We're in the middle of finalizing that program. Because most of the contracts had already been let, we didn't continue on and transfer those contracts to Larco. We're finishing that work, and then Larco will take on that responsibility.

Mr. Charlie Angus: So that \$32 million is for Skyline.

You also mentioned a \$236 million increase in spending on real property. Is any of that money going to the seven buildings that have been sold?

Mr. Tim McGrath: No, it's not.

Mr. Charlie Angus: So at the end of the day, this whole deal is predicated on the principle that the value of these buildings will be zero.

Hon. Michael Fortier: No.

Mr. Charlie Angus: That's the way they calculated it to us, but we're seeing this year alone that an extra \$6.3 million is going to be paid into one building and \$32 million into another building. What obligations do the Canadian taxpayers have to pay, in the coming years, for any further repairs or construction at those seven buildings?

Hon. Michael Fortier: Over the next 10 years, Larco is responsible for capital repairs. In years 11 to 25, we share things 50-50 on the same capital repairs.

Can I just come back to what you said on the premise for the transaction? The premise for the transaction is not a partisan issue. If you just look at the past decades, if you were to take seven buildings that we've had for more than 25 years and looked at their value 25 years ago, in 1982, Mr. Angus, and if you then looked at the status of those buildings—not these same seven, but any seven—you would see what has happened.

Basically, work isn't getting done. When it's getting done, it's actually costlier than it should be because of all the different checks and balances that we have here in government before we spend a dollar. Indirectly, but very directly, this affects our public servants, because they're housed in buildings that in some cases don't have running water, with asbestos all over the place, so they're not properly....

So that's the principle. We have a deferred capital maintenance bill in excess of \$4 billion to face for the remainder of the portfolio between now and 2020, and this is stuff that should have been done before.

Mr. Charlie Angus: I agree that it probably should have been done. What I don't understand is that right now for, say, the Harry Hays Building alone, instead of \$5 million a year, we're going to be paying \$20 million a year. That's going to have to come from someplace. The money that is being accrued from this sale will probably go back into general revenues and we'll never see it again.

At the end of the 25 years, these buildings in key urban locations are going to be worth a lot more money than they are now, and we'll have the opportunity to buy them back at market value? In that case, the Canadian taxpayer will have to make a severe choice, because you're telling me that these seven buildings will make Larco the single largest landlord to the federal government, because there are 12,000 employees. What are we going to do in 25 years, put them out in the street? Or are we going to have to pay the full market value

for seven buildings for which we're on the hook to pay, from years 11 to 25, 50% of all the capital costs to make sure those buildings will be worth full market value?

• (1605)

Hon. Michael Fortier: With respect, I think that's the wrong issue. In 25 years, I doubt the landlord won't want to renew the lease with us. If you ask them why they did this deal—and they actually said this publicly, as you know. I think it has been made available to you the range of bids we received. They were significantly north of anybody else. They were looking for safe, steady, and predictable income flow. They have other types of assets that they consider more risky. They were looking for something perhaps less “yieldy”, but safe and predictable. So I would suggest to you—and I'm not an expert in this, but this is based on everything I've read—that people actually look for governments as tenants. I don't think they'll kick us out in 25 years.

As Tim said, we have 50 more of these buildings around. We always face the possibility that a landlord will, at the end of a lease, not renew that lease. That's why we have a team here that monitors each urban area where we are, and that team plans several years ahead to make sure we have the ability to relocate if that should happen.

Mr. Charlie Angus: I'd love to follow up on this premise that we can guess what the landlords will do in 25 years. So we're basing it

Hon. Michael Fortier: It's not a question of guessing.

Mr. Charlie Angus: —on the unknown, but since my time is running out, I just want to follow up.

I was looking at the Minto deal, because I think that was the first of what could be a series. Whether or not it's frozen, I'm not sure. I'm looking at the latest lobbyist registration system, and I see that Fred Doucet has numerous leases of commercial space interests with Public Works, dating to April 2007, February 2007, October 10, 2007, and October 14. They're all dealing with leases of commercial space or leaseback.

Have you met with Fred at all on any of these?

Hon. Michael Fortier: No.

Mr. Charlie Angus: Are your staff meeting with him?

Hon. Michael Fortier: No.

Mr. Charlie Angus: How does that happen?

Hon. Michael Fortier: How does that happen? Why don't they meet with him or—

Mr. Charlie Angus: No. Whom does he meet with if he's here to lobby to deal with commercial spaces?

Hon. Michael Fortier: I suspect that what you're reading from must say whom he has met, does it not?

Mr. Charlie Angus: He's dealing with Public Works.

Hon. Michael Fortier: There you go. I think it probably says more than that. I think it says whom he meets with.

Mr. Charlie Angus: So you have not met.

Hon. Michael Fortier: That's right. That's why I answered your question by saying—

Mr. Charlie Angus: Excellent.

Hon. Michael Fortier: —that we do not meet with him, nor does my staff.

Mr. Charlie Angus: Thank you.

The Chair: Thank you.

We'll go to Mr. Holland again, for five minutes.

Mr. Mark Holland: Thank you, Ms. Chair.

I want to come to the issue of transparency. This committee had a great deal of problem in getting documents with respect to the sale of nine buildings, and now seven buildings. In fact, it was my colleague Garth Turner, when he was on this committee last spring, who requested the confidential memorandum, along with a raft of other documents. These documents weren't given to us until Wednesday of last week, at our last meeting. In fact, there were still details missing, specifically in regard to Larco's financing.

We had asked for information on where their financing is coming from. I know you were talking about Larco being a Canadian company, but we don't know where its financing is coming from. Can you provide that information, and can you tell us today where that is originating from?

Hon. Michael Fortier: I think how they got financed was actually in the paper. I read it in the *Globe and Mail*, so I would suggest that you ask one of your staff to just punch in "Larco".

Mr. Mark Holland: With respect, Minister, we've been requesting this information for some time.

Hon. Michael Fortier: No, you have not.

Mr. Mark Holland: Yes, we absolutely have been.

Hon. Michael Fortier: When I came before committee, you're right that Mr. Turner asked. At the time, we hadn't made a decision on who had won the deal, so it couldn't have been when Mr. Turner was there, Mr. Holland.

Mr. Mark Holland: I'm saying that we asked numerous times for that information. I'm just simply asking you if you can provide it.

Hon. Michael Fortier: I'll let François answer, but to me this is a private transaction between them and their banks.

Mr. François Guimont: There are a number of other documents that have been asked for by the committee, Madam Chair. We had a discussion with my staff, and together with the minister's office, we want to be as open as we can vis-à-vis the request. That request represents 2,000 pages, and they're being translated as we speak on a priority basis.

Mr. Mark Holland: We appreciate that. The concern, of course, is that the information is coming in dribs and drabs. In fact, even though it had been requested the previous spring, the majority of it didn't arrive until last Wednesday.

Because my time is limited and I only have five minutes, I want to talk about heritage buildings. I have a particular concern with a question that Mr. Moore had asked about Larco.

Minister, you have exalted the virtues of Larco, and I'm not taking exception to that except in regard to one area, and that's heritage. I didn't see you mention that as a caveat.

