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—
Chair

The Honourable Shawn Murphy

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•(1630)

[English]

The Chair (Hon. Shawn Murphy (Charlottetown, Lib.)): I call the meeting to order.

I want to welcome everyone here and apologize to all the witnesses and the other members of the public who are at the meeting. Unfortunately the House got tied up with quite a number of votes and it took quite a bit longer than some of us intended. But I guess that's the way Parliament and democracy work.

This hearing is pursuant to chapter 1, "A Study of Federal Transfers to Provinces and Territories", of the December 2008 *Report of the Auditor General of Canada*. We have an inordinately large number of witnesses, and again I want to welcome each and every one of you.

We have, of course, from the Office of the Auditor General, the Auditor General, Sheila Fraser. She's accompanied by Neil Maxwell, assistant auditor general. We also have the deputy minister and accounting officer from the Department of Finance, Rob Wright. He's accompanied by Barbara Anderson, assistant deputy minister. From the Treasury Board Secretariat we have the Comptroller General, Mr. Rod Monette. He's accompanied by John Morgan, the assistant comptroller general. From the Privy Council we have Mr. Alfred MacLeod, assistant deputy minister; and Krista Campbell, acting director general. From the Public Sector Accounting Board we have Ms. Nola Buhr, chair; and Tim Beauchamp, director.

We have a pretty high-profile group of individuals with us, so again welcome to each and every one of you.

We're obviously not going to take the whole two hours, but we may be able to go beyond 5:30 a little. I would ask the witnesses who have circulated reports to perhaps highlight them and be as brief as possible.

I'm going to start with you, Ms. Fraser.

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

I would ask that my full statement be put into the record, but I will just go through and shorten some of it.

We would like to thank you for this opportunity to present the results of our study of federal transfers to the provinces and territories that was published in our December 2008 report. As you mentioned, I am accompanied today by Neil Maxwell, assistant auditor general, who is responsible for this chapter.

Federal transfers to the provinces and territories make up a significant portion of the federal government's annual spending, and they are a major source of funds for services provided to Canadians. In the 2006-07 fiscal year, the most recent year for which complete information was available to us during the examination, these transfers amounted to about \$50 billion, or just under 23% of federal spending. We carried out this study to answer questions that parliamentarians have raised about federal transfers. Because this is a study and not an audit, it is descriptive and does not include recommendations.

[Translation]

In this work, we examined the three main mechanisms the federal government uses to transfer funds to the provinces and territories. In our statement you will find further details on each of these transfers.

We found that the nature and extent of conditions attached to federal transfers to the provinces and territories vary significantly. While some transfers have specific conditions that recipients must meet, often including reporting to the federal government on the use of the transferred funds, others are unconditional.

As auditors, we recognize that decisions on whether, and to what extent, conditions are attached to transfers are policy decisions, often involving sensitive federal, provincial and territorial negotiations. We do not question policy decisions in our work.

According to the federal government, the level of federal accountability for how the provinces and territories spend transferred funds depends on the nature and extent of conditions attached to the transfers. In all cases, the federal government is accountable for its decision to use transfers with or without conditions as the best policy choice available in the circumstances.

•(1635)

[English]

The government's introduction of trusts in 1999 was a significant change in its use of transfer mechanisms. Since then, 23 trusts have been established to transfer about \$27 billion to the provinces and territories. Transfers of this type are earmarked in public announcements by the federal government for specific purposes—for example, police officer recruitment or affordable housing—but there are no conditions that legally obligate provinces and territories to spend the funds for the announced purposes, or to report subsequently on that spending to the federal government.

As an alternative, federal officials told us that the government has opted in recent trusts to require provinces and territories to publicly announce how they intend to use the funds, on the assumption that their legislative assemblies and citizens will hold them to account for these commitments.

Mr. Chair, that's a very brief summary of my opening statement. We will be pleased to answer any questions committee members have.

The Chair: Thank you very much, Ms. Fraser.

We'll now go to Mr. Rob Wright, the Deputy Minister of Finance.

Mr. Rob Wright (Deputy Minister, Department of Finance): Thank you very much.

I would like my statement to be worked into the official record as well, Mr. Chair.

We're very pleased to be here. I'd like to thank the Auditor General for her report. It's a very thorough review of federal transfers to provincial governments, which are extremely important, particularly in challenging economic times such as now.

Overall transfers are about \$60 billion this year. Over 20% of the federal government's budget is related to transfers. The four major transfers include the Canada health transfer and the Canada social transfer, which are conditional transfers to provincial governments, and the equalization program and territorial formula financing program, which are non-conditional. They simply transfer funds for the needs of provinces. Those four major transfers account for about \$50 billion of our total transfer to provinces.

There are also important program transfers related to infrastructure, skills training, and housing, as the Auditor General just mentioned.

Finally, in recent years there have been a number of trusts established to deal with urgent recent priorities.

[*Translation*]

The objective of trust funds is very clear. They are transparent financial vehicles that the Government of Canada uses to transfer targeted funds to provinces and territories for short-term, urgent pressures in areas of shared national priority.

[*English*]

As well, trust funds offer flexibility to provinces and territories to either draw down funds immediately or over a specified longer period of time according to their respective needs.

I would emphasize that trust funds are very similar to the major transfer programs. Regardless of whether federal funding flows through the major transfers or trust funds, provinces and territories are accountable to their residents, legislatures, and auditors general on how they spend these funds. I think it's noted in the report that in recent years the government has sought and required public statements of accountability and intent, for which provincial governments are held to account.

That's all I would say in an abbreviated version, Mr. Chairman. It's a pleasure to be here.

The Chair: Thank you very much, Mr. Wright.

We'll now hear from the Comptroller General of Canada, Rod Monette.

Mr. Rod Monette (Comptroller General of Canada, Treasury Board Secretariat): Thank you very much, Mr. Chairman.

As well, I would ask that my statement be shown as read into the record.

As you mentioned, Mr. Chairman, I do have with me today Mr. John Morgan, the assistant comptroller general, financial management and analysis.

• (1640)

[*Translation*]

The Treasury Board approved a new transfer payment policy and related directive recently which took effect on October 1, 2008. With this directive we have specifically addressed transfers to other orders of government.

[*English*]

Mr. Chairman, we've also worked closely with the Department of Finance and other government departments to review the accounting of major transfer payments to ensure we have properly followed appropriate accounting policies.

Thank you, Mr. Chairman. I look forward to your questions.

The Chair: Thank you very much, Mr. Monette.

Finally, we'll hear from the chair of the Public Sector Accounting Board, Dr. Nola Buhr.

[*Translation*]

Ms. Nola Buhr (Chair, Public Sector Accounting Board): Thank you.

I'm sorry, but I do not speak French.

[*English*]

Therefore, all my remarks will be in English.

Thank you for the invitation to appear before the Standing Committee on Public Accounts. This is a first for the Public Sector Accounting Board, so I beg the committee's indulgence. We did not have a formal set of notes for submission, so I would like to take about four minutes now to outline a little what the Public Sector Accounting Board is and what the accounting issues are in relation to transfers.

The Public Sector Accounting Board, or PSAB, as we refer to it, thrives and exists only because we share views with and listen to our stakeholders. PSAB sets the accounting standards for all levels of government in Canada, and it does so as an independent standards-setter operating in the public interest. We are independent from preparers, auditors, and other stakeholders. This is important to ensure that no one stakeholder group influences or biases the standards. Sometimes it is difficult to find a solution that is acceptable to all and sometimes we are taken to task; nevertheless, that is our goal.

The board is comprised of members from all across Canada. We have representation from all levels of government. There are preparers and auditors. We have representation from ministers of finance. Indeed, we at one point had a former Minister of Finance on the board. There are representatives from academe as well as accounting practitioners and users of government financial statements. There are 12 members on the board, including volunteers.

