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# Standing Committee on Public Accounts

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## Thursday, November 6, 2014

## Chair

**Mr. David Christopherson**

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● (1530)

[*English*]

**The Chair (Mr. David Christopherson (Hamilton Centre, NDP)):** I now declare this 37th meeting of the Standing Committee on Public Accounts in order.

Colleagues, before we turn our minds to the public accounts, which we're here to deal with, I want to bring you up to speed on a little bit of business.

You might recall that the clerk and I were given certain parameters for scheduling going forward for the next few weeks. I can advise you that it is coming together. It looks like we'll be able to get a fair bit done of what we had hoped to do by the end of this sitting.

The way it is right now, next week there will be two meetings of report writing. That gives us a chance to catch our breath and then go into the last sprint. We have a couple of public hearings that we'll try to get in before we rise at the end of the year.

So for next week, for planning purposes, you'll get copies of the draft report, and perhaps you could be ready to start going through that. That will be our business next week.

The only other thing I want to mention is that one of our presenters today, Mr. Matthews, had asked if instead of using his time for his opening remarks he could do a bit of a presentation. I thought that was an excellent idea. I've given him the okay. We will append his opening remarks so that they're still there as part of the record, and can be drawn upon when we're doing our draft report. But I think it will help if we do a bit of a briefing session, particularly since this is public. It gives the public an opportunity to understand more of what we're doing. Of course, today is public accounts day—the name of the committee—so it's important business.

Today, representing the Auditor General, we have Assistant Auditor General Nancy Cheng.

Nancy, welcome. It's good to have you here again. I'll call upon you in a moment to give us your opening remarks and introduce your delegation.

Mr. Matthews, you've returned again. It's good to have you back. I'll look to you shortly for your presentation and the recognition of your delegation.

Mr. Leswick, from you, the general director of economic and fiscal policy at the Department of Finance, we have no opening remarks, but apparently you're making yourself available to answer any questions that might come up during our discussions.

Colleagues, that's the lineup. We're ready to go. Unless somebody has an intervention at the last minute, we'll get going.

Seeing none, you now have the floor, ma'am.

[*Translation*]

**Ms. Nancy Cheng (Assistant Auditor General, Office of the Auditor General of Canada):** Thank you, Mr. Chair.

I want to thank you for the opportunity to discuss our audit of the consolidated financial statements of the Government of Canada for 2013-14.

I am accompanied today by Louise Bertrand and Karen Hogan, co-principals responsible for the audit.

We thank the committee for taking an interest in the Public Accounts of Canada.

This is an important government accountability report. It is the responsibility of the government to prepare the consolidated financial statements, and it is our responsibility to express an opinion on whether these consolidated financial statements are fairly represented.

I will focus my comments on our audit opinions and observations.

As you are aware, the Public Accounts of Canada are tabled in three volumes. Our independent auditor's report and our observations are contained in section 2 of volume 1. Unless otherwise noted, the information in all three sections of this volume and the two other volumes is unaudited.

The independent auditor's report on the 2013-14 consolidated financial statements can be found on page 2.4 in volume 1 of the Public Accounts. This marks the 16th year that we have expressed an unmodified audit opinion.

[*English*]

As required by section 6 of the Auditor General Act, we provided an opinion on the government's consistency of application of its accounting policies. Our independent auditor's report signalled a change in the government's accounting policy for premiums and discounts arising from the buyback of bonds. This change has been properly presented and disclosed in note 2 to the consolidated financial statements.

Our observations over the past several years have highlighted concerns about the financial reporting of inventories and asset-pooled items at National Defence. Last year we indicated that National Defence was working on several initiatives to improve its financial reporting capabilities. This year, although some progress has been made, we continued to find errors.

Since 2003 we have been reporting concerns about inventories and asset-pooled items at National Defence. The department needs to address several fundamental concerns with the proper recording and valuation of these assets. Strong financial management controls reduce the risk of misstating the consolidated financial statements and making decisions without accurate information.

We thank the Comptroller General and his staff, as well as others in the departments that were involved in preparing these accounts. A great deal of work was involved. We appreciate the cooperation and assistance that was provided to us.

Mr. Chair, this concludes my opening remarks. We would be pleased to answer the committee's questions.

● (1535)

**The Chair:** Very good. Thank you very much.

Mr. Matthews, you now have the floor, sir.

[*Translation*]

**Mr. Bill Matthews (Comptroller General of Canada, Office of the Comptroller General of Canada):** Thank you, Mr. Chair.

Members of the committee, good afternoon.

We are pleased to be here to answer questions on the Public Accounts for the fiscal year that ended on March 31, 2014.

As you already mentioned, I am joined today by two colleagues: Michel Vaillant, Acting Executive Director, Government Accounting Policy and Reporting; and Nicholas Leswick, representing Finance Canada.

[*English*]

As you indicated, Mr. Chair, I would be happy to go through this presentation. I hope it will be helpful to you.

There are two main parts to this, and I'll start with slide 3. I'll give you a quick overview of the results in terms of what we found this year in our financial statements, and then at the back end I'll spend a bit of time on the two restatements that we've made adjustments for in this year's public accounts. Those are the main themes.

On slide 3, as my colleague from the Auditor General mentioned, we have an unmodified or clean audit opinion for the sixteenth year in a row. That's something we are very proud of, and all members of the finance community in the Government of Canada should be proud of that. I cannot mention the audit opinion without thanking my colleagues from the Auditor General. This is a great deal of work that requires excellent collaboration, and we had that again this year.