We just saw the Graham House demolished in Vancouver. It was designed by Arthur Erickson. There was an enormous amount of outrage about that.

Given the fact that phase two is not cancelled but is simply on hold at this point in time, and that there are a number of federal heritage buildings, I want to know what types of assurances we would have in dealing with these matters; that heritage properties would indeed be protected; and whether or not you have any concern with the way Larco has handled this building, the Graham House, which was designed by Arthur Erickson and was considered by many to be a very significant piece of natural architecture.

• (1610)

Hon. Michael Fortier: I'll comment on the seven buildings, if you don't mind.

With respect to heritage, we have contractual provisions between us and them. I think it's a covenant on their part, and if they breach that covenant, we obviously have all the benefits of seeking retribution. We have actually built this into our contract with them. Basically, they need to protect and guarantee that the heritage status, an identity of the buildings that have had that status among the seven, will be maintained. That is already in the contract between us and Larco.

Mr. Mark Holland: I know my time is tight, so if I could, I'd like to move to operating costs.

One of the claims that was made in the document that justified this leaseback was that the private sector was going to be able to deliver a 20% improved efficiency through operating costs. This is even though the private sector is already operating buildings that are under federal ownership. I'm wondering how the private sector can improve on something that has already been managed by the private sector.

Hon. Michael Fortier: I don't like to quote other people, but the 20% line actually comes from a Toronto Board of Trade speech made by your own colleague Scott Brison on September 21.

Mr. Mark Holland: I don't have a problem. I'm just asking—

Hon. Michael Fortier: I never said 20%.

Mr. Mark Holland: Okay, so you take exception to that.

As I understand it, that's an assumption built into the document; that's an assumption built into this particular deal.

Hon. Michael Fortier: What I take exception to is basically Canadian taxpayers owning so much in terms of bricks and mortar—particularly in office building space—and then always holding the bag at the end of a 25-year period. We've transferred ownership risk to the private sector. Even in the private sector, if you look at the major Canadian banks, Mr. Holland, except for their branches, which obviously are very strategic, they've all transferred their high-rise buildings. In downtown Toronto, Montreal, and Calgary, even the banks—for-profit companies—don't own them anymore, because you need to be in that niche to actually make something out of it. We are certainly not in that niche, we're not in that zone. This is why we undertook this transaction.

The Chair: Thank you very much.

[Translation]

Ms. Bourgeois, you have the floor.

Ms. Diane Bourgeois: Thank you Madam Chair.

Mr. Minister, since I do not understand this very well, could you provide me with the real figures? You signed a lease with Larco. I imagine the lease is up for renegotiation in five years, unless that has already been established?

Hon. Michael Fortier: It has already been established.

Ms. Diane Bourgeois: According to our figures, the total rent will cost close to \$2.6 billion. Is that correct?

Hon. Michael Fortier: It is \$2.6 billion over 25 years.

[English]

Is it about \$2.6 billion?

Mr. Tim McGrath: It's a total payment of \$2.1 billion over 25 years.

[Translation]

Hon. Michael Fortier: It is \$2.1 billion.

[English]

Mr. Tim McGrath: It has a present value of \$1.1 billion.

[Translation]

Ms. Diane Bourgeois: That is good.

Based on the figures you gave us, the operating costs, or the annual maintenance costs are currently \$54 million. Is that correct?

Hon. Michael Fortier: I am sorry, I do not understand.

Ms. Diane Bourgeois: What are the annual maintenance costs for these buildings?

Hon. Michael Fortier: You are talking about the—

•(1615)

Ms. Diane Bourgeois: I would like to know what we are saving.

Hon. Michael Fortier: We will get back to that in 30 seconds. Earlier, I mentioned that I wanted to transfer the ownership risks to the private sector. Mr. Guimont also receives approximately \$200 million every year to reinvest in the entire portfolio.

Is that it, François?

The book value does not necessarily correspond to market value. You know that the book value of these seven buildings was \$356 million, and we received \$1.4 billion, which is an extra \$1 billion.

Ms. Diane Bourgeois: That is excellent.

Hon. Michael Fortier: That is the first time in two years that I have heard you say something is excellent.

Ms. Diane Bourgeois: I will get back to that later.

Hon. Michael Fortier: In all seriousness, the book value of the entire real property portfolio is approximately \$7 billion, but the market value is much higher. Mr. McGrath and Mr. Guimont are not able to invest the \$200 million in all the buildings or to invest as much as one would expect from a real property owner in the private sector—

Ms. Diane Bourgeois: —who takes care of the buildings.

Hon. Michael Fortier: They are taken care of, but there is always a delay. You understand; you have been here longer than I have. There are many steps to follow, such as the Treasury Board or the bidding process. You know that since you supervise my work. There is not always a bidding process in the private sector. Someone looking for a welder or a plumber is not required to solicit bids, but we must. The private sector saves a lot of time, which is something we cannot do; it is not our expertise. The amounts invested in these seven buildings every year is much less than what should be invested. If you would like the exact figure, I will let Mr. McGrath share that.

[English]

Do you know how much we spent on these seven, on a yearly basis, in the past?

[Translation]

Ms. Diane Bourgeois: Yes, please, Mr. McGrath.

[English]

Mr. Tim McGrath: The number changes because we go to priorities in terms of what assets we need to invest in, but generally it's around 2% of the value of the buildings, so it would be anywhere from \$10 million to \$12 million on an annual basis for these particular assets.

[Translation]

Ms. Diane Bourgeois: That is odd. I say it like that, but that is not what the analysis by CB Richard Ellis said.

Mr. Minister, I would like you to explain one sentence that I did not understand at all from the real property study by BMO and RBC.

Mr. McGrath, on page 13 of the investment objectives, it talks about maximizing the value of currently under-used properties with innovative, strategic real property alternatives. In order to minimize political risk, the mobilization will require the involvement of PWGSC in the assessment growth of redevelopment properties for all transactions.

How is it that two banks are advising us on reducing political risk?

Also, what does “assessment growth of redevelopment properties” mean?

Furthermore, based on the documents we received, the lease rate seemed to be marked up by approximately \$2 per square foot a few months before the sale to Larco, in order to maximize the selling price.

I would like answers to all of my questions. Perhaps Mr. McGrath could explain all of this.

Hon. Michael Fortier: I will respond.

Ms. Diane Bourgeois: Go ahead.

Hon. Michael Fortier: With respect to the analysis, what you are referring to has nothing to do with the office buildings. As I said earlier, they analyzed different types of buildings that we own. Among these is a type of building that could be redeveloped with or without the private sector, and where a new building could be built. In the report, they stated that there was a big gap between the book value of the land and the true market value of the property. They can make political observations; from time to time, bankers can make political observations. They said that if we want to make a transaction with this type of building, we should make sure that the book value is as realistic as possible, because the market value right now is much higher than what is on the books.

Ms. Diane Bourgeois: That is in the general analysis of the building, of the real property portfolio.

The Chair: Thank you.

Ms. Diane Bourgeois: Mr. McGrath did not respond.

The Chair: He will respond later.

Ms. Diane Bourgeois: I will send him a letter.

[English]

The Chair: Mr. Kramp is next.