The board follows an extensive due process, which includes publishing for public comment our proposed principles and guidance in order to seek views. We go through a public document release at least twice with each standard to ensure we've heard all the views and have heard from all of our stakeholders. It usually takes us about 18 to 24 months to complete a standard.

One thing the board strives for is comparability. Here I'm speaking about comparability with accounting. Comparability enables users to identify similarities and differences. The same set of facts should result in the same accounting, while different facts should result in different accounting.

You may take a capital asset like a truck and think that a truck is a truck, but a truck driven around Ottawa may have a different accounting compared to a truck driven over the tundra or a logging road. This is true for contractual arrangements as well. The terms and conditions set out in a contract can play an important role in determining how that contract is accounted for. For example, we have operating leases versus capital leases.

Our goal as standards-setters is to ensure that when a government has an asset, it's reported as an asset. Likewise, when the government has a liability, it gets reported as a liability, and so on. We have very stringent definitions as to what assets and liabilities are.

Accounting for government transfers is one of the most controversial issues the Public Sector Accounting Board has dealt with. We have been working for at least five years now in seeking views and opinions and trying to reach consensus on the issue.

The consensus revolves around these questions. Is there an asset from the provider's point of view? Are the transfers liabilities or are they revenue from the recipient's point of view? In order to make a decision there, it's necessary to analyze the terms and conditions of a transfer agreement. The question is this: when does a term or condition result in a liability and when does it not?

Let me give you an example. A general stipulation that requires funds to be spent on health care is non-specific. Funds could be used for salaries, equipment, and so on, and still meet the stipulation. It's very difficult to determine if the recipient has complied with the original intention. On the other hand, if the agreement specifically

calls for the acquisition of a new MRI unit, that's more specific, and the recipient will have a clear liability until the MRI is acquired. It's easy to determine whether or not the MRI unit has been purchased.

What I'm trying to demonstrate is that the terms and stipulations contained in the individual transfer agreements can ultimately decide how to assess the intent of the provider, in this case the federal government, and what accounting is required. Clearly, a transfer without stipulations is revenue, and the recipient can do with it whatever they like. However, if the stipulations are specific, the recipient may have a liability until they fulfill those stipulations.

● (1645)

This is not an easy issue to grapple with. If it were, we would have had a standard in place earlier than now.

On a final point, though, I'd like to emphasize that accounting is focused on measuring financial position and annual results. While financial statements can demonstrate accountability in a number of ways, they cannot demonstrate whether there was value for money received, whether the recipient used the resources effectively and efficiently, or whether the recipient complied with specific contractual agreements. These are issues that are better addressed through other reports and other mechanisms.

That concludes my opening remarks. Both Tim Beauchamp and I are happy to take any questions you may have.

The Chair: Thank you very much. We appreciate that.

We're going to go to the first round of six minutes, starting with Ms. Ratansi.

Ms. Yasmin Ratansi (Don Valley East, Lib.): Thank you, Mr. Chair, and thank you all for being here.

I'll keep my questions brief. I have a question for the Auditor General. I look at all the mechanisms for transfer payments, and I look at the Canada health transfer, which has conditions, and the Canada social transfer, which has some conditions. I'm a little concerned when the health transfer has conditions, but there have been instances of the provinces, for example, using these payments not for health purposes but to buy lawnmowers. In terms of the Canada social transfer, a province used it to give a tax break of \$300.

You make a statement here that more recent large transfers reflect a shift away from government-to-government reporting and towards government-to-citizen reporting. As a member of the public accounts committee, I am wondering what concern we should collectively have about the accountability of this money and whether it is really being used for the benefit of citizens.

I will park my question with you, and I'd like to ask Mr. Wright another question regarding the trusts.

There is an operating principle. The transfers appear to be announced, but nobody knows what the mechanism to capture that trust is. So could you give me some comfort as to why this is an operating principle that is not legally binding because it's not part of a trust agreement? The Eco-Fund comes to my mind, the \$5 billion that nobody knows for sure has been drawn down or not. I will leave those two questions because six minutes is a short time.

Ms. Sheila Fraser: Thank you, Chair. Perhaps I could start.

On the question of accountability of the funds, there is accountability, obviously, in the provinces and territories, because they all produce financial statements that are audited by their legislative auditors. The issue, I think, goes back to Parliament and what accountability the Parliament of Canada wants to have over the use of those funds.

As you mentioned, with many of these transfers there is no reporting back to the federal government, and that is a policy decision. The decision has been made that the accountability to the citizens of that province or territory is sufficient. We don't comment on that decision. Perhaps the deputy minister has comments to make, but that is really a policy choice that's made.

Mr. Rob Wright: Thank you.

Maybe I'll just pick up from that, Sheila, if that's all right, because indeed if you look at the major transfer that you referred to, the social transfer, what we look at when we're managing transfers is that obviously it's a shared priority area. We know provinces are spending enormous amounts on health care and on certain elements of post-secondary education and social transfers, so we know we are only providing a portion of what they spend on it. There is no question, provincial governments are spending the equivalent of multiples of the money we transfer to them on the social side. That's why it comes back to the central point, which is that these are common priorities but the provincial governments are accountable to their electorates for proper spending. All the accountability functions of that process work.

Clearly, when we look at...how often do we renew these programs? Every five years we take stock of the overall effectiveness. Can we be more efficient in the transfers? Do we have the right outcomes there? There is a good discussion of accountability mechanisms at that time, but the core message there is that we provide substantial amounts of funds for common priorities, the provinces use it, and they are accountable for the overall spending. They don't segment and track the portion from the federal government for that purpose. I think that has worked well in Canada.

On the trust fund, the ecoTrust or the other trusts that have been put in place, a more recent trust, as I mentioned... It's an area that comes into effect if there is an unanticipated surplus or some flexibility at the end of a fiscal year that we didn't anticipate. It's always a choice of whether to apply that to some debt reduction or to alternative approaches to spending. If you have some assurance over the long term, you can provide some long-term program spending. But in the recent past, since 1999, as the Auditor General mentioned, there have been a number of occasions when the government said, "This is an important, immediate priority for the federal government that is shared with the provincial government; we will come to an understanding of what we're trying to achieve collectively; the

province will commit to doing something in that trust agreement and say so publicly before the end of that fiscal year, in which case we will transfer the funding for them for that common purpose." A similar accountability would be expected as to the transfer you just referred to, on the social transfer, for example.

• (1650)

The Chair: You have 30 seconds.

Ms. Yasmin Ratansi: I just have a comment then. As the Parliament of Canada, as the government that is sending down the money, especially the \$5 billion... When we asked the minister, he had no idea whether the money was drawn down or not. How does a citizen know? The citizen is not well informed. Yes, there are audited statements, but no citizen looks at the audited statement. We need to be careful that we do have checks and balances in place, and especially in the trust area.

I was wondering if the officials of the Public Sector Accounting Board have any concerns regarding these operating principles, which are not binding and therefore nobody knows what's going on.

The Chair: Ms. Buhr.

Ms. Nola Buhr: We would take the same approach as the Auditor General. If it is the government's policy to have terms and conditions or not have terms and conditions, it is not our role to act or not act on that. Our role is to account for what has transpired. So that is really outside our purview.

The Chair: Madame Faille, for six minutes.

[*Translation*]

Ms. Meili Faille (Vaudreuil-Soulanges, BQ): Thank you, Mr. Chairman.

I would like to thank you for your presentations.

While some transfers are unconditional, the provinces must report on progress or on the way in which the money has been spent.

However, innovation is one aspect which seems to stand out in the Quebec model. As an example, we have social programs like \$7-a-day day care now. In the examples I have before me, there are measures implemented by the Government of Quebec to help people on social assistance access the labour market.

Above and beyond the transfers, establishing common objectives rather than cash inflow conditions allows for innovation in social programs.