The annual deficit, as you are likely aware, was $5.2 billion this year. That represents a decrease of $13.2 billion from what was originally forecast in Budget 2013.

As I go through my remarks in this presentation, I will do a lot of comparisons between the initial numbers in the budget, which according to accounting standards are what are to be compared with our financial statements, as well as results from the previous year. It's always interesting to see what has happened in one year versus the next. The accumulated deficit, which is the difference between our net assets and liabilities, is $611.9 billion, and that is an increase of $2.5 billion.

For those of you who are into accounting things, you might be wondering how an annual deficit of $5.2 billion got us to a change in accumulated deficit of $2.5 billion. The difference is something called “other comprehensive income”, which in this year's case impacted accumulated deficit. It relates to changes in fair market values and things like that—other things related to our benefit liabilities, etc.

The other thing I should highlight is the accumulated deficit-to-GDP ratio of 32.5%. That's a decrease of 1% from the previous year. Finance Canada does have a long-term target for this number, and I'm sure my colleague Mr. Leswick will be happy to talk about that if that's of interest to the committee.

Slide number 4 has the high-level financial results. You'll see that total revenues are basically up over the previous year, as well as up over what was forecast in the budget, so $271.7 billion. While you're looking at these comparisons I will tell you that revenues were up across the board, personal and corporate. I will have some more detail on that in a moment.

Program expenses were $248.6 billion. That is slightly up over the previous year, but lower than what was forecast in the budget by a bit. Then you have public debt. There are slight changes there, but it is largely on track with what was forecast.

With regard to annual deficit, as I've already mentioned it came in at $5.2 billion, which was significantly lower than originally forecast in Budget 2013. There is the restatements number of $7 billion on there, and I will give you some additional information on that in a few moments.

If I could take you to slide 5, this gives the breakdown of revenues. As I mentioned, revenues are up across the board. We've shown personal, corporate, GST, and other. I will highlight personal tax for you here, and as I mentioned, it is up. It represents about 48% of total revenues. As a percentage, that is down slightly from the previous year, but it is largely a consistent sort of relationship.

If you're wondering what's driving the increase under “other”, that is primarily driven by two things. The government disposed of some shares in General Motors on which it realized a gain, as well as the disposal of assets; our embassy in England, our chancellery, as sold. The gain on sale is in that number as well.

EI premiums are there. They represent about 8% of our total revenue. To sort of round out the big amounts, corporate tax is 13.5% and GST is about 11.4% of the total revenue mix. The message on revenues is that they're up across the board over the previous year and what was forecast in the budget.

● (1540)

If I could take you to slide 6, what you'll see here are fairly small changes on the expense side of the House: Benefits for the elderly up over the previous year, but slightly below what we were tracking for in the budget, but this is not a new story; program benefits for the elderly increasing because of our aging population; EI benefits largely consistent with the previous year; and children's benefits up very slightly.

The only other thing I could mention here is maybe total program expenses; when you look at those numbers, those include the expenses of ministries. There's been some media attention the last couple of days on lapses, which is the amount departments can spend or did spend relative to the amount of spending they were authorized. I'd be happy to take questions on explaining those numbers if that's of interest to committee.

The second part of this is the focus on the two restatements. The first one is slide 7 and that's the bond buyback. The background on this one—and I have mentioned the importance of comparing or being able to compare the financial results from one fiscal year to the next, and my colleague from the Auditor General mentioned that part of their opinion is on the consistency of our accounting policies. When the government bought back debt or bought back bonds, we were following an old accounting policy that was essentially no longer relevant; and the history here is that when you're doing financial statements, you look to accounting standards set by an independent body. In our case, we look to the public sector accounting standards. When they're silent, you look to other sources, so you would look to the standards of other countries. We were married to a standard from the U.S. that is basically no longer in play.

When we looked at that, we recognized that when there's a discount or a premium on a bond buyback, if the debt is extinguished, the new accounting standards require you to take that into income or expense immediately as opposed to amortizing it over a period of time. So we've made that change and done it retroactively as well, so the two years of financial results are comparable. You see here on the slide the effect of that change. Here, my colleague from the Auditor General has mentioned that they found it to have been done properly, but I did want to highlight that change for you, as well as one other change I'll speak to, which is on slide 8.

This one's an interesting one, it's the valuation allowance for social housing programs. Essentially, what we have here are some programs administered by Canada Mortgage and Housing Corporation and effectively, they were giving loans and then the recipients of these loans were funded to pay them back. I think you would all agree—and I will over-simplify here to make the point— if I gave you a loan and then gave you money to pay me back, you really haven't paid me back. I'm effectively giving you a gift, not a loan.

When we made those loans, we had factored in an evaluation allowance to reflect the fact that those loans weren't all being paid back, some were being paid back with money the government was flowing through appropriations. We realized we had not taken into account all the loans of that nature. So we broadened the scope of that allowance to capture all the loans in question and again, we have applied that change retroactively to make sure that these statements are consistent. So that's a $1.6 billion increase in the opening balance of accumulated deficit and a $0.2 billion decrease in the annual deficit; not a huge amount, but I did want to highlight those two changes for you so you would be aware of them. Both have been done on a consistent basis from the previous year.

Mr. Chair, before I conclude, I will ask if members have questions that relate to a specific page of the public accounts—the page numbers in English and French are slightly different—so if you can give us the page number, that would help and then give us a moment to find the equivalent page numbers on the—

● (1545)

[*Translation*]

the French or English version

[*English*]

—depending on the nature of the question, and we would be happy to provide it to all committee members so they may follow along.