Mr. Daryl Kramp (Prince Edward—Hastings, CPC): Thank you, Madam Chair.

Mr. Minister, if I could, I would just like to clarify what I think is a misunderstanding by Mr. Holland.

It was my understanding that when Mr. Turner, his predecessor on this committee, was here and requested information, it was prior to the closing of the deal. It was information that would obviously conflict with the confidential terms of the RFP. I can recall both you and professional witnesses stating here that obviously the information couldn't be released at the time because it would have put the government in serious jeopardy and conflict.

Now, of course, we have a deal that has been consummated, and information has been requested by this committee. Could you tell us just how long ago your department or your ministry received a request for specific information regarding this file?

• (1620)

Hon. Michael Fortier: I'll let Tim or François answer that.

To be fair, it wasn't just Mr. Turner. The last time I came, several of the folks on this side were asking to see the confidential information memo. I indicated at the time that had we disclosed it, given the information about not just.... It wasn't just the information memorandum people wanted; it was the study by RBC and BMO, which obviously had delicate information one wouldn't want to share with the rest of the bidding world. There were valuations and things

of that nature that I think people objectively understood we couldn't disclose.

With respect to the specific dates when documents were requested from our office, I'll ask François or Tim to respond.

Mr. François Guimont: Madam Chair, my understanding is that we provided a reply to the latest request—essentially the November 26 motion—on December 5. If I set aside what we provided on December 5, you can expect another shipment—I spoke of 2,000 pages—when they're translated. The translation is done on a priority basis; I ensured that myself. When that comes, you will have final delivery of the information the committee requested.

Tim, is that accurate?

Mr. Tim McGrath: That's correct.

Mr. Daryl Kramp: Thank you for your efficiency to date on this file, then.

Mr. Minister, timing is a crucial element in life so many times—not just on a real estate deal, but in many occurrences in life: family, business, whatever. In particular, I'm concerned as to the market-ability of these particular buildings at this particular time.

I'm wondering if you could give us some assessment of the overall real estate market and whether the department felt it would be an opportune time to maximize any potential out of these buildings.

Hon. Michael Fortier: Obviously, I said the timing was excellent. I'm not the only one who said this; the *Ottawa Citizen* said it, the *Globe and Mail* said it, and everybody who looked at this objectively said it. I'm proud of that.

Obviously I couldn't predict the liquidity crisis. When we considered this transaction, the real estate market was vibrant and dynamic. I've been around these markets before; they don't always stay that way for a very long period of time, and they had been that way for several years already, so I was keen on doing the homework, but also on going to the market as soon as everybody agreed it was something we should be doing—i.e., testing this in an auction. I wanted to go to the market as soon as possible and circle a price with a vendor.

Obviously the liquidity crisis arrived when it arrived, and it arrived a few weeks after we actually signed a memorandum of understanding with Larco.

Don't take my word for it; you can ask experts in this field: if we had run the auction only a month or two months later, we would not have had the proceeds, or at least considered the proceeds, that are on the table right now. That's for sure.

Mr. Daryl Kramp: Thank you.

Mr. Minister, sitting here with the committee last week, we had... not a one-man band, but a witness advise us of all the ills of this deal. His credentials were, in his mind, impeccable. Of course, he didn't have any formal experience in the real estate field or marketability or financial background for that particular thing, but in his opinion this was not a good deal.

I'd like to know what form of professionalism would have existed and potentially how many people, bodies, agencies, or organizations would be involved in assessing this type of transaction on behalf of the government, whether it was BMO, the bank, the Deutsche Bank report, or the internal staffing. I realize you probably wouldn't have access to those numbers, but would it be fair to say there was a sufficient or a huge amount of professional advice poured into this assessment?

• (1625)

Hon. Michael Fortier: Yes, absolutely, and once we had the Bank of Montreal and Royal Bank report, the government agreed to test the marketplace, but at the same time insisted that we get a third-party fairness opinion from somebody who wasn't involved in preparing the first report—somebody who had nothing to gain, whether it was a fair transaction or not. That was Deutsche Bank's role.

There were literally hundreds of people. All these banks have large real estate departments. They do this for a living. From the outside there were hundreds of people. From the inside it wasn't only Public Works; it was the central agencies, the Privy Council, Finance, Treasury Board. All this had the proper scrubbing and vetting, I can assure you, until we finally decided to go ahead and conclude the transaction with Larco.

Mr. Daryl Kramp: Thank you.

The Chair: Thank you very much.

We'll go to Mr. Alhabra.

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

Minister, good to see you.

Hon. Michael Fortier: It's good to see you.

Mr. Omar Alhabra: We wish we could see you every day in the House, but we'll see what the next election brings.

Minister, you probably remember that chapter 7, I think, of the Auditor General's report in 2007 had a critical observation of leasing practices of Public Works. Do you remember that report?

In fact, that report was critical of some leasing contracts. Wasn't it critical? I see you're shaking your head.

Hon. Michael Fortier: I'm looking forward to her writing a chapter about us that won't be, but it's going to come; it's going to come.

Mr. Omar Alhabra: She was critical first about the coordination between various departments. Also, sometimes the department signed leases and contracts when it made more sense for the department to purchase the building than to lease it for such long-term contracts.

What I'm seeing here is exactly the reverse. In fact, we're perpetuating that pattern that I felt the Auditor General was very critical of.

Can you answer this question first? Is this transaction for property management's sake, or is it for liquidating our assets?

Hon. Michael Fortier: Neither.

Mr. Omar Alhabra: Okay, what is it for?

Hon. Michael Fortier: It's to basically transfer the ownership risk to the private sector, where it should reside in this type of industry.

With respect to the Auditor General, I would ask you to go back and find a sentence in there that says the government should own all of its real estate. That's not what she said. She identified one or two; they were one-offs.

I agree with you, it was critical. She identified one or two situations in which, if you looked at the behaviour of the department over several years.... That was long before I showed up, and I'm not being partisan here; it's just the reality.

She put all the numbers together, looked at the type of deal we got as a lessee, went into the market, looked at how this building had transacted in the marketplace, compared both, and said, "You know what? You'd be better off owning it."

But we don't want to own. You don't want to own more bricks and mortar. Those were one-offs. She used specific data points with respect to those transactions when she felt the leases that had been signed were not favourable to the taxpayer.

Mr. Omar Alhabra: Thank you.

You would agree that the public sector has the responsibility towards its constituents to behave sometimes differently from the private sector, and you would agree that the reason any investment company would purchase this property from the federal government is that they're going to make money off it, right?

Hon. Michael Fortier: I would assume so.

Mr. Omar Alhabra: Therefore, I would assume that the federal government is paying more than it would pay if it maintained the ownership. Otherwise why would the private sector want to purchase this building and lease it back to the federal government if they're not making money on it?

Hon. Michael Fortier: We're not in the business of making money on these buildings. We're actually in the business of losing money. If you look at our deferred capital bill, this is what we've accumulated over the past several years of—basically these are repairs we haven't performed on our entire portfolio. It's over \$4 billion.

Mr. Omar Alhabra: I'm sorry, my time is limited and I want to get to this point. Is the private sector, the purchaser of this property, going to lose money for doing this transaction?