Is that one of the advantages of some of these funds?

Ms. Sheila Fraser: Is the question for me?

Ms. Meili Faille: To whomever wishes to answer. Perhaps you, yes.

Ms. Sheila Fraser: I can simply state that federal government officials indicated to us that one of the reasons for having unconditional transfers is that the provinces and territories have a better understanding of their needs and can better attribute funds based on these.

•(1655)

Ms. Meili Faille: There are four types of transfers: the Canada Health Transfer, the Canada Social Transfer, the Equalization Program Transfer and the Territorial Formula Financing Transfer.

The transfer of funding to the provinces can be the subject of various reports. A number of national organizations complain about the fact that reports are irregular, incomplete and difficult to understand. With respect to the Canada Health Transfer, under the act there is a requirement to reach specific goals for care and special programs. The provinces have to be accountable. However, some provinces do not provide in-depth detail on what they do with the money.

We have been told that the territorial formula financing is the subject of some discussion. Yet, based on the reports they make to Parliament, it is rather invisible, despite the significant amounts that are transferred.

The Canada Social Transfer is the subject of very few public discussions. However, we know that there are significant and numerous inequalities between the rich and the poor.

Overall, is the federal government adequately accounting for what falls under its jurisdiction? Let us not forget that the federal government is responsible for services to aboriginal people, the Canadian Forces, the RCMP, veterans and inmates in penitentiaries. The federal government transfers funds into these programs, but it should also be held to account. In short, public reports need to be produced and harmonized to account for funding which is transferred between the various levels of government.

Ms. Sheila Fraser: Mr. Chairman, we have not examined this matter in the course of our audit. We looked at the nature of transfers and whether there were conditions attached, but we did not examine the reports resulting from these transfers.

Ms. Meili Faille: All right. Thank you.

The Chair: Thank you very much, Ms. Faille.

Mr. Christopherson, you have six minutes.

[English]

Mr. David Christopherson (Hamilton Centre, NDP): Thank you very much.

Thank you for your presentations today.

Having spent 13 years in my own provincial legislature, some of that time in cabinet, I'm certainly aware of being on the receiving end of federal moneys and wanting to make sure they aren't being jammed at you in a way where it's one size fits all, the "do it our way or the highway" type of thing.

It's really no different, in some ways, from when the provinces are considering programs that affect their municipalities. You want to provide as much flexibility as possible to allow for local conditions, but you also want to make sure you're achieving long-term

objectives. I'm very sympathetic to the notion of the major transfers being based on...a health transfer, for instance, being based on the Canada Health Act, as long as you're upholding that. I'm cool with that. The problem for some of us, I think, is in the area of trusts.

Deputy, I think you mentioned 23 trusts and \$27 billion. The whole notion of these trusts sounds good, but I think the point of the exercise today is about when the government makes an announcement that the money is going to achieve an objective. I'll just make up an objective. Let's say it's affordable housing, and the government says, "We have an objective and a goal of providing x units to house x Canadian citizens over x period of time." Wanting to give provinces flexibility, but also wanting to achieve that objective once the time has gone and the money has been spent, requires that balance.

Well, right now they make that announcement about all the good things—please correct me when I'm wrong, Deputy—but the receiving provinces and territories also make an announcement. They make a statement of operating principles—we'll come back to that later, in detail—pretty much saying, for example in Ontario, "We agree, we're going to do this, we're going to have the same objectives, this is a great thing and a great photo op." Then we go forward, and from there on, there's no real accountability, as I'm understanding it from the Auditor General.

When I was in the Ontario legislature receiving our public accounts, as you have said, Deputy...and I have your quote here. You said that they don't segment out the federal dollars that were in this trust fund or that. The difficulty is that we may think we're doing great, from an Ontario perspective, on achieving the objective, but if we'd known that certain dollars were actually dedicated to housing, at the end of the day that could have found itself anywhere.

So how do we at any of our legislatures—let's just say I have my provincial hat back on—know whether or not the objectives in terms of the provinces' commitment in their statement are matched up to the federal statement?

Please make it brief, because I have a few questions. I know it's not easy—especially after I took 20 minutes.

•(1700)

Mr. Rob Wright: No, no, it's a key question. It's a very important question.

Mr. David Christopherson: I've got it, then? Okay.

Mr. Rob Wright: I would say a couple of things here.

One, on the social transfers and the health transfers, we know, *grosso modo*, we're providing a portion—an important portion, but only a portion—of the overall spending. But as the Auditor General mentioned, in recent times we've had a specific public commitment, a purpose, for some of these individual trusts. And in provinces, with that public commitment, there has been a tracking of that individual element.

One example is the ecoTrust, which my colleague Rod Monette might be able to give you an update on.

Mr. Rod Monette: Thank you, Mr. Christopherson. Actually, this issue came up last year at the committee, and we did a little bit of work on what the provinces are recording. We went to the public accounts for a couple of provinces, including P.E.I., Ontario, and Quebec.

I can provide these to the committee through a letter, Mr. Murphy, at a later date.

So there's actually a pretty good accounting of how much has come in, how much is recorded in each year. It breaks it down by all the trusts.

This may not have been there when you were there, Mr. Christopherson, but it seems to be there now.

Mr. David Christopherson: Okay, but my difficulty is that operating principles would be the rubric under which this is generated, but it's not binding. So they may show it where it's convenient and they may not show it where it's not convenient, and they wouldn't be out of bounds.

If I can, I do want to pick up on that. In her report, the Auditor General gave examples of things that were followed up on. It's terrible. It's terrible. The example of chapter 3 in the December 2008 Report of the Commissioner of the Environment and Sustainable Development... This is the example that's given, and I'll just read some of it here. This is for those that are followed up on in terms of the trusts and so on. And this is what we're getting:

- 1.) The Department does not know to what extent its environmental programs have improved the environment.

—that could be a problem—

Departmental reporting is limited because it does not monitor and report on program results beyond outputs, such as the number of completed water projects...

- 2.) The Department's allocation of operating resources among the Environment Chapter's contribution programs was not supported by adequate information.

- 3.) The development of the National Land and Water Information Service was poorly managed.

So even where they do bother to provide conditions, the follow-up doesn't seem to be that they're doing a very good job. We seem to lose when they don't give detailed commitments and we lose when they do. So how do we turn the lose-lose into a win-win?

The Chair: Please be very brief.

Mr. Rob Wright: That's a big question to be very brief on.

Essentially, you have to know that this ties in a policy choice, where the government makes an informed choice about how to deal with an issue that I mentioned was an urgent issue and an issue of common priority with the provinces. Obviously, we have some considerable faith they're going to be moving on the common priority.

We can establish the terms of conditions for a trust, have it signed and publicly announced before the money is transferred, but if we require ongoing conditionality over it, then the question is that it's not something that is taken out of, let's say, an unanticipated surplus in one year and transferred. So if there is additional conditionality,

there's a question of whether you have to spread that over multiple years, when you may not have that flexibility available.

The government, at each occasion, takes stock of the track record. And I would say provincial governments recognize that this is... There are none in this recent budget, but there have been trusts over the last several budgets. They recognize that if they're going to be a valued partner, they're going to be a valued partner. And they have recognized that the government has taken some steps, such as a public commitment to specific action, and they have interest in their legislatures to ensure appropriate progress is being made.

But it's almost like enhanced transfers, which were recently made to equalization and territorial financing, or enhanced growth of social transfers. Once they've gone for a common priority, the federal government does not require conditionality to that process. That's where it is with the trusts.

Now, the policy trade-off is that there are some occasions when a federal government might have an unanticipated surplus, where it could make some funding available for a priority with a partner that doesn't require long-term conditions. So if you have those conditions, you might not have that fiscal flexibility in the following few years when the money might be spent. That's the trade-off that's made.