With that, we're happy to take your questions.

**The Chair:** Very good. Thank you.

I think it was wise for you to take the time to do that as opposed to reading your statement, as important and informative as that is too. [See *appendix*]

I also just want to say at the outset, before we begin the rotation, that this is the committee that Canadians rely on to keep an eye on the treasury, both to make sure the money that's supposed to come into the treasury does and to monitor how it's spent and what it's spent on, as well as the proper procedures from within. We try to do this in as non-partisan a way as our DNA will allow.

It needs to be said—and I want to say it—that receiving the 16th clean audit in a row—and that takes in more than one party—says a lot about the way that finances are run in Canada. I can't say that so much about the political decisions; we make those in a different way.

Some of us have been to countries in which the money is stolen from the people before it even gets to the treasury. A clean audit at the very least, in my view, tells us as Canadians that we're not being ripped off, at least not in the same way that some countries have their treasury taken and siphoned off into a Swiss bank account or somewhere else offshore long before the people even know the money's there, let alone any risk of it being misspent

On behalf of all the members of the committee, and particularly on behalf of all Canadians, I want to thank all those who were involved in giving us what we call a “clean audit”, meaning that at least the macro-pieces of the money that this nation has and should have in our treasury are there. Then we can start dealing with some of the details of how that money is spent and whether or not it was spent appropriately.

At the very least it's good to know that our treasury is not being stolen, ripped off, or diverted, and that the money that should be there is there.

I just want to say in a non-partisan way, as the chair of the committee, that we're very proud of all those who played a role in giving us that reputation. We're proud of our reputation, and you're the ones who, day to day, give us that. So thank you all very, very much for any role that anyone has played in giving us that clean audit.

That's the good news. We will now move on from there, starting with our first vice-chair, John Carmichael.

Sir, you have the floor now.

**Mr. John Carmichael (Don Valley West, CPC):** Thank you, Mr. Chair. That was articulately stated, if I might add.

Thank you to our witnesses for being here today.

To that opening comment by the chair, I'd like, first of all, to add my thanks to Mr. Matthews for the deck. I think it's very helpful. For comparative purposes, I think this type of information is very helpful to the committee and, I'm sure, to those watching. It helps everybody to better understand the work we're trying to understand and truly deliver on behalf of all Canadians.

So thank you for that.

Ms. Cheng, I'd like to begin with you and ask you a few very brief questions with regard to the clean audit. Before I do, I just want to read your economic highlights briefly for the record.

On page 1.3 in section 1 under the highlights, you make the following comment:

> Five years after the global recession, the global economic environment remains fragile. Despite the challenging external environment, the Canadian economy has been resilient. For instance, Canada has led all other G-7 economies in real GDP growth over the recovery. This has translated into one of the strongest job creation performances over the period, with over 1 million more Canadians now working than in July 2009, when the recovery began....

I think this truly gives us a good standard from which we can launch into the next year. We talked about the clean audit and the quality of the work that you and your people are performing, which I applaud. For the sixteenth consecutive year the Auditor General's report has issued an unmodified opinion of the Government of Canada's consolidated financial statements. That's something I think we should all be very proud of.

You mentioned it briefly in your opening comments, but could you just comment on what a clean audit means for Canada?

**Ms. Nancy Cheng:** Thank you, Mr. Chair.

Having 16 years of unmodified and clean audit opinion is indeed an exceptional accomplishment. I did get my staff to take a quick look at other G-8 countries to see what the situation might be with respect to their financial reporting and the status of audit results. Some of them don't even have what we call whole-of-government accounts, where all ministry information is brought together, so that you have a portrait of the country as a whole. For example, Germany and Italy don't have whole-of-government accounts.

Once you get past that, you look at the nature of the audit results and whether the countries get a clean opinion. We have a denial of opinion in the United States from as far back as 2007 up to the current state. They have many exceptions, qualifications, and modifications in saying what might not be fairly presented with respect to the whole set of financial statements, for example.

What we saw was that Australia and New Zealand, for example, are the ones that have a clean opinion. We went as far back as 2007, and they seemed to have consecutive years, but I wouldn't know whether they have a record like Canada's with 16 years of clean opinions. Indeed, this is an exceptional accomplishment on the part of Canada, and we do have high-quality financial statements.

I just have one point of clarification, Mr. Chair. The member referred to page 1.3, section 1. Section 1 is financial analysis that is prepared by the Government of Canada through Finance Canada. Those are not audit comments, and if members have questions or wish to have further deliberation about that, this should come from the Department of Finance.

Thank you.

● (1550)

**Mr. John Carmichael:** Thank you. I appreciate the clarification.

You looked at other nations and other audit reports. Could you share with the committee the requirements for a government to achieve that clean opinion? You are talking about consolidated statements, so you're bringing in all the various crown corporations, the various ministries, etc., into one consolidated statement. Can you give us an idea of what goes into the work you do in bringing this together?

**Ms. Nancy Cheng:** Mr. Chair, thank you.

It is a significant undertaking on the part of the Office of the Auditor General to conduct the public accounts audit. We have to look at the accounts in terms of the various components within the Government of Canada and have a view about which are the most significant components. In the profession, this is what we call a “group audit”. I'll skip over the technicalities, but essentially we have to decide where the bigger pieces are, the significant components, and where the major risks are, so we can tailor our audit procedures.