Hon. Michael Fortier: Ask Larco why they bought. I just read in the press what they said. They were looking for a nice asset that was in terms of its yield not as great as some of the other assets they own in the world, but they liked having an asset in Canada, having the federal government as a lessee, as a tenant, for the next 25 years. They like to mix their portfolio. These were the reasons they gave. If you want to ask them to come here and tell you why they would buy, I would suggest you do that.

• (1630)

Mr. Omar Alghabra: I can say it without even asking them. I'm sure they're making money. Otherwise they wouldn't have invested that much money in buying these transactions. My argument is that you're going against the recommendation of the Auditor General, in my opinion. She looked at some of the behaviours and said that with some of these leasing contracts, it would have made a lot more sense to buy rather than lease, especially when it's a long-term leasing contract. What we appear to be doing now is perpetuating that behaviour, what the Auditor General said was not good for taxpayers' money.

Hon. Michael Fortier: Any way you look at this, Mr. Alghabra, it's been good for the taxpayer. Look at the book value of \$346 million. We got \$1.4 billion. In terms of the independent valuations, we are way north of those independent valuations. Look at the net present value. The proceeds versus the costs were way over.

I would say this to you. I actually hope the Auditor General wants to look at this transaction. You and I should have a conversation when she looks at the transaction. I'm sure she'll come to the same conclusion that these independent real estate experts came to when they blessed this transaction via their reports and the opinions they tabled only a few weeks ago.

The Chair: Thank you very much.

We'll go to Mr. Albrecht.

Mr. Harold Albrecht (Kitchener—Conestoga, CPC): Thank you, Madam Chair.

Thank you, Minister, for being here today.

Referenced a number of times today has been the involvement of Royal Bank, the BMO, and also the Deutsche Bank in having done a preliminary study and then a post-operative study, if you like, to confirm the value for taxpayers. In addition, in the study we did here, as a committee, we had Professor McKellar from York University. He's a professor of real property. He informed our committee in many different ways that government bodies of any stripe—municipal, even school boards and other bodies—are not good managers. In fact, I'd like to read directly from the statement he made to the committee in May. He said:

The bottom line, I will say right at the outset, is that every government does a terrible job of managing its assets, so that's a given. We are no better than most former communist countries in that regard, and there are lots of reasons why. I think that now many of the assets have been so badly managed over the period of time that we have to do something about it. I think the problems we face in Canada are no different from those faced by Australia or the U.K. or France or Switzerland, etc.

And he goes on. But then he says:

To talk directly about sale/leaseback, it's essentially a financing mechanism. It's really a form of releasing capital and redeploying it in the private sector, as I've outlined. It's well used in the private sector, and more so now because a lot of

industries really don't want to be managing real estate or owning real estate when in fact they're making gadgets and so forth. So over the past 10 to 15 years, most organizations, including our major banks,

which you pointed out, Mr. Minister,

have basically gotten out of real estate. Part of that is also driven by the fact that there's so much money that wants to buy real estate today.

We have three large, reputable companies that have put their clear advice to us. A professor of real property has given his advice, and there was an open, competitive process to put these buildings up for sale, and I would assume, like in any auction, the sale went to the highest bidder, and yet we have this small group of critics who are saying somehow we have a bad deal for taxpayers. I just wonder if you could comment further on the question that Mr. Kramp framed in regard to Infrometrica's position that we may have lost millions of dollars here on behalf of Canadian taxpayers.

Hon. Michael Fortier: That's not the case at all.

Given Mr. Alghabra's question, it's good to remind ourselves that the banks sold buildings. If there's one industry where people are there for profit, we think it's obviously the banking industry. If there was so much money to be made in running your own bricks and mortar, Mr. Alghabra, they wouldn't be selling those buildings. And everybody has. I'm sure you can find this out on your own, but even the retailers now—large department stores like The Bay—have thought about spinning off the real estate portion of their assets because it's really not part of their core function. And if it's not part of theirs, with respect, I think it's not part of ours.

With regard to Infrometrica, there are two issues that I have with the analysis. The first is that they assume the behaviour of the government as an owner of the asset would change drastically over the next 25 years. I'm talking about being consistent year after year in terms of investing the money, doing it on time, and with no cost overruns. That's not just today while I'm here, but in 5 years or 25 years. They assume that all these checks and balances are going to be done and that they are going to be done properly. As a witness I have our past behaviour as successive governments and how we've neglected the assets—money and otherwise—and I can't buy this. For them to suggest that at the end of the day this asset would be worth so much in our hands is ignoring decades of behaviour.

The other point is that they attribute a value to these nine assets that is totally unrealistic. We had an auction. If I had come here today and told you Monsieur Guimont went to Larco and signed a private deal, then people would say why them, why not others?

This was a very robust auction. There were ten or eleven people who actually bid. Eighty-six books were requested, and there were eleven bids. This is as robust as they come in Canada. We chose the highest bidder. I respectfully suggest to those who believe otherwise that this is the market value of these assets, i.e., the result of a robust auction. We chose Larco because they were the highest bidder.

• (1635)

Mr. Harold Albrecht: Thank you.

[Translation]

The Chair: Ms. Bourgeois.

Ms. Diane Bourgeois: I will share my time with my colleague.

Mr. Minister, in 25 years, what will we have left of these assets?

Hon. Michael Fortier: What will we have left?

Ms. Diane Bourgeois: What will we have left?

Hon. Michael Fortier: In 25 years there will be money, a lot of money.

Ms. Diane Bourgeois: Really? Can you explain that?

Hon. Michael Fortier: I explained it earlier. It is the value—

Ms. Diane Bourgeois: Could you start over? Since you think I seem to have trouble understanding, I will need to see the figures.

Hon. Michael Fortier: Okay. I will start over.

Take the present value of the amounts received today, compared to the present value of rent payments we will have to make over 25 years—

Ms. Diane Bourgeois: Okay.

Hon. Michael Fortier: —to which you should add the maintenance costs that will be shared equally between year 11 and year 25, which are estimated at a few hundred million dollars. If you add the rent over 25 years, plus the 50% of our maintenance costs and you deduct that amount, in constant dollars, from the amount we received from Larco Investments, we have \$300 million in constant dollars, which, over 25 years, represents close to \$1 billion in actuarial present value.

Ms. Diane Bourgeois: Will these figures be in the documents you will be giving us in the next few days?

Hon. Michael Fortier: No. They are in the study by Deutsche Bank. I am surprised you do not have it.

Ms. Diane Bourgeois: It is in the study by Deutsche Bank. Okay.

I would like to get back to the study by the two banks. First of all, I think that the two banks did not actually conduct a study. They used PWGSC's figures, if my memory serves me right and if that is what I read.

It was difficult to get very accurate figures from PWGSC, because a lot of its assets are not quantifiable, for example, heritage buildings, bridges, and so on. It was difficult for these banks, and they mentioned that.

How can we be sure that Deutsche Bank has accurate figures about what our earnings will be? That is what I am having a hard time understanding.

Hon. Michael Fortier: Take page—

Ms. Diane Bourgeois: We are talking about something that is not entirely up to date and they give us net figures.