I can only assure you that it's an informed choice that's made by government, consistent with our accounting rules—as long as I'm properly describing our accounting rules.

• (1705)

The Chair: Thank you.

Mr. David Christopherson: If the ministry doesn't know the conditions, it's of no value.

The Chair: Mr. Kramp, you have six minutes.

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

Actually, I have a question for the Auditor General. But before that, with all respect to my colleague Madam Ratansi, she made a statement that I took a little bit of...not umbrage, but a little bit of a thought process on it.

Madam Ratansi, you mentioned—

Ms. Yasmin Ratansi: Factual statements.

Mr. Daryl Kramp:—that we have a need to have checks and balances. That is well understood. I think so. And yet, with all respect, you were voicing concerns about the transfers, whether they are dedicated in various forms, whether they're for health or education, and whether they are accountable. Yet just this afternoon, the combined opposition voted in favour of a massive infrastructure stimulus that would go directly to the municipalities—they would bypass the provinces, no strings attached whatsoever, no level of accountability back to the federal government. Personally, I find this just a little bit of political machination rather than good public policy. But I just throw that back on the record.

My question to the Auditor General is this. Without trying to put the Auditor General in a position where she would not, obviously, discuss policy and/or direction—which I fully understand, Madam Fraser—do you have any capacity or licence or possibility of going directly to the municipalities to audit how they spend those funds once they get there?

Ms. Sheila Fraser: Mr. Chair, no, my mandate is limited to the federal government. We do have some provisions to audit recipients of grants and loans and contributions, but not other levels of government.

Mr. Daryl Kramp: Thank you very much.

I'd like to talk for a second about equalization. I think everybody recognizes that an historic amount of money went to the provinces over a number of years. Could you tell me what has been spent in transfers and equalizations this year versus last year? What direction are we going in? What level of either increase or decrease has there been over the past three to five years?

Mr. Rob Wright: The equalization program this year is \$14.2 billion. It's grown by 55% over the last five years. It will continue to grow over the next several years at the average rate of growth of the economy.

Mr. Daryl Kramp: Is that due to the decision of the government to adopt the O'Brien report and recommendations as such, or is this just based on a decision reached because no more money is available?

Mr. Rob Wright: That is a very important question.

The O'Brien commission recommended that affordability be a key test of the equalization program. When the O'Brien report was written, the price of oil was less than \$40 per barrel. Last year it climbed to \$145 per barrel and then it fell by 75%. One of the things affected by that...I think people did anticipate some growth in the program, but not 55% over five years. The structure of the equalization program is based on a three-year average of GDP across the country to smooth out differences, and then there's a two-year lag. We had this large spike in resource wealth to \$145 per barrel, which then fell by 75%. Under the O'Brien formula we would have been required over the next five years to equalize that revenue that no longer existed. In fact, consistent with recommendations from the O'Brien report, the government is limiting the growth of the overall program using the method for allocating within that program.

• (1710)

Mr. Daryl Kramp: Thank you.

Obviously as a former municipal politician and, as I'll term it, a responsible business owner, what do you...? We always have to depend on some form of predictability. The last thing any business or government needs is wild cards from anywhere. It's my understanding that the equalization formula with the O'Brien process was meant to add some form of stability and predictability so the provinces would know what's coming, based on GDP growth. Would that be a fair assessment?

Mr. Rob Wright: They know now. They do know it's going to be growing consistently from this very high base, with the GDP growth of the economy. In fact, the revenue flow for the last several years was much higher than any provincial government expected under equalization. So it's going to grow at a more moderate pace, but it will continue to grow with the economy.

Mr. Daryl Kramp: That has been projected to grow despite the recession?

Mr. Rob Wright: Again, we will average it over a period of three years, so it will continue to grow, we expect, every year.

Mr. Daryl Kramp: Fine, thank you.

The Chair: Thank you, Mr. Kramp.

I've got a couple of questions myself, but before that, I'd like to interject and seek the approval of the committee for the minutes of the steering committee. That meeting was held earlier today. Those minutes have been circulated, and the chair would entertain a motion for their approval.

So moved by Ms. Ratansi. Any discussion? All in favour?

(Motion agreed to [See *Minutes of Proceedings*])

The Chair: I just have a quick question for Dr. Buhr, again on this issue of trusts.

As you know, Dr. Buhr, these are very controversial. I'm not speaking here for the committee, but in my opinion, they're a total breakdown in the concept of accountability, in that the executive of the government is accountable for their spending to Parliament and, through Parliament, to the Canadian people. We all know the reason these trusts are set up. They have very good purposes. They're worthwhile and in the public interest.

The one I'm going to give you as an example is the climate change and ecoTrust fund of \$1.51 billion. It was a good exercise, there was a lot of self-congratulation, and the expense was recorded the day the trust was set up, whatever the year-end was. All Canadians felt that the money would be spent on climate change and environmental issues and that Canadians generally would benefit. We all know that is not the case. Nothing close to that is the case.

The provinces, according to the agreement, can do whatever they want with this money. Some took the money into general revenue. Some spent the money on environmental issues. Some spent the money on environmental issues, but it was a bait and switch; it wasn't incremental. But we don't know that, and there was no consistency, in that all 10 provinces handled it differently. One did it one way and one did it the other, so there's absolutely no consistency to the fund at all.

But in the meantime, Dr. Buhr, it's my opinion that the public was fooled in this whole charade that went on. There are 650 people working at the Office of the Auditor General. Not one of them could confirm that one dollar was spent on environmental issues.

Then, to add insult to injury, the announcement was made that this money would reduce greenhouse gas emissions by some amount. Of course, we know that the Commissioner of the Environment and Sustainable Development said that's just the fabric of somebody's imagination. There is no way at all that anyone could confirm, or deny, or give any indication of what reduction in greenhouse gas emissions occurred.

The point I'm making is that it's a breakdown in any concept or notion of accountability. These are not the concepts that I view as accounting. We look for consistency and transparency, but we also look for the statements that are tabled—in this case the \$1.519 billion for environmental purposes—to reflect the true underlying economic nature of the transactions. In this case, it's my premise that it doesn't. It doesn't come anywhere near that.

I ask everyone why this is done this way. Why this charade? They all come back to the same answer: that is the standard published by the Public Sector Accounting Board. I know that your organization, not you personally, has wrestled with this since 2002, I believe. There's obviously a dispute within the board. Obviously you're getting pushback—from the provinces maybe, I don't know—but it seems to me that a lot of members of your board are very uncomfortable with this, as you should be. It's been going on since 2002. You've published a number of different standards.

Can you give this committee some indication of where it's heading? I don't think you're ever going to get unanimous consent from all your board members. At what time do you move on and publish a standard that I think reflects proper accounting and that I would expect as a parliamentarian and as a Canadian?

• (1715)

Ms. Nola Buhr: Thank you. I think I counted about four questions there.

Let me start with the accountability versus the accounting issue. Those are two different things. Accountability is a relationship set up by, in this case, someone providing funds and someone using funds. How that relationship is understood, either formally through terms and conditions or informally through practice, history, and agreement, will determine how the recipient views the transaction and how they treat the transaction. Then accounting comes in and says, how do we account for that relationship? What has to be established first of all is what that relationship is. What was the expectation for what was to be done with that money? How is that money handled?

Part of what we're grappling with when we're dealing with transfers is that the accountability is not clear. I'm very sympathetic, speaking as a citizen, that the flexibility is needed, yet by eliminating the terms and conditions, you make it very open as to what is done with the money and how the money is reported, which leads me to my second point.

This was alluded to earlier. Rob Wright spoke to segmenting dollars and keeping them separate. We don't do that. Financial reporting is done on a summary basis. We aggregate information. It is not possible in summary financial statements to trace a dollar from the federal government and see how it was spent. That is where you need things like performance reporting, which will measure things like new homes created or greenhouse gas emissions reduced. Those are different kinds of reporting mechanisms that are needed.