First and foremost, we have to gather knowledge about the overall reporting entity of the Government of Canada, which has many large departments and many significant transactions throughout the year. We have a view about which ones we would conduct significant work on, and then we look at systems of control, look at weaknesses, and verify transactions. It is a significant undertaking, and it is the largest financial audit in the office.

**The Chair:** Thank you.

Time has expired. Thank you, Mr. Carmichael.

Mr. Allen, you now have the floor, sir.

**Mr. Malcolm Allen (Welland, NDP):** Thank you, Chair, and thank you, folks, for being with us today.

Ms. Cheng, I'll go to page 2.41, the observations of the Auditor General of Canada on the consolidated financial statements. It's actually in volume I, section 2, page 2.41. That's how my book is numbered at the bottom. It talks about two different departments but three different things. The two are the same department, National Defence. We both know, Ms. Cheng, because we've both been here, that it's not the first time National Defence has come up either in the Public Accounts of Canada or in separate chapters of your audits that have been done through the Office of the Auditor General.

I am looking primarily at the recommended compensating controls and the progress to date. You note in your comments that—and here I won't put words in your mouth—it seems as if it's not progressing as well as it might or as one would hope. Can you comment on that piece, specifically the first one, 2.41? I know there are separate ones there.

**Mr. Bill Matthews:** Before my colleague responds, the page reference—

[*Translation*]

this is on page 2.43 in the French version.

[*English*]

It's 2.43 in French.

**Mr. Malcolm Allen:** Thank you, Mr. Matthews.

I don't have two volumes. I have only the English one.

**The Chair:** Ms. Cheng.

**Ms. Nancy Cheng:** Thank you, Mr. Chair.

Yes, National Defence has been a subject that we have been observing for a number of years, as I mentioned in my opening statement. Here, when we talk about the "compensating controls", it's because the department actually has filed an action plan with the public accounts committee to indicate a number of initiatives they're going to undertake to improve inventory management.

But if we look at that particular action plan, we see that it's going to take us out to 2016. In the interim, they still hold significant inventory for the Government of Canada, hence the term "compensating controls". In the interim, what are you going to do? What are some of the things that can be done to make sure that financial reporting is properly respected so that we can continue to earn and keep our clean opinion? That is important, right?

Hence, we identify a number of things. We've made a number of suggestions to the department in terms of things that perhaps they could consider doing. As you pointed out, on page 2.41 in English,

● (1555)

[*Translation*]

and on page 2.43 in French,

[*English*]

we identify several steps that perhaps the department can consider.

In terms of that first step, the physical inventory count, we did observe some progress, so the department is moving in the right direction. What they've been trying to do is improve their inventory count. They haven't quite got it to the point that we can derive sufficient assurance from it to rely on it for the existence and conditions of the inventory, but they're moving in that direction. That will be a long journey, because ultimately it may not be achievable to try to count everything that National Defence has on March 31 from coast to coast. There is that practicality that kicks in as well, but certainly we feel that there's more they could have done in that area.

With respect to some of the other suggestions, they're not as taxing in some ways. Sometimes what we observe on, for example, pricing differences, is a sort of a lack of awareness of how to capture some of the information. One of the differences that we saw on the extreme side, if you will, is the pricing for some washers. Instead of putting down the unit price, which is less than a dollar apiece, they put in the price from the box, which is $70,000. All of a sudden, you've inflated your inventory value significantly.

Those are some of the things. Maybe it's training. Maybe it's awareness.

The other thing is that there isn't necessarily a culture there to try to examine what is the cause of these problems. When we have a difference, what's causing it? It's about trying to see if that can be rectified as they move forward, or whether there are similar items that might be subject to this kind of error condition, because what we did was a sample, and a sample is really just pulling a number of items, of amounts, a mass of inventory items, that DND might have.

A lot of these suggestions are being shared with the department. There will be a more detailed management letter from the component audit team to help National Defence understand some of our points, to try to work with them, and to encourage them to make improvements. But certainly there is still a lot that needs to be done before we can claim success on this one.

**The Chair:** We have just a couple of seconds, so you're de facto done. Sorry.

**Voices:** Oh, oh!

**The Chair:** You're welcome.

We'll move along now to you, Mr. Hayes. You have the floor, sir.

**Mr. Bryan Hayes (Sault Ste. Marie, CPC):** Thank you, Mr. Chair.

This question will be directed to Mr. Leswick. It's about a statement made in the very first paragraph Canada has had the strongest real business investment performance in the G-7 over the recession and subsequent recovery.

How do you determine that? What are the factors that enable you to actually state definitively that Canada is in that position? Second, in your opinion, are there government policies that we put in place that contributed to Canada's having the strongest real business investment performance in the G-7?

**Mr. Nicholas Leswick (General Director, Economic and Fiscal Policy Branch, Department of Finance):** Thank you for the questions.

The first part is just the pure metrics of it. Business investment is part of the larger composition of the national accounts, and the national accounts are a metric that is used globally. This is an OECD and United Nations standard in terms of how we effectively quantify economic activity and specifically economic growth: the composition of the economy across the world.

Business investment fits within domestic demand within an economy: business investment, residential investment, investment into inventories, and also consumption. That's the basket of domestic private sector activity that forms part of the national accounts. Clearly, business investment is a tranche within that, and that's investment in machinery and equipment and capital structures. I hope that's clear. That's part one, just in terms of the metrics.