Hon. Michael Fortier: On page 28 of the Deutsche Bank document, entitled *Valuation summary*, they used several valuation methods, which can be found in the "Method" column, and they are presented based on experience with similar things. In other words, an office building is an office building. Even if we do not own it, we know the worth of a 14-storey office building, with a surface area of

100,000 square feet, located in downtown Ottawa, which was built in 1974 and is in a given state.

Do you agree?

•(1640)

Ms. Diane Bourgeois: Yes, absolutely.

Hon. Michael Fortier: That was their basis. Also, they said that these are hypotheses. PWGSC also makes hypotheses. Based on these hypotheses, they present the valuation methods found on page 28.

Are we out of time?

The Chair: We will continue with Mr. Nadeau, who is anxious to ask a question.

Mr. Richard Nadeau (Gatineau, BQ): I have heard that the federal government owns about 4,600 buildings.

Hon. Michael Fortier: Four thousand six hundred buildings? I hope not.

Mr. Richard Nadeau: How many are there, approximately?

[English]

Mr. Tim McGrath: Across all of government, but Public Works has around 370.

[Translation]

Mr. Richard Nadeau: There are 370 if we are talking about PWGSC, but for all of Canada, the number is higher.

[English]

Mr. Tim McGrath: It's over 20,000.

[Translation]

Mr. Richard Nadeau: As you said, Mr. Fortier, the Canadian government does not have the mandate to manage buildings. We just sold seven of them. Should the government sell all the buildings? If seven buildings will be managed by someone else or will be sold and we will become tenants, would it not be logical to sell all of our buildings because it is not our specialty? Accordingly, these buildings should be managed by private companies that specialize in this, and the government would then sign agreements with the private company.

Would it go that far? If not, why is it good to sell seven buildings and keep thousands of others?

Hon. Michael Fortier: I should not tell you this, but if we were starting a nation, starting a country today—

Mr. Richard Nadeau: You can tell me. I am very open-minded.

Hon. Michael Fortier: If we were starting a country and had no buildings, if we were starting with a blank page, I do not think we would immediately start buying buildings. We would find space for our public servants, as we did. Nearly 50% of our public servants work in buildings that do not belong to us. This is not a bad ratio, but I think that is not what we would aim for if you and I were starting over.

However, we are not starting with a blank page; we have several decades behind us. We started with nine buildings, and this number is now seven. As I told Mr. Holland earlier, it is a transaction. We will take it in, analyze it and examine it. For now, we are not planning on making any more transactions. This is what we wanted to do under the circumstances.

Mr. Richard Nadeau: Thank you very much.

The Chair: Thank you very much.

Mr. Dewar:

[English]

Mr. Paul Dewar (Ottawa Centre, NDP): Thank you, Chair.

My thanks to the minister and his DM and ADM for being here today.

I just want to clarify something. In your response to Mr. Moore's question—and I thank him for reading the mail I send to all residents in my riding—you didn't quite answer the question for me. I read between the lines that you're saying the arrangement that we have here in Ontario makes it a little different in terms of who gets the money at the end of the day.

In other words, this is what I will submit to you, because I didn't make this up; I got it from the City of Ottawa finance folks. The City of Ottawa, as a result of these two buildings being sold, will have \$4 million less in revenue. Why? You know why, and you might as well make it public. Instead of going directly to the City of Ottawa, some of that money goes to the City of Ottawa when they go on the private market and—I think it was in the mailer I sent to Mr. Moore and others—the rest goes down the 401 for education taxes. As a result, \$4 million less will go to the City of Ottawa. That's the argument. That's what happens. Seeing that maybe this wasn't noted before—and fair enough if it wasn't—I guess my question to you is whether or not that was something you were aware of.

• (1645)

Hon. Michael Fortier: First of all, our understanding is that the City of Ottawa will ultimately get 100¢ on the dollar, and it's in terms of directing—

Mr. Paul Dewar: They'll keep it all?

Hon. Michael Fortier: It's in terms of directing the traffic on that 100¢ on the dollar.

Mr. Paul Dewar: Let me be clear—and I'm not sure if your officials can help you here.

In directing the traffic, I can tell you where the traffic goes: \$4 million goes south. That's something I would have assumed you would know. If that's the case, we've heard it said often that there's only one taxpayer. I can tell you that the taxpayers in my riding aren't too happy about this.

And it's not just the deal itself. We can go back and forth on that, but at the end of the day, they were getting 100% dollars that were staying 100% in Ottawa the day before the sale of the building. The day after the deal is done, some money is going south. It's going to Toronto for education and is not coming back. That's not a good deal, so you can understand our problem.

Hon. Michael Fortier: The deal you're describing wouldn't be, but that's not the deal.

Mr. Paul Dewar: I'm asking your official.

You're saying to me that there will be no hit at all for the City of Ottawa and no money will go to Toronto.

Mr. Tim McGrath: I'll explain the process and how it works.

Mr. Paul Dewar: I'd just like to know if that's the case, because I don't have a lot of time. I would like to spend all day with you—

Mr. Tim McGrath: I spoke with Kent Kirkpatrick, the city manager, and an agreement in principle has been reached with the Province of Ontario whereby, over a two- to three-year period, they will collect 100%. They will keep all of the money.

Mr. Paul Dewar: What happens after that?

Mr. Tim McGrath: They keep 100% of the money, and it goes to the—

Mr. Paul Dewar: For three years.

Mr. Tim McGrath: No, they get to keep 100% of the money.

Here's what happens in Ontario for what are called granting properties. In the past, the municipality got to keep all of the money for granting properties, not only at the federal level but at the provincial level as well. Even when the provincial government changes ownership—when it does P3s, for example—the city is losing money as a result of that. So they took on this larger issue, not only at the federal level but at the provincial level, and they have been dealing with the province in order to retain ownership of that particular money.

Mr. Paul Dewar: Up until that point, the money would have gone to Toronto and not come back, but since the issue has been raised, there has been an arrangement between the City of Ottawa and the province such that the money will stay in Ottawa.

Mr. Tim McGrath: They had started working on this even prior to the sale, and it wasn't only with federal properties, it was with provincial properties as well.

Mr. Paul Dewar: Just to be clear, it was the City of Ottawa finance folks who were telling us about the fact that they will have \$4 million less as a result of the sale. Were they wrong?

Mr. Tim McGrath: No, they weren't wrong at the time. When they were talking to you, they hadn't reached the agreement with the province. They have been working on it for—

Mr. Paul Dewar: It was two weeks ago.

Mr. Tim McGrath: I spoke with Kent Kirkpatrick as recently as four weeks ago and again just recently, and he said they've reached an agreement in principle with the province.

Mr. Paul Dewar: In principle?

Mr. Tim McGrath: Right.

Mr. Paul Dewar: Well, I'm from Missouri.

Mr. Tim McGrath: It's all of the money, though. There's not a change in the quantity.

Hon. Michael Fortier: Does that mean you're now in favour of the deal?

Mr. Paul Dewar: No, not at all.

I want to go on to another building, the RCMP building, if I can. It was the deal that was the inversion of that. You're buying a building, or you are at least leasing it for a very long time, but you could have bought it for \$30 million. Now, goodness knows how much we'll pay in the end.