As I said, we don't get into policy. I can understand that there's a concern about the accounting, but the accounting has to reflect the substance of what has taken place.

As far as where we go with the government transfers, we will not wait for unanimity, but we must come to some level of consensus. There is a standard currently existing. We are striving to provide a standard that is an improvement on what we have, but we have to have some level of consensus because that is how we operate.

The Chair: Okay then, we'll move on.

Mrs. Crombie, you have four minutes.

Mrs. Bonnie Crombie (Mississauga—Streetsville, Lib.): Four minutes will go quickly. Thank you.

I have a question for the Auditor General first, if I may.

With reference to Mr. Kramp's statement, I think I'll follow up. The government would like Parliament to release a \$3 billion stimulus package with no strings attached, and no accountability, and no transparency, ahead of the budget passing. In your opinion, is this legal and advisable, and what would you suggest?

Ms. Sheila Fraser: I'm sorry, Chair, but I'm not in a position to be able to comment on that. I haven't seen all of the documentation. What I have understood from conversations is that it really is about supply, so in order to have the authority to spend the money at April 1 rather than having to wait for supplementary estimates, which are sometime, I believe, in June or July, it's simply moving up an authority to spend. Beyond that, I can't comment.

• (1720)

Mrs. Bonnie Crombie: Thank you, Ma'am.

To the Treasury Board Secretariat, I just want to go back again to the use of conditional versus unconditional transfers. Obviously the provincial and territorial governments would all prefer the unconditional transfers to use the funds according to their own priorities and, as you mentioned earlier, to their own needs. You demonstrated that they believe they know best what their needs are—and they're not obliged to report how they spent the transferred moneys or what effect, if any, these had.

Why would the federal government not want the accountability and transparency that the conditional transfers would require? Do you feel there is a trend towards negotiating more unconditional or conditional transfers?

Mr. Rob Wright: That's a really good question. It's not quite a four-minute answer, though, I'm afraid. But that is the question.

There are some areas in which the government would be very comfortable providing a transfer with some pre-agreement as to what's going to happen with it; it's a shared priority. But there are other areas where, indeed, conditionality is vitally important. In this current stimulus package there's a really important economic focus on incrementality. So I think we do want to track what provinces are doing in those areas. We want to ask, so that there is an economic impact, if they are accelerating their effort to get the money out now, when it's needed, as we are. Second, is it incurring incremental impact? In those cases, it's vital to have conditionality in the tracking.

In other areas, if it's a common priority or an urgent issue, a trust can be a perfectly natural use of resources, and there have been good results with this resourcing as well. But again, you have to be comfortable. The government, when it makes a policy choice, as the Auditor General and our colleagues at the accounting board say, needs to make an informed choice. I can assure you that they do make informed choices, and they're careful about choosing subjects.

I would say, as well, as the example from Rod Monette.... I haven't seen it in detail, but I do know that provinces are stepping up their game in terms of being accountable to their legislatures on action, including on the ecoTrust. Because there is a strong body of public interest in watching those issues and there are very active folks who'll make sure they're held to account in that format.

Mrs. Bonnie Crombie: Do I have time for just one more quick question?

The Chair: You have 30 seconds.

Mrs. Bonnie Crombie: Again, this is for the Department of Finance and the Treasury Board Secretariat.

On trust and trustees, how are trustees selected? And is there an open bidding process? Is there a fee involved? Does interest accrue, and who collects the interest? And does the Department of Finance monitor whether provinces draw down the funds in accordance with the trust agreements?

Mr. Rob Wright: We do that. I'll let Barbara answer.

Mrs. Barbara Anderson (Assistant Deputy Minister, Federal-Provincial Relations and Social Policy Branch, Department of Finance): I can answer that.

Yes, we do have an open process for the trustee. I don't believe that interest is ever accrued. Yes? Krista is the expert over there. I should let her answer that.

We have an open process. We sign a contract with the trustees. Those trust agreements are all put in place before the end of March so as to meet the accounting prerogative. After that, the Department of Finance pays administration costs. But the trustee does not report on the actual speed of the provinces drawing down. The provinces report that to their own legislatures.

The Chair: Thank you very much, Ms. Crombie.

Thank you, Mr. Wright.

Ms. Krista Campbell (Acting Director General, Sectoral Analysis, Privy Council Office): If I could clarify, the interest does accrue in the accounts. It belongs to the provinces that have left money in the accounts. So it is dealt with entirely in the trust indentures, like any funds. The provinces are able to direct how they want that interest to flow if they leave it in longer or if they take the money out earlier.

The Chair: Mr. Saxton, you have four minutes.

Mr. Andrew Saxton (North Vancouver, CPC): Thank you, Mr. Chair, and thank you to all of you for coming here today.

This issue is a very important one because, as we've heard, a lot of money, and a big portion of the budget, is transferred to provinces for very worthwhile programs.

I wanted, first of all, to thank you for the study and to also mention that a new policy on transfer payments came into effect on October 1. This study was completed on May 31. So I want to ask if this study took into account the new policy. I suppose that's a question for the Comptroller General.

Mr. Rod Monette: Thank you very much, Mr. Saxton, for that question.

Yes, the new policy does look at the issue of transfers to other levels of government, including the provinces. The old policy didn't really address that specifically; the new one does. As you mentioned, Mr. Saxton, that is in force as of October 2008, and it does say that there are some specifics with regard to getting commitments on how the money is flowing, what it's to be used for, how it's to be reported on, and so forth.

• (1725)

Mr. Andrew Saxton: Could you give some specifics as to the highlights of the policy? Also, does it refer to trusts specifically?

Mr. Rod Monette: In terms of it referring specifically to trusts, I know that it covers trusts. Absolutely.

In terms of the policy, it basically, for example, talks about making sure there's a commitment to spend the funds for the purposes that have been identified and to identify the outcomes. It does allow the provinces to use their own accountability mechanisms, such as their public accounts, for example, and their own legislatures, to provide accountability. But it does clearly say that information should be provided in those forums. It looks at monitoring and reporting on a timely basis, and it also says that there should be ways to ensure that the results of that funding are given some profile and are identified.

Mr. Andrew Saxton: Thank you.

On page 11, the AG's report mentions that this policy came about because of an independent panel established in 2006. Can you give us some background on this panel, please?

Mr. Rod Monette: Perhaps Mr. Morgan could address that.

Mr. John Morgan (Assistant Comptroller General, Financial Management and Analysis Sector, Treasury Board Secretariat): The panel was the result of a commitment made in the federal accountability action plan. The government undertook a review of the administration of grants and contributions in order to improve the overall efficiency and effectiveness, so that study took place. It involved consultations with recipient groups, including other orders of government. The report was issued and we took its recommendations into account in developing our new policy, as well as the directive on transfer payments.

Mr. Andrew Saxton: Thank you very much.

The Chair: Thank you very much, Mr. Saxton.

Monsieur Desnoyers.

[Translation]

Mr. Luc Desnoyers (Rivière-des-Mille-Îles, BQ): I would like to ask one question of Ms. Fraser and one of Mr. Monette.

Ms. Fraser, in chapter 1 of your report, under 1.15 you list the conditions provinces have to meet in order to receive the Canada Health Transfer, in other words public administration, comprehensiveness, universality, portability and accessibility. You also say that Health Canada is responsible for monitoring compliance with these conditions. Are the conditions met? It would seem that throughout Canada, in all the provinces, there is a significant push to privatization in the health care sector, often calling accessibility into question. In the case of private institutions, accessibility is no longer the same. Has that been assessed or audited? If not, could you tell us how we could verify if this is truly the case?

I'll ask Mr. Monette my second question straightaway. When it comes to federal transfers to international organizations, like for instance the World Bank, do these organizations which receive funding have to comply with the same criteria, agreements or conditions for accountability as the provinces or territories?