Part two, what has the government done to effectively lead to a statistic around more robust business investment? I'd say a couple of things. One is tax incentives. We have the lowest marginal effective tax rate on new business investment in the G-7, so amongst large advanced economies we have the lowest tax rate on new business investment. Obviously it goes without saying that this incentivizes new business investment. Likewise, other types of tax incentives, such as the accelerated capital cost allowance over the last couple of years, have further boosted the incentive to invest in machinery and equipment and in capital structures.

● (1600)

**Mr. Bryan Hayes:** You also go on to reference global growth, saying that "weak growth in external demand for Canadian products" has reduced the incentive for Canadian business to increase capacity.

Would you say these external factors are beyond the control of the Government of Canada?

**Mr. Nicholas Leswick:** You might simply say that, yes. I mean, we obviously consult with private sector economists and the banks and the think tanks. We work very closely with the IMF and the OECD. The IMF has tabled their most recent *World Economic Outlook*. For seven of the last eight outlooks, they've revised down their global economic growth projections. This uncertainty is coming from Europe, to some extent south of the border in the United States, just in terms of how they regularize their monetary policy and rectify their fiscal situation. Then even further, obviously China isn't growing at the 10% clip that it was. It's growing in a more normal way—well, normal in Chinese terms—at a rate of 7%.

These types of external factors are playing in and weighing on Canadian domestic growth, specifically our export potential, as in who's buying Canadian goods, and Canadian in terms of trade, as in who's buying Canadian energy products. Likewise, companies are effectively sitting on cash because they're afraid to make new investments without a more robust global demand.

**Mr. Bryan Hayes:** So when a government gets criticized because the country has a trade deficit, what I'm hearing from you is that the trade deficit is no fault of the government; it is reflective of what's happening in the global economy.

**Mr. Nicholas Leswick:** A trade deficit is composed of a lot of things—trade in services, trade in goods. As you know, the dynamics across service and goods industries are so different in a pan-Canadian context. But yes, external demand is probably the greatest risk to the Canadian economy at the moment.

**Mr. Bryan Hayes:** Thanks.

I'm guessing I'm close to my time limit?

**The Chair:** No, you have half a minute, if you want it.

**Mr. Bryan Hayes:** I do.

Just quickly, on page 1.8 there's a reference to the interest ratio. This ratio has been in a steady decline, reaching 10.4% in 2013-14. I just want to get a sense of what contributes to that decline and what that means to Canadians. When I look at 10.4%, I'm saying, okay, so what? What if it were 20%? What if it were 5%?

What is the significance of the 10.4% to Canadians?

**Mr. Bill Matthews:** Maybe I'll start and then let my colleague from Finance finish.

That's been a steady decline. When you think about the public debt charges, if I recall correctly, going back to 1996-97 our expenses on public debt were eating up about 30% of our expenses. That leaves 70%, just *grosso modo*, for government programs.

When you can drive down the interest number as a percentage, it basically allows a higher percentage of your spending to be on program spending rather than paying down the debt. In terms of the percentage you're dealing with on interest—here's where my colleague Mr. Leswick can clarify and add additional stuff—there are two things. One is the size of your debt. The second thing at play is the size of your economy.

Debt over the last couple of years has been going up because of the recession; we had the economic action plan, etc. But that came on the heels of a number of years when the government was running a surplus, so there were reductions in debt. Interest rates are lower. That certainly helps. Since the 1996-97 year, the economy has certainly grown as well.

Nick, you may want to clarify or add to that. You're good? Okay.

**The Chair:** We're well over time anyway, so we should move along.

Monsieur Giguère, you have the floor, sir.

[*Translation*]

**Mr. Alain Giguère (Marc-Aurèle-Fortin, NDP):** Mr. Chair, it's always a pleasure for me to work with my colleagues on improving financial reports, instead of trying to remedy deficit problems.

My first question is about the economic highlights set out on page 1.3.

The commentary provided is quantitative, but over the past few years, it has been said—and here I am specifically thinking of American universities—that a qualitative commentary also needs to be provided.

Your document states that 1 million jobs have been created since the recession, but the fact that 650,000 jobs were lost during the recession seems to be easily forgotten. This means that, from 2007 to now, 350,000 jobs have been created.

In its comparison of taxpayers' average incomes between 2008 and today, the Canada Revenue Agency notes a significant drop. In other words, for a given number of work hours, people are now earning less money. In the manufacturing sector, 300,000 very important jobs have been lost.

Why has no qualitative commentary been provided on the economic highlights? That would help us figure out how to remedy the situation—perhaps by creating better paying full-time jobs instead of low-paying part-time jobs.

● (1605)

[*English*]

**The Chair:** Mr. Leswick.

**Mr. Nicholas Leswick:** Thank you for the question.

For the first part of the question, indeed, the Canadian economy has recovered all the jobs it lost, and more, during the recession. We're partners with the United States in trumpeting that dynamic. As for why the economic highlights don't provide more qualitative commentary on income, the quality of pay of jobs, and I think what you mean is income distribution across all the income quintiles within the Canadian population, and also job type, the reason is that we don't do that at the front end of the public accounts. We did produce the jobs report as an appendix to last year's federal budget, which provided a more robust and fulsome comprehensive commentary on the job situation here in Canada.

I don't know if I'd want to go any further, but—

**The Chair:** Is that satisfactory? Do you want—

[*Translation*]

**Mr. Alain Giguère:** The issue is that the unemployment rate is generally coupled with the participation rate. That approach really makes it possible to see whether there is job growth or whether people are leaving the labour market because they are tired of waiting for non-existent jobs. This is the commentary made. Generally, the unemployment rate is coupled with the participation rate. The job growth rate is compared with the population growth rate.