What's the cost of the JDS building in terms of preparing that site, and are they ready to move in? Are there any problems with the site itself, any unanticipated concerns?

Mr. Tim McGrath: In terms of the JDS building and the present value of the lease payment, the value of the lease is only \$7.29 a square foot, which at the time was reported as one of the best deals in Canada when that deal was put through and reported in a number of commercial magazines.

Mr. Paul Dewar: Sorry, I don't mean to interrupt and I don't mean to be impolite, but I'm asking if it's on schedule and whether the costs are still within the deal that was struck.

Mr. Tim McGrath: The costs are still within, although the RCMP have changed some of the requirements in terms of who is moving into the building.

Mr. Paul Dewar: And what are they?

Mr. Tim McGrath: They just looked at different groups. Because of the growth of the RCMP, they've realigned some of the groups that will be moving into the building. However, the building has been able to handle those particular changes and we're still on budget for that particular project.

Mr. Paul Dewar: So the costs won't go up as a result of the change of who is coming into the building, in terms of fit-ups and that sort of thing.

Mr. Tim McGrath: That's correct, not at all.

The Chair: Thank you. Your time is up.

Mr. Paul Dewar: I wanted to ask about L'Esplanade Laurier and if you're going to buy it in 2009.

The Chair: Mr. Brown.

Mr. Patrick Brown (Barrie, CPC): Thank you.

I have two questions, and I know Mr. Warkentin has questions as well, if there's any additional time.

One of the previous questions I've heard the minister asked by one of our colleagues on this side referenced the idea that, logically, money could be made if a business was interested. The tone of the questioning was very critical toward the sell-off. Logically, one could also infer that if they're critical now, they would have also been critical at the time when the Liberal Party was in power. I thought maybe you could shed some more information on whether this logical jump is correct or if the Liberal Party, the previous government, was actually looking at sell-offs as well, and if they initiated this plan that is currently evolving.

The second question I wanted you to touch upon is about the ownership risks. Maybe you could share with the committee some of the ownership risks Larco is taking on, and how relieving the Government of Canada—and the taxpayers indirectly—is something that is certainly fiscally responsible.

• (1650)

Hon. Michael Fortier: Thank you, Mr. Brown.

I referred earlier to the RFP that was on the table in the summer of 2005, which was basically proposing to spin off as many of the assets as possible, whether they were office buildings, laboratories—anything. Interestingly, nobody qualified for this, which is unfortunate, in the sense that it went out there and none of the experts could qualify since it was so complicated and so well packed. I think we should all feel fortunate that nobody did, because if they had, I don't know what would have happened in terms of a transaction.

With respect to the ownership risk, and I've stated this several times already today, I think taxpayers are willing to underwrite program delivery risk. That to me is very different from a bricks-and-mortar ownership risk, which is what we're really talking about here. We don't need to own those seven buildings to deliver services to Canadians. There will be close to 11,000 to 12,000 public servants still housed in those buildings, still delivering, in some cases, store-front services in the lobby. That won't change.

One example of investments we won't have to make anymore is in the outer shell. I talked to Madame Bourgeois earlier about the 50-50 split on the day-to-day maintenance. What we've totally spun off to Larco is called the outer shell. This is the roof, exterior cladding, etc. It's called a superstructure. We estimate that for those seven buildings it's worth around \$350 million over 25 years. These are sums we won't have to invest on the superstructure, which we've passed along to the private sector, where I think it belongs.

Mr. Patrick Brown: That certainly sounds like an onerous risk. I applaud the initiative you've undertaken.

I think Mr. Warkentin has a quick question.

Mr. Chris Warkentin (Peace River, CPC): I can catch it on the next go-around.

The Chair: We will go with Mr. Silva for five minutes.

Mr. Mario Silva (Davenport, Lib.): Thank you, Madam Chair. Thank you, Minister, for being here.

I have a few questions and comments, but my time is short. I apologize if it seems like I'm speeding through what I have to say.

First of all, I understand your situation asked about transfer of risk specifically and the area of infrastructure. We know that municipalities are facing about a \$120 billion situation of infrastructure needs. I'm not sure if you're arguing that basically the municipalities should sell all their properties and lease them back so that they can deal with their risk assessment.

Also, in the private sector...and maybe you are aware, but we know what happened under Thatcher's regime in the U.K. in direct relation to that. It did not go very well.

These things sort of go in and out of fashion. Businesses make decisions one day, but I don't think they'll really look at it 25 years down the road, because they could be bought. Some of them would be quite happy if they were actually bought by different companies or through foreign takeovers. Government is totally different. We'd like to be here for at least 25 years, if not longer than that. We know we're going to be needing civil servants as well to carry out duties. They have different priorities and different needs.

The banks or private institutions make decisions, and some are very good and some are very bad. We have several cases of several private companies that we know of that have made some serious decisions. You have to look at the investments that some banks have made overseas as well. On this whole notion you keep talking about of somehow government always seeming to manage things badly and that government is a failure compared to the private sector, I don't buy into that. Maybe you could clarify that for me when you make your statement.

Have you looked at some options possibly that have been created where maybe crown corporations could deal with the leasing of these facilities?

Finally, I would like to also add the comment that we tend to look at numbers only and not at people. I've seen in the city of Toronto where banks and other institutions have basically sold their buildings and leased them back. What happens is that with these particular companies that lease them, the first thing they do is cut services, particularly in the area of maintenance services. Somebody who was making \$10 or \$12 an hour all of a sudden is making \$8 an hour. There's a human face to all of this. I think sometimes we get tied up in all these numbers and forget that there are people out there who are also paying their mortgages and who have lives to fulfill. Sometimes we don't consider all those factors when we make these decisions.

As I said, there are many times that I've seen institutions make decisions, wrong decisions, and they regret it two or three years later. I mean, there are hundreds of them. Just read the paper every day about the many decisions of financial companies. I don't want to talk about Hollinger today, but we know all the different decisions that companies make and then people regret them later on.

• (1655)

Hon. Michael Fortier: I think—

Mr. Mario Silva: I really apologize for being so fast, but I had no other choice in the five minutes. Sorry.

Hon. Michael Fortier: Okay. The crown corporation is a bad idea. We don't need another crown corporation. There are enough structures up here. Believe you me, that's not something we require.

Fads, fashion—look at 40 years of ownership. I looked at 40 years of ownership of these assets. It's not a fad. It's not a fashion. I'm seeing a trend. Unmistakably, I know where this is going. It's going to another 25 years of bad management. It's not because people here are not competent. It's just the structure around which we're asking them to work.

Madame Marleau was minister, and I see her nodding from time to time. You don't see her, but she knows what I mean. It's difficult. You're trying to invest in a building. You need this guy's approval.

You need five people to bid. You need another person's approval, five signatures. It is complicated.

So it's not a fad; it's not fashion. It's just the way things work up here.

What was your last question? It wasn't on Hollinger. I don't want to talk about that. It was on people.

The first people I think about are taxpayers. I'm sure you do as well. The other people I think about are those 12,000 public servants who are in those buildings, some of whom are in the Harry Hays Building. Mr. Dewar was talking about people in his riding who are against this. I don't know about that, but I can tell you, I was in Calgary two weeks ago. I met three people who told me they worked in that building and they were looking forward to having Larco as a landlord and as an owner so that finally work will get done, improvements will happen in that building, for which they've been waiting for several years.