Ms. Sheila Fraser: In 2002, we carried out an audit on whether conditions under the Canada Health Act were being met. We have done no further work since, but this audit found that, at the time, the department was not following up enough on the meaning of conditions and that there were obvious cases of non-compliance with some conditions.

[English]

The Chair: You have two minutes.

[Translation]

Mr. Luc Desnoyers: I would like you to briefly respond to my second question.

Mr. Rod Monette: Thank you very much, Mr. Desnoyers.

The new transfer policy also applies to transfers to international organizations. The same criteria we have here apply in that case.

Mr. Luc Desnoyers: So we would find these conditions within each agreement.

Mr. Rod Monette: Yes.

Mr. Luc Desnoyers: I would like to get back to the Canada Health Transfers. Reference was made to 2002. But, the year 2002 was not really the year of privatization. Most provinces allowed for significant privatization as of 2005. How could we obtain figures on this, to see whether conditions have been met?

• (1730)

Ms. Sheila Fraser: We have not done any work in that area since 2002. The committee could ask the Department of Health what it is doing to ensure compliance.

Mr. Luc Desnoyers: We will issue a request.

[English]

The Chair: You can ask the Comptroller General if he knows.

[Translation]

Mr. Rod Monette: I have no information on the Department of Health. The department will probably be in a better position to provide you with this information. I apologize for not having this information with me today.

Mr. Luc Desnoyers: Is it possible to obtain it?

[English]

The Chair: You can ask him to provide that.

[Translation]

Mr. Rod Monette: Absolutely. We will make a request to the Department of Health.

Mr. Luc Desnoyers: Thank you.

[English]

The Chair: *Merci beaucoup.*

Mr. Weston.

Mr. Daryl Kramp: With the greatest respect to our guests here, I have other commitments. At steering committee we had agreed to leave that. We'd love to have our guests back, but we can only be in so many places at once too.

The Chair: Mr. Kramp, what I'd like to do, if it's okay, is continue on for another 20 minutes to conclude the round, but obviously without motions or votes or anything. We can hear evidence when we're down to four people. I know people have to leave. We appreciate that. I think the witnesses will appreciate that too. We have another four or five on the list.

Mr. Daryl Kramp: I just wanted to—

The Chair: Oh yes. We appreciate that. I just want to point out to everyone here that we're going to go a little longer, but not that much. Because of the tight schedule today, a number of members have other commitments and just cannot stay at this meeting. We certainly hope everyone appreciates this.

We do thank you.

Mr. Weston, four minutes.

Mr. John Weston (West Vancouver—Sunshine Coast—Sea to Sky Country, CPC): Thank you, Mr. Chair.

I'd like to refer to the round of questions that began with Mr. Kramp.

Dr. Buhr, you gave a very transparent and helpful definition of accountability a few seconds ago. I wish I'd had my pen ready as you spoke. I think you said something to the effect that accountability is about the conventions and expectations that arise between parties, such as an electorate and the representatives elected to represent them, and then accounting comes in later. I'm paraphrasing, but it was a very nice definition.

Ms. Nola Buhr: Thank you.

Mr. John Weston: Then, Mr. Wright, you said a second ago that we do want to track economic impact and it's vital to have that conditionality in order to do so.

Ms. Fraser, you answered my colleague's question by saying that there's no capacity for the Auditor General to track the use by local governments of federal funds.

Here's my question. A motion just passed in the House by the opposition parties says that at least 50% of the infrastructure funding that is to be used in the two years to come should pass by way of the gas tax approach, which means, as I understand it, no conditions. How are we to be accountable to those who elected us? This being analogous to other non-conditional transfers, I am asking myself how I can account to those who elected us, because we can't be accountable through your auditing of the municipalities. Is there any other way?

Ms. Sheila Fraser: Mr. Chair, if I could be clear, it's not a question of capacity to audit; it's that we don't have a mandate to audit. We have a mandate to audit the federal government. The municipalities, for the most part, do have auditors and can be requested to provide, for example, audited information to whomever, depending on conditions that may be put into agreements. It's simply that we have to respect the different levels of government, their accountabilities to their people, the structures they have in place, and the audit regimes they have.

Mr. John Weston: Thank you, Ms. Fraser.

Let me refer again to federal-provincial transfers. These transfer payments are for use in provincial jurisdictions. Important programs depend on these transfers, as you've laid out, specifically through Human Resources and Skills Development Canada. You stated in paragraph 1.29 of your report that in 2008 there was "a new approach to federal support for labour market programs", and specifically, for increased flexibility, the participating province or territory "can accept and adhere to an accountability framework".

Can you describe the accountability framework? Is this something that should be emulated?

• (1735)

Ms. Sheila Fraser: Mr. Chair, I will ask Mr. Maxwell to describe the framework.

But again, I think the framework that is put in place for different contributions or different transfers is really a policy decision, which goes back, in many cases, to negotiations between the federal government and the recipients of those transfers. As I say, it's a policy decision, so we would not comment on whether it should be in place or not.

The Chair: Mr. Maxwell.

Mr. Neil Maxwell (Assistant Auditor General, Office of the Auditor General of Canada): Thank you, Chair. I'll be brief.

Thank you for that question.

We've talked a lot about the types of transfers that are unconditional. This is an example where there were quite a few conditions. The accountability framework that was put in place in 2008 had a number of different aspects, and very much the kind of thing that was put in place is typical of that portion of transfers where there are conditions. These are all following the transfer payment policy that the Comptroller General described.

For example, it requires a program evaluation. It requires some measurement of what the actual impacts are. It requires some reporting of information to the federal government from the province. It also had an interesting aspect on the question of incrementality. That's been mentioned several times today. It's a very interesting aspect, where it gets a third party to in fact certify that the funds were used incrementally—in other words, that the provinces didn't take the federal money and simply displace their own funding.

The Chair: Thank you very much, Mr. Weston and Mr. Maxwell.

Mr. Christopherson, four minutes.

Mr. David Christopherson: Thank you, Chair.

I want to continue on the notion of conditions, and I accept totally, Madam Fraser, your position that the decision of whether there should be conditions is a political one and politicians will be held to account through our public process. But here's what throws me off.

There's a notional understanding that having these operating principles is a good thing because they start to explain what it's for. So to me, once you walk through that door you've made the commitment that you're looking for some kind of accountability, otherwise you wouldn't have made even an operating principle. You would have just left it wide open and said you're fine with it being very loose, much like with the health transfer—you understand there are wide parameters, that's the way you want to do it, you mean it to be that way. But once you start talking about operating principles, it suggests notionally that you're looking to put some constraint. Since they're not legally binding, and all that happens after they're in place is that the provinces make a similar announcement that is consistent with the operating principles, but with no detailed follow-up, nothing attached to it....

What I'm curious about is that supposedly there's an assumption—I believe that's your word, Madam Fraser—that the people of the province or territory would hold them accountable. But without something legally binding, what good does it do? How much of it is being achieved? And I am separating those that you want to be flexible from ones that you're beginning to do something on, even if you don't put any real clamps on it.

Just help me understand how this “assumption” might work if there's nothing binding being passed down to the citizenry of that province or territory.

Ms. Sheila Fraser: Chair, I think that's the crux of the issue with the trusts. In effect, if we look at programs like equalization, or wherever there are no conditions, it's quite clear that there are no conditions and that the provinces can use them as they wish and as they are spending more. But when we get into the trusts, there are public announcements about what they are to be used for. I certainly think most Canadians would think that's where the money is actually going, but as you point out, there are no true legal obligations on the provinces and territories to spend the funds that way. They can basically spend them as they wish, over a varying period of time, and for various purposes.