You said that, since 2009, employment growth of 6.4% has occurred. However, the population has grown by 6.6%. The participation rate is 62% in the United States, while it is 64% in Canada. These figures usually provide a better idea of employment growth.

You are saying that all of our jobs have been recovered since the recession. That's good, but if we compare the jobs lost with those gained, we get 400,000 jobs over the course of five years. That works out to only 80,000 jobs per year. That's not so great, especially if we compare it with the pre-recession levels.

[*English*]

**Mr. Nicholas Leswick:** I appreciate the question on the labour force participation rate. Again, we boast the highest participation rates in the G-7. We're above our U.S. counterparts in the long-term unemployment rate. We have less long-term unemployed.

As the economic highlights suggest, we have the best job creation record since 2006. Again, I acknowledge it's not presented in the public accounts, but in terms of the information we provided in the budget, the jobs report, and the economic and fiscal update, I think we've stayed pretty current on the state of the Canadian labour force and we provide those statistics on a regular basis.

**The Chair:** Sorry, your time has expired.

Moving along to Mr. Falk, you now have the floor, sir.

**Mr. Ted Falk (Provencher, CPC):** Thank you, Mr. Chairman.

Just to follow up on Mr. Giguère's observations a little, when I look at the EI premiums on slide 5 of your presentation, Mr. Matthews, I see that there were more EI premiums remitted this past year than the year prior, which tells me that there's increased employment. The EI premiums only go up when more people are paying premiums, because the rates don't change. So I'm seeing an increase in employment there from the numbers I see.

I'd like to direct most of my comments to the table found on page 1.9 and I'd like to ask a few questions about transfer payments. Can you explain the major transfer payments to people?

● (1610)

**Mr. Bill Matthews:** Thank you for the question.

I'm going to turn to my colleague to give me the page number—

**Mr. Ted Falk:** It's page 1.9 in English. It's page 6 of your slide.

[*Translation*]

**Mr. Bill Matthews:** It's on page 1.10 in French. Thank you.

[*English*]

This is the transfer payment section and if you look at the public accounts, we list the main elements on page 1.9. We start with elderly benefits, those being your guaranteed income supplement and your old age security. As we've discussed, those numbers are going up because of the increasing elderly population. Those benefits are also subject to indexing for the consumer price index, so that will also drive increases there.

The amount of EI benefits is a function, as we've discussed before, of the unemployment rate. So those are the EI benefits that have flown out.

Then children's benefits are the universal child care benefit, and one other one there that I'm drawing a blank on.

**Mr. Ted Falk:** Sorry, what was that?

**Mr. Nicholas Leswick:** It's the universal child care benefit.

**Mr. Ted Falk:** It's the universal child care benefit. Okay.

**Mr. Bill Matthews:** Those are the major components there, and then that makes up a fairly significant portion of our total spending, as you can see.

What I will say about the transfers to persons, especially the GIS/OAS, is that from a government planning perspective those are statutory in nature, so if you went to the estimates you wouldn't see them actually voted on. Those are statutory obligations. That's just for your reference as well.

**Mr. Ted Falk:** I'm just looking at that chart and I see transfer payments to other levels of governments. What would those comprise? I see they've all gone up.

**Mr. Bill Matthews:** The big two there are the Canada health transfer and the social transfer, and I believe those were legislated increases in the past year, so those are the two big numbers driving those. You have other ones as well, but those are the two main ones I would highlight for you.

Nick, if you want to add something, feel free to.

**Mr. Nicholas Leswick:** No.

**Mr. Ted Falk:** Could you expand a little bit on what would be included in “other transfer payments”?

**Mr. Bill Matthews:** The “other” would be things like one-offs. If I recall correctly, the transfer to the Province of Alberta related to flood relief is in other transfers. It's not a regular program. That's a one-off you would see. That is driving the change there.

**Mr. Ted Falk:** That number has increased from $34 billion to $36 billion.

**Mr. Bill Matthews:** That's why you see the increases. If I remember correctly, the Alberta flood relief is in that number, and it was $2.2 billion.

**Mr. Ted Falk:** What other types of things would be in there?

**Mr. Bill Matthews:** In terms of what else is in that $34 billion, maybe if you can give me a minute we can answer your question, but we'll come back to that one.

If you wanted to keep going down that list, you have other program expenses for crown corporations and departments and agencies. The amount for crown corporations, you'll see, has dropped from 2012-13. You have $7.4 billion in 2013-14 versus $9.5 billion in 2012-13. There was a drop because the previous year was a bit of an anomaly in that we had a large increase because of Atomic Energy. That has returned to a more normal situation. They took a bit of a bump because of an increase in the liability related to the cleanup. “Other ministries” refers to our regular departments and agencies, in terms of their operating expenses.

If you want to go back to the other transfers, please do.

**Mr. Nicholas Leswick:** Just to put some meat on the bone, other transfers—I think this is your question—refers to the suite of grants and contributions delivered by departments. That's anything from aboriginal programming, other infrastructure programming, or labour market programming in an employment and social development context, which amount to—

**Mr. Ted Falk:** That's $36 billion.

**Mr. Nicholas Leswick:** Right, so in the estimates, where you see grants and contribution elements, that would be those things.

**Mr. Ted Falk:** Would it be fair, then, to assume that the table is telling us that year over year the government has actually reduced the cost of operating government and has increased the transfer payments both to individual persons and to other government bodies?