Mr. Mario Silva: Tell me, is the \$1.4 billion that's going to be paid upfront money?

Hon. Michael Fortier: Yes, it has been paid. It's already in the Consolidated Revenue Fund.

Mr. Mario Silva: Thank you.

The Chair: Mr. Warkentin.

Mr. Chris Warkentin: Thank you, Madam Chair.

Thank you, Minister, for coming yet again. We do appreciate your coming for the full two hours.

In terms of—

Hon. Michael Fortier: Was there an option? Nobody told me.

Some hon. members: Oh, oh!

Mr. Chris Warkentin: We weren't going to give you one. But we do thank you.

The Chair: We could have summoned you.

Mr. Chris Warkentin: Thank you for coming for the full two hours, Minister.

I think we should discuss a bit the efficiencies that Larco will be able to provide for us. Mr. Alghabra mentioned that this company is going to make a bit of a profit from these buildings. I come from the real estate sector, and I understand it's often small margins, and it's built on efficiencies. I think it's been suggested that we set up a crown corporation to develop the strategies. I think that's probably a flawed proposal because of the size of the country. We're looking at providing services across this country.

So I'm just wondering, in terms of the efficiencies, if we have numbers or if there's been analysis as to how many people...or many dollars are going to be spent on maintaining these buildings in the private sector, compared to what has been the case or would be in the public sector.

Hon. Michael Fortier: Clearly, we're underinvested in our assets. One of the challenges we all have—this is a bipartisan issue—is that we're facing a pretty significant deferred capital bill—north of \$4 billion—which we're going to have to 'fess up to and deal with between now and 2020. So that's a concern.

At the same time, we have to make sure our public servants work in an environment in which any of us would work were we in their shoes. In some of the buildings, that's fine. In several others, it's not. So that's why these investments are required. The deputy has put together, and is still working on, a plan to improve our efficiencies.

I talked earlier about some of the challenges of addressing these maintenance concerns when you are a government. So Monsieur Guimond has been trying to streamline some of our processes to make sure that if we need to do urgent work.... Tim talked earlier about the Harry Hays Building and the flood. On that one, we acted swiftly. This was an emergency. If we could always deal with any and all repairs and add value to our buildings the way we dealt with the floods in Calgary, that would be great. But I think we all know our limitations. While we're selling these buildings, we're still maintaining a large number of them. So we need a plan, and we have a plan to make sure the work does get done.

• (1700)

Mr. Chris Warkentin: In terms of the work needed to go forward, obviously we still have a huge deficit to take care of in terms of work. Can you elaborate a bit in terms of the plans for re-establishing some of these current buildings, or providing the work that's necessary to get them up to shipshape?

Hon. Michael Fortier: Well, we're going to need to invest the money. We're going to need to do it in a way where there are no cost overruns. As I was saying earlier, the deputy is working on a plan where, in managing real estate investments in terms of maintenance and what have you, our systems will be much more efficient, and we'll be able to hire trades quickly to do the work and supervise that work in such a way that there are no cost overruns. But we need to commit the funds, and we're going to commit the funds, to these assets. It's very important to the government and to myself that these funds be allocated.

So these are not mutually exclusive. You can be selling seven buildings, but it doesn't mean you're not going to be looking after the balance of the portfolio. We are looking after the balance of the portfolio.

Mr. Chris Warkentin: So in your estimation, our public service can be looking forward to better working conditions in the years to come.

Hon. Michael Fortier: Most definitely.

Mr. Chris Warkentin: Thank you, Minister.

The Chair: Thank you.

We'll go to Mr. Alhabra.

Mr. Omar Alhabra: Thank you, Chair.

Minister, since we have you here, I want to ask you a couple of questions that are off topic.

Can you tell us when the public appointment commissioner will be appointed? Is that under the Accountability Act?

Hon. Michael Fortier: I usually know.... It's not me.

• (1705)

Mr. Omar Alhabra: Okay. Here's another question. It's about polling. Your party was very interested in polling and made a pledge during the last campaign that accused the previous government of

squandering taxpayers' money on partisan polling. I think you were surprised—in fact, that's what the parliamentary secretary said in the House—when you found out how much money your government had spent on polling. Why would you be surprised when you manage the department? Then there was also the issue of a moratorium or no moratorium.

Can you take us through this? How did it happen, and what's going on?

Hon. Michael Fortier: Well, let's deal with the polling. As Mr. Moore said in the House, and as I stated, we are concerned about the amount of spending that takes place in different departments. All of this was transparent. It was in the report that was tabled ten days ago, so you've got the ventilation there in terms of the different departments. That is a lot of money. We understand, and I think you understand as well, that some departments need to understand whether their programs are meeting the objectives for which they were set. But we have concerns collectively about the number of polls and the amount of money being spent on these polls by departments—and I repeat, by departments. That deals with the first part.

As I indicated in the Senate, we haven't decided whether there's going to be a moratorium or not, and when we're ready to announce the different measures that will address the issue you raised, we'll obviously communicate those measures. But we are concerned about the situation and we'll address it very shortly.

Mr. Omar Alhabra: You would agree with me that Canadians find it bizarre, the fact that during the campaign the Prime Minister made a big issue out of this, and then we find out that you overspent the previous government.

Is it a practice that every poll conducted by each department is authorized by the minister responsible for that department?

Hon. Michael Fortier: First of all, your preamble is incorrect. I was chairing our campaign, and I can tell you our commitment. You can go and read it. Our commitment in the campaign manifesto was about addressing the concerns raised by the Auditor General in 2003 and 2005 about certain contracts that had been signed between your colleagues and certain companies in the private sector, which appeared to her to lack the basic contractual clauses or to not even exist. So I would suggest that if you look at our campaign promise, this is what it was directed towards.

What was your second question?

Mr. Omar Alhabra: That was the only question I had. You wanted to ramble on...I don't know.

I was asking, doesn't every poll require the minister's approval?

Hon. Michael Fortier: Absolutely not.

Mr. Omar Alhabra: So who makes that decision?

Hon. Michael Fortier: It's made at the departmental level. It depends on the department; it depends on the amount of money involved and the—

Mr. Omar Alhabra: Mr. Moore said in the House, “We respond to bureaucracies’ requests. When they come and ask us for polling, we say, okay, go ahead and do it. Then all of a sudden we find out that we’ve exceeded last year’s polling numbers, and they seem to be really”—

Mr. James Moore: I don’t think that was an exact quote. If it is, I need to get into a new gig.

Voices: Oh, oh!

Mr. Omar Alhabra: I’m obviously not quoting you verbatim, but you understand what the substance of your response was, and it was to what I just said. That was what you said.

Mr. James Moore: Mr. Alhabra, I never said that. Have a late show and try.

Hon. Michael Fortier: Why don’t you ask the deputy how these polls are conducted? We did, as you probably noticed in my own department. It was *de minimis*. Perhaps you want the deputy to—

Mr. Omar Alhabra: No, it’s okay. I would rather have this conversation with you.