As a minimum, there's an issue around the communication of what these trust funds are and what they do, and I think it comes back to the legislatures and the Parliament of Canada deciding what kind of accountability they want around these amounts of money.

• (1740)

Mr. David Christopherson: Mr. Wright, what are your thoughts?

Mr. Rob Wright: I'll ask Barbara to comment, and then I have a comment as well.

Mrs. Barbara Anderson: It is a good question, and it's something we struggle with. The operating principles are a method of having a common understanding between governments for what the objective is, but we haven't talked at all about the accountability of the people, and I will say from our experience in this vast number of trusts.... One of the first ones we did was for medical equipment, and there was not a radiologist in Canada who could not tell me down to the very last penny how many MRIs his province had bought. It was the same with the child care. The child care groups knew exactly how much money had gone through these trusts to their provinces, and they certainly were very effective in demanding that the money be spent.

So it's just an aspect of how the accountability is gained through this mechanism.

The Chair: Very briefly, Mr. Wright.

Mr. Rob Wright: There's \$60 billion a year in transfers to the provinces on areas of common priority and shared responsibility, and there's a continuum of accountability and conditionality. In some areas, such as on our current infrastructure, the extra \$4 billion, we want to make sure it's incremental or it's not going to flow. Similarly, there are some quite considerable conditionalities on the labour market agreements. You get into CHT/CST and there are some conditions, but on a few select policy issues that really aren't comprehensive in terms of value for money. There's no conditionality, and in fact I would put trusts in between that and equalization

and territorial transfers where there's absolutely no conditionality; it's for general purposes.

There is some limited conditionality that enhances, yes, accountability through the public process and the interested parties involved. It's less than the directive on, say, some areas where you know you must achieve a specific objective. You have to choose areas where you have common priorities and where it's important. Frankly, it's not a zero-sum game. If you wish to attach conditionalities in some of these areas, you may not get the level of funding you might otherwise see from the federal government. That's a reality, so that's a trade-off government makes. Again, it's a continuum; it's not one-size-fits-all. They all do spur innovation. Again, we have to ensure the government is making informed choices on that area, and I can assure you we do.

The Chair: Thank you, Mr. Christopherson, and thank you, Mr. Wright.

Mr. Young, you have four minutes.

Mr. Terence Young (Oakville, CPC): Thank you, Chair.

My first question is for the AG, and then if anybody else can answer this question, I'd love to get some insight into it. It is with regard to greenhouse gases and accountability for the environment and environmental programs. I'm trying to understand—just to back up, when you watch the weather on TV at night, you see there's a cold front coming from the far north and there's warm air coming from the south, etc.—if there is any possible way that you know of to measure the effectiveness of environmental programs to reduce greenhouse gases, when we really only occupy half of one continent. The air of the whole planet moves around at all times, so is there ever going to be a way we can actually accurately measure the effectiveness of such programs?

Ms. Sheila Fraser: I wish the Commissioner of the Environment were sitting here, because I think he would say yes, that there are, and he would give you a very articulate response as to how that can be done. Unfortunately I can't, but I would certainly say government is claiming results from these programs. If government is saying they are going to spend x hundreds of millions of dollars or billions of dollars in environmental programs to reduce greenhouse gases, I am sure these very bright public servants have thought of ways of measuring it.

Mr. Terence Young: Madam Fraser, the Canada social transfer funds are really important priorities for people in the provinces, for post-secondary education, social assistance, and children's programs, and my understanding is they all meet national standards. Could you comment on the standards involved, and what would happen if this model were used in, for example, the trusts?

•(1745)

Ms. Sheila Fraser: Again, in this study, it was simply a description of the different types. We didn't get into the fact of whether they had to meet standards or not. I don't believe there are conditions in that, but perhaps the deputy.... I don't believe they are required to meet standards. I think the only condition is in the health transfer, where there are sort of broad principles in the Canada Health Act.

Mrs. Barbara Anderson: To answer that quickly, the conditions of the Canada health transfer are in the Canada Health Act. The Canada social transfer only has one condition, and that's for mobility, so that people cannot be denied social assistance because of their residency. But there are no standards in the legislation per se.

Mr. Terence Young: Not for post-secondary education?

Mrs. Barbara Anderson: Those are common standards and are done outside the transfer system itself.

Mr. Terence Young: I have a question for Mr. Wright, please.

During difficult times, like the times we're in now, it's really important that the transfers aren't cut. We saw a time in 1997 when the government of the day, the Liberal government, cut transfers to the provinces by about \$2 billion, which created a lot of difficulty for families and working people, etc. If budget 2009 is passed as it has been presented, what would you expect with regard to transfer payments?

Mr. Rob Wright: I think it is important, given the federal fiscal challenge over the medium term. The government has reassured provinces it will continue to grow the transfers quite substantially. The Canada health transfer, which is the largest, grows at 6% a year. The Canada social transfer will grow at 3% per year. The territorial finance is a little different. It will continue to grow. After having grown by 55%, equalization will grow in line with the overall growth of the economy.

I think it is a very strong story. I know that when we consulted pre-budget, Janice McKinnon, who was at one of our sessions—she was a minister of finance in the early 1990s—remarked on the fact. It was a deliberate decision to reassure the provincial governments. On their side, it would be clear that the Government of Canada has asked provincial governments to be full partners in the stimulus the country needs right now. They can make use of that funding for the similar types of partnerships we've put in play in the government's recent budget.

The Chair: Thank you very much, Mr. Wright.

Ms. Ratansi, four minutes.

Ms. Yasmin Ratansi: Thank you.

I love your answer. In 1993 when the federal government took over, they inherited a \$500 billion debt, a \$43 billion deficit, and they left the Conservative government with \$13 billion in surplus, strong fundamentals.

Just for the record, Mr. Chair, I would love to have been in that situation if I had been in government. However, my question comes back to the deputy minister, who stated that every five years you check to see the effectiveness of the transfer payment models. That's what I heard. Did I hear it right or was I wrong?

Mr. Rob Wright: It was five to seven years.

Ms. Yasmin Ratansi: No problem.

Mr. Rob Wright: Is it 2013 when we review the model?

Ms. Yasmin Ratansi: So my question follows. You probably have been doing it on a five- or seven-year cycle, and I think the province or the federal government—everyone tries to ensure that money is used.... No one is trying to say that money should not be used properly; we all want to do that. However, how do we make the mechanism better? The Auditor General says the government officials they interviewed opted for a conditional transfer to ensure the recipients use the fund for specific purposes. Yet we get unconditional and we go into sensitive negotiations with the provinces. I'm not saying provinces should not have it. I came from the provincial government; they should get the money.

Doing a review of these transfer payments, and wondering which method is a good method, what are some of the parameters you use? How do we ensure that what we sent the money for...? For example, the Canada-Ontario Infrastructure Works program was \$25 billion, yet Toronto complains that the roads are terrible, that infrastructure is broken, and a lot of cities do it. How do we collectively work together to ensure that the mode we employ is the right mode?

•(1750)

Mr. Rob Wright: It's a very important question, and I think what we have to do as a country is take stock of where we are every time this is reviewed.

A very important coalition of programming was expiring or desperately required reform in 2006-07. The process that led up to the 2007 budget when the government announced the long-term enhanced funding for this major set of transfer priorities was an informed choice.

Looking at the decisions around 2012-13, when these programs expire, I think the government of the day will want to start a very serious and important series of public consultations to get people's views all around, not just provincial governments but stakeholders who feel strongly about whether there should be conditionality or no conditionality on health transfer outcomes, higher education outcomes, social policy outcomes and infrastructure, other programming, labour markets, and trusts. You could talk about that whole range in terms of a broad review of fiscal arrangements. One will be required before you do the 2012-13.

Ms. Yasmin Ratansi: Yes, but I've asked you a question.

The Chair: I just have one brief question, Mr. Wright.