**Mr. Bill Matthews:** Thank you for the question.

You'll recall that the government put in place the economic action plan, which resulted in growth in spending, and then on the heels of that, as that was wound down, the government went through some reductions. Certain categories of spending were off limits in terms of reductions, including transfers to individuals. Transfers to our provinces were held harmless as well. There was a focus on reducing the operating costs of government as well as other areas, so you are seeing that take place now.

Program spending is certainly dropping down, as you have mentioned.

● (1615)

**The Chair:** Thank you. You're good for time. Thanks very much.

We'll move along now.

Although he's not a regular member of the committee, he's certainly a veteran and a distinguished one at that.

Mr. Regan, it's good to have you here. You have the floor, sir.

**Hon. Geoff Regan (Halifax West, Lib.):** Thank you very much, Mr. Chairman, for those kind words and for allowing me the floor.

Ms. Cheng, on pages 1.45 to 1.49 of volume II, in the summary tables, you've outlined the $7.4 billion in lapsed spending from various government departments.

As Mr. Allen did, I'd like to focus on one of them just for the moment, which is National Defence. Obviously military procurement is something that's particularly important for a government to do well. It provides our men and women in uniform with important equipment and makes them safer, obviously, and allows them to do their jobs. It can help create jobs and spur research in Canada. Yet this government has talked a lot more about procurement and equipment than it has actually delivered, especially when you think about the ships they've been talking about lately.

In 2006 the Prime Minister promised that three Arctic icebreakers would be in service by the end of 2014—that would be this year. That promise, of course, became one icebreaker by 2022, and six to eight smaller Arctic offshore patrol vessels.

Now the Parliamentary Budget Officer is actually telling us that with the current budget, the government can only afford four Arctic offshore patrol ships, and only three if they delay another year. In a case like this, where we're seeing $1 billion lapsed from the defence budget, and we're seeing this pushing off of these expenditures, and apparently reductions in what we're going to get for those expenditures, what does that mean in terms of greater expense to the taxpayer, in terms of value for money?

**Ms. Nancy Cheng:** Thank you, Mr. Chair.

The question does not really pertain to the financial reporting. Essentially, if the department overspends its appropriation, then there is disclosure in the notes, and according to note 2 or note 3 there isn't any this particular year. So the focus of the audit would not lead us to look at the lapsing of funds at National Defence. That would not be part of the scope of a public accounts audit but maybe rather one of a question of financial management and control at National Defence, should we undertake a performance audit.

**Hon. Geoff Regan:** It looks as though Mr. Matthews wants to say something.

**Mr. Bill Matthews:** I can comment on the lapse in general, and I will get back to your specific question.

The lapse in general is not well understood. I do want to make one very important point. When Parliament authorizes spending, it's an “up to” amount. It's not that you must spend a hundred; it's an “up to” or a maximum. It is against the law to overspend, so some degree of lapsing is actually expected, because if departments are right up to the penny, they're risking going over. So we do expect some degree of lapsing.

When you look at the lapsing, it's down this year over the previous year on a whole-of-government basis, and what we like to look at is whether the lapse was planned or unplanned. So if you go back years ago, we do vote money year by year. If you didn't spend it, it evaporated and you had to reapply for it.

Departments are allowed to carry forward five per cent of their unspent operating into the next year. They're allowed to carry forward 20 per cent of their capital spending unspent into the next year. So it's not lost money. In the case of National Defence, that money isn't going away. It will be back in the reference levels, but Parliament does vote money year by year.

But you've raised an interesting point on the shipbuilding. What you'll see for projects that are long term in nature and complicated is there are often delays, as you have mentioned. The prices and the costs of those projects are often in the case of shipbuilding at the mercy of prices of steel. So if you delay five years, ten years, whatever, at the end of the day you actually get less steel for your money than you did when the project was first conceived.

So when these projects are managed, there are really two ways to do it. You can set aside money for the department to build a certain number of ships, or if you know it's a long-term complex project, you can set aside a certain amount of money and say to the department, you need to live within that envelope and you figure out how many ships you're going to get.

I can't speak to the Parliamentary Budget Officer's methodology, but there is an erosion of dollars over time because of inflation as the projects are delayed. With complex projects like shipbuilding, it's quite normal that they will slide a bit from their initial focus. But to your comment on Defence, that money that they lapsed is all within their carry forward limits or reprofiled, they're not going to lose that money.

● (1620)

**Hon. Geoff Regan:** But it sounds as if you're telling me that there's no reason to believe that we're going to receive the number of ships the government's been talking about.

**Mr. Bill Matthews:** I can't speak to the plans on the shipbuilding and what the Parliamentary Budget Officer's analysis is based on. There have been delays. As I've said, as time goes on, you do lose inflation dollars on things like steel.

**Hon. Geoff Regan:** This spring, you were looking at both the public sector pension plan and also the question of aggressive tax planning. And now we have news yesterday from CBC that, in fact, Germany has accused Canada's federal public sector pension board of being involved in aggressive tax planning.

What are your thoughts on this when we have our public sector pension board engaging in this, the kind of aggressive tax planning that the federal government seeks to avoid and discourages and, in fact, says it's cracking down on? What kind of example is this setting to Canadians?

**Mr. Bill Matthews:** I have a couple of comments on the pension plan in general. The liabilities of the government's pension plan are included in the financial statements, and you'll see those there. The pension plan produces its own financial statements. The organization in question here is a crown corporation. It's the Public Service Investment Planning Board. It's a crown corporation at arm's-length from government. It is managed by a board of directors. I haven't yet heard their response to the allegations, but it's really up to them to respond to those. They are at arm's-length from government for a reason. They do the investments—and the story you refer to, I believe, just broke this morning or last night, and we'll see what they have to say. But they are arm's-length from the core government.

**Hon. Geoff Regan:** Thank you, Mr. Chair.

**The Chair:** Your time has expired. Thank you very much.

We move now over to Mr. Woodworth.

You now have the floor, sir.

**Mr. Stephen Woodworth (Kitchener Centre, CPC):** Thank you very much, Mr. Chair.

My thanks to the witnesses. It's always fascinating information to delve into. I appreciate your expertise all around.

I'd like to ask some questions of Mr. Leswick. I'll begin with the chart on page 1.20 of the English version, which I'll just summarize by saying that it reviews the net government debt percentage to GDP of the G-7 nations, including Canada, and points out that the OECD estimates that the average percentage of debt to GDP for those G-7 nations is 84.3%.

I understand that the Canadian government has managed the lowest total government net debt to GDP at around 40.3%. I'd like to ask Mr. Leswick how the government managed that. What factors contributed to, what I would consider to be, a successful result?

**Mr. Nicholas Leswick:** In describing the statistic, we're looking at both the numerator and the denominator. This is net debt on a total government basis. This includes national accounts data across provinces and the federal government. It also includes the assets of the QPP and the CPP in order for it to be comparable on an international basis, because not every federal state is designed like Canada. There are different levels of sovereign and sub-sovereign responsibilities. So we accumulate all the debts of the provinces and the federal government together to be consistent. As for the denominator, it is just GDP, which reflects the size of our economy.

How did the government get there? We did it through responsible fiscal management. We've maintained an eye on our debt dynamics, so that our debt burden does not overwhelm the size of our economy. It has been going down recently. From a federal government perspective, we've gone from peaks of close to 70% debt-to-GDP ratios in the mid-1990s to something in the order of 30% today. So when you put that into a total government perspective, you can see how we contribute to the all-of-Canada picture. That is an accurate representation of where we're at.

**Mr. Stephen Woodworth:** Among the provinces and agencies that make up that average percentage, are there any that do better than the Government of Canada's 30% you just mentioned? If you don't know, perhaps I'm going beyond your jurisdiction.

● (1625)

**Mr. Nicholas Leswick:** I do know. Those numbers are somewhere in this binder, but I don't have them at my fingertips.

**Mr. Stephen Woodworth:** Maybe we could take a rain check and get that later.

**Mr. Nicholas Leswick:** Absolutely.

**Mr. Stephen Woodworth:** I do have a few other questions I want to try to get in.

The next one relates to a graph on page 1.5 of the English version. It's the revenue ratio—revenues as a percentage of GDP. What I understand from that is that our current ratio of revenue to GDP is down significantly in the 1996 to 2001 period, yet our actual revenues are greater. Could you explain how it is that the government is taking in more money, even though there has been a reduction in the revenue to GDP ratio—at least since that earlier period I mentioned?

**Mr. Nicholas Leswick:** It is just the mathematics of it, the numerator over the denominator. While the numerator is just the nominal level of our tax collection, which can go up, the fact is that our economy is growing faster than that trajectory, so that the overall metric is decreasing. While we continue to collect more tax revenues because our economy is growing—we collect more income taxes, consumption taxes in the form of the GST, and corporate taxes even though we had a corporate rate reduction—the fact is that our economy is growing faster than the pace of tax collection. So we often use this metric as a touchstone to reflect the total tax burden on the Canadian economy.

**Mr. Stephen Woodworth:** Could I rephrase that? Tell me if I'm correct. Has the increase in taxes been kept more restrained and more modest than the growth in GDP?

Would that be a fair restatement?

**Mr. Nicholas Leswick:** I would agree with that.

**The Chair:** The time has expired, sir.

Now over to Monsieur Giguère.

You have the floor again, sir.

[*Translation*]

**Mr. Alain Giguère:** Thank you, Mr. Chair.

The table on page 1.24 sets out the liabilities and assets. For pensions, the debt prior to 2000 is indicated. As of 2000, our pension funds have been funded.

However, the Supreme Court of Canada ruled that, regardless of the pension plan, the federal government had the responsibility to pay. Following the setbacks Europe experienced, the European Council has decided that all public service debts would be reported in financial statements.

Would it not be a good idea to provide the debt level before 2000 and after 2000, even if it meant adding funded dollars to the financial assets? That would help up see what the situation is and whether there are unfunded liabilities in either fund.

Wouldn't indicating debts and obligations related to pension plans constitute an addition in line with international recommendations?

[*English*]

**Mr. Bill Matthews:** Thank you for the question.

I have a couple of thoughts on that. The table, which in the English version is on page 1.24 if you're trying to follow along, presents a 10-year history. That's the reason we stopped at 2005 in this case. We gave a 10-year history, which is a nice comparator.

The importance of the year 2000, which the member has mentioned, is that is the point when the government decided to fund part of its pension plan. In the pre-2000 period, the government used to track the pension obligation on its books, but there was no separate asset to match the liability as you would have in the private sector. From the year 2000 on, the government decided to fund that liability, and that is why the investment board that we were talking about earlier was created. It was to manage those investments.

Regarding the Supreme Court decision that was mentioned—