The fascinating thing is that all the polls that were conducted are in areas where the Conservatives appear to be really weak, like issues of immigration, environment, status of women. So forgive me for being skeptical about the political intentions of those pollings. I think I’m in my place to ask you these questions on behalf of Canadians when they are seeing that amount of money spent on issues on which the Conservatives appear to be really weak.

What kinds of mechanisms are you putting in place to ensure that these pollings, if they’re contracted out, are done for the public good?

Hon. Michael Fortier: Well, as I said earlier, when we table the measures we’re proposing to implement, which we’ll do very shortly, you will see the measures that are being proposed.

Mr. Omar Alhabra: When, Minister?

Hon. Michael Fortier: Shortly.

The Chair: Thank you very much. Your five minutes are up.

I’ll go to Mr. Moore.

Mr. James Moore: Actually, for the record, the Liberals haven’t asked a single question on polling in the House. I didn’t respond to you or any other Liberal on the issue of polling. In any event, the minister has dealt with that effectively and I won’t belabour it.

My question is that Paul Dewar had a substantive question on the issue of the former JDS Uniphase campus, and maybe Tim can give us an update on that, because that’s actually an important case study of an example of why the government isn’t in the business of owning buildings and seeking out real estate opportunities to buy and reno and flip. We’re not in that business, because it’s a dangerous business.

There’s the headline in the paper that said we could have had it for \$30 million, or whatever, and now it’s expanded into a few hundred million dollars. But that’s not at all accurate, because if we had purchased it in the beginning, there would have had to be renovations and security, and there are all kinds of things with that.

One way of looking at a lease is the owner is taking on the obligation. When you lease a building, the taxpayers aren’t on the hook if the federal government doesn’t own the building. If you’re leasing a building, the costs of the fix-ups of the building are absorbed by the owner and it’s amortized over the life of the lease. Therefore, if the government had purchased the JDS Uniphase building, even at the original price before the Conservatives came into government, the immediate hit to taxpayers would have been tens of millions of dollars for the cost of a retrofit right off the top, rather than amortizing that cost. This is good business.

It’s in Mr. Dewar’s neck of the woods, and people here want to know about the status of the JDS building, so just go ahead and talk about that if you would.

Mr. Tim McGrath: Sure.

Madam Chair, on that particular transaction, Minto Developments Inc. are responsible for providing us accommodation at the Government of Canada standard. That will cost them anywhere from \$27 million to \$32 million, which they’re responsible for and which they will be funding. We, in turn, are funded for our normal fit-up costs, and our normal fit-up costs for that particular asset will be around \$100 million.

Comparing the total cost package of the JDS Uniphase on the present value basis versus what we would have had to do at the existing RCMP facility, the retrofit and the fit-up of that, is showing a net advantage to taxpayers of around \$100 million in that particular transaction.

● (1710)

Mr. James Moore: Where are we in terms of the time? The current RCMP headquarters is—

Mr. Tim McGrath: The RCMP have already started to occupy the asset. The plan was that they’d be occupying it as construction was taking place over a two-and-a-half-year period. They’ve already started to move various groups in, and construction work is continuing on that particular building.

Mr. James Moore: Is there a firm timeline for completion, and what about the current RCMP headquarters?

Mr. Tim McGrath: The timing for completion is June to August 2008 when everybody will be in that building, and we’re still on course to be ready for that particular asset.

Once that building is empty, the campus itself, we will be looking at various reuses for that existing campus in the Alta Vista area. If you look at where it’s situated right now, the one thing the RCMP was most pleased with is the fact that it takes that highly secured facility out of a residential area. If you see where the current RCMP headquarters is, it abuts right up to a residential neighbourhood in Alta Vista, and based on the new security requirements and in conjunction with agreements with their U.S. counterparts, they needed to have a facility that provided a 100-metre setback from any roads. This existing facility of JDS provides that heightened security as well.

The Chair: Thank you.

I’m going to take the prerogative of the chair. No one has asked this question, but this is a pet project of mine. It’s about employee compensation.

The last time you appeared before the committee you had a tremendous backlog of issues on compensation. I'd like to know what's happening within the public works department on compensation at this time. How big is the backlog?

It's of great interest to us, as you know, and I know that you do a lot of it yourselves.

Hon. Michael Fortier: The backlog is actually much, much smaller than it was. As I explained at the time, we had a personnel issue in the sense of training people to do the compensation. We had people working overtime. We had outsourced part of the job. Literally, we were trying to get more people thrown at the problem, and we managed to do that.

Currently, there probably are some cases that haven't been dealt with, but at this point I would say, *de minimis*, we've really dealt with a very large segment of the backlog, and I'm hopeful that in the very near future this won't be a problem.

François.

Mr. François Guimont: Madam Chair, if I remember, I signed off a letter to you—or it might have been from the minister, frankly, going through my office—giving you the latest statistics. So the minister is accurate in what he said, actually. I don't think we have a backlog anymore, but I could be wrong. We are on target with what was promised before the committee, as a first point.

The second point is that we are also dealing with what I would call the deeper root cause of this, in pursuing with the minister a so-called pay modernization approach. We're trying to invest or get support for investments into our backroom systems, which are very old, 40 years old. We're trying to get an investment so that we can optimize our system with off-the-shelf technology, and that would address the root cause, in reality, of what we're facing. So we're also pursuing that strategy.

The Chair: There are other ways of dealing with people you're trying to hire and keep. My information is that oftentimes by the time you have them trained, they're not going to get paid enough for the amount of pressure and work they have to do, and they go on. So in some departments, it continues to be a major problem, but others have found a way to address the pay issue by moving the categories, say, from AS-1 to AS-4.

Has the Department of Public Works considered doing this to help retain some of the employees? It does take a long time to train them, and once you've trained them, you'd like to retain them.

•(1715)

Mr. François Guimont: Yes.

I have just two points on this.

I took the time to sit down with the staff, those individuals who are working hard to get rid of the backlog and also ensure that our statistics on the way forward are good—that is, you always have people leaving, and so on. So I showed some commitment in listening to them, and we had a bit of a chat.

I'm not saying that the issue of salary is off the table, but very often what I heard more, at least in the case of Public Works, is that because of the backlog, they face a lot of pressure in terms of work. Frankly, I'm being very transparent. I said, "Hang in there; let's try to do what we can right now." I hope people will get overtime, as they should. Let's try to get over that bump and then stabilize ourselves by investing in a system long-term that will depressurize the system, not only in Public Works but also in other departments.

In reality, the situation faced in Public Works is not unique. What is unique in our case is that about one-third of our workforce, for whatever reason, left almost at once, which created the issue. Any other department is using our system as a centralized system, and if they also were to lose some of their people, they could face the same situation that we faced.

Going back to the core issue of a properly designed new system is imperative, otherwise that curve is always possible, that some people move, they go to another department, and so on, or they simply move out of that field to do something else, and then the pressure can creep up again. We have to go to the root cause, which is reinvestment in our pay modernization system.

The Chair: Thank you very much.

Thank you for coming before the committee.

I will advise the committee that we will be hearing from Madame Boudrias exactly on the payroll issue on Wednesday. She's one of our witnesses.

We remain to be convinced. Thank you.

The meeting is adjourned.

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