You're using flowery language for these trusts, but again, I think it's a breakdown in accountability. You say there are no conditions put on by Parliament, so there's no requirement that all, some, or any of the money has to be spent. If that's the case, why are the announcements made that this is the way the money is going to be spent and that we're going to reduce greenhouse gases by 16 megatonnes? Why is this done? As a member of Parliament, as a Canadian, I just don't think that's the way government should be run. With all due respect to what you're saying, I don't think you should be party to this, so can you explain to Canadians why that has taken place under your watch?

Mr. Rob Wright: I'm actually not prone to flowery language, sir, but I don't think I said that. I think I said there is a continuum of financial relationships the Government of Canada can have with provincial governments, and it has a whole range of those choices to make. And I think we do account in terms of a public statement of intent. It does enhance accountability, and I think the Auditor General, in her own way, has acknowledged that as a useful step forward. But it's not the same accountability framework as in some conditional transfers.

The Chair: But Mr. Wright, with all due respect, Canadians were told specifically by numerous different announcements and statements and speeches that this money, \$1.519 billion, was going to be spent for environmental purposes. The public accounts that were tabled in Parliament show this as an environmental expense, and no one can confirm that any, all, or some of this money was spent for environmental purposes. So why was the announcement made, if you're going to say there are no conditions?

This is the problem I'm having and that I think everyone on this committee is having and the public is having.

Mr. Rob Wright: I have to say I'm not an expert on the environment, but I would say that for that money to flow, the provincial governments would have to agree in trust that they would use the money for the environment in the ways prescribed in the trust.

The Chair: They were never asked. They were never asked, Mr. Wright. There are no conditions on this money.

Mr. Rob Wright: Well, there were no ongoing conditions, but they would have had to agree to use the money for that purpose when they signed the trust. Now, these are partners with the Government of Canada, not just on health care and education and infrastructure but on the environment, and so people have to understand that decision-makers do value that relationship with their provincial counterparts.

The Chair: Mr. Shipley, four minutes.

Mr. Bev Shipley (Lambton—Kent—Middlesex, CPC): Thank you. The time has wrapped up and I have to leave, as you do. I appreciate this.

You just talked, Mr. Wright, about a continuum of financial arrangements that work with the provinces, and the provinces sign a trust, sign an agreement, saying that these moneys coming over to them will be used with the intent and for the purpose for which they were given to them.

The trust funds have a bit of ambiguity in the word. When I hear "trust", I tend to think that trusts are actually the most reliable, the

most honest, the best types of funds to have, rather than transfers that you can put more conditions on if you choose. So I'm wondering, if we were to designate trust funds...we leave a bad perception sometimes, I think, with our constituents not knowing actually what we're talking about.

I know this is a study, and I know it doesn't come with recommendations, but I'm not so sure that I wouldn't like you to actually give us some thoughts and directions about how we can actually improve the accountability. The Accountability Act was mentioned earlier. This government is about trying to improve—not that it was bad—and always working to make things more accountable and more transparent—the purpose of the act. And so again, perhaps I could have, at a later time if that is permissible, some thoughts.

I'm going to go to another one, and then I'll ask you to comment.

Health transfers. At a time when we have an incredible situation in my riding where they're closing hospitals down, we have increased funding locally plus the equalization that is going to the provinces. Help me understand. Should we be looking for some accountability through the equalization payments that go out so that we can actually do some tracking on it? Especially at this time when we're losing our health care system within our province...I'm only talking about Ontario particularly. Our small rural hospitals are being attacked and they are shutting down.

So for moneys that are transferred through the health transfer, I can almost assure if you took those dollars and matched them with the provinces, they don't match.

• (1755)

Mr. Rob Wright: I would just say that this year we transferred \$14.2 billion in equalization to provincial governments that are below average fiscal capacity, including Ontario this coming year. That goes into the provinces' general revenues, without condition, to help maintain a comparable level of public services to what other provinces have. I guess for a resident of Ontario it would be very important to say to the overall government, how effective are you in serving the public interest needs of this province? What's your source of revenue, what's your use of that revenue, and how effective are you in spending it? And equalization spending should be evaluated the same as everything else.

In some provinces, transfers from the federal government can make up 20% or 30% of their actual budget, or 40% I think in some provinces. Manitoba, for example, is what percentage?

Mrs. Barbara Anderson: Up to 40%.

Mr. Rob Wright: Manitoba is, I believe, close to 40% of the overall budget.

So it's not free money that nobody looks at. I think the residents of that community have to ask, what are you doing to make maximum value with that 40% of your budget that you get from the Government of Canada? The alternative would be for us to turn Sheila loose on them and make sure they're getting value for money, but they have a provincial audit system that is, if not as bloody minded, I think pretty effective.

That's the broad approach that we're talking about.

Mr. Bev Shipley: You've touched on what we mentioned before, performance reporting. Anyone who has been in business, and particularly in times when it gets a little tighter, knows that it's all about performance reporting. It's about knowing where the money's coming from, where it goes when you get it, and how you deal with it so that actually you can be a performance—

Ms. Sheila Fraser: Can I add one thing? I'd just like to make a link with another audit that we have in this report, which is on the health indicators report, which I think is an interesting example of what happens with these transfers. There were large sums of money transferred to the provinces in 2000, 2003, and 2004. First ministers all agreed that there would be health indicator reports produced every two years. They agreed on a common set of indicators; it took them a while, then they agreed these are the indicators we should all report on.

Well, the federal government has continued to report. We did the reports in 2004, 2006, and 2008, but no provinces or territories are producing those reports anymore. That's why we say that even though there are these statements of agreements with principles, they are not binding, and there is absolutely no consequence if people don't follow through on them.

• (1800)

The Chair: Thank you very much, Mr. Shipley. Thank you, Ms. Fraser.

That concludes the second round. I'm going to ask the witnesses for any closing remarks or comments they want to make.

Again, I want to start with you, Ms. Fraser.

Ms. Sheila Fraser: I'd just like to thank the committee for their interest in our study. As we have mentioned, obviously transfers to provinces and territories represent a very significant portion of the federal government's expenses. We hope that this study will help better inform parliamentarians and clarify what the nature of the transfers is.

The Chair: I should point out, before we go to Mr. Wright, that if you follow these trust funds since 1999, they're generally used at the year's end, when there is a surplus. It's probably a situation we won't see for the next five or six years anyway, so it's probably not something we'll be dealing with in the future, but it's certainly an important issue.

Mr. Wright, have you any closing comments?

Mr. Rob Wright: I just want to thank Ms. Fraser for the study. It was well done, and this is obviously an informed dialogue with strong interest, which is appropriate given the magnitude of the dollars involved and the important issues.

In terms of the future, there are no pleasant year-end surprises from the last year or so, but again, I think there will be a determination in a few years to climb out of deficit. Again, not making multi-year programming decisions for a short-term problem is also a factor. This will be around as an active debate, so your interest was appropriately channelled, I would say.

The Chair: Mr. Monette.

Mr. Rod Monette: Thank you, Chair, for having us. As my colleagues have said, it is a very important issue, and we have very much appreciated the discussion and the questions. So thank you very much.

The Chair: Dr. Buhr.

Ms. Nola Buhr: I'd just like to thank the Standing Committee on Public Accounts for inviting us. As I alluded to, this is an historic occasion for the Public Sector Accounting Board, our first time here. We'd certainly welcome another invitation.

The Chair: On behalf of the committee, I want to thank everyone for being here. Again, this is an interesting topic. Some people may not find it interesting, but it is an important topic. I want to thank everyone for being here, for their interest, their reports, and for all the work they've done.

A few of the members have asked me to apologize because they had other commitments. I want to thank those who came here and the members of the committee for their patience and understanding. It has been a little disjointed because we were an hour late getting going because of the votes in the House of Commons.

Thank you very much.

The meeting is adjourned.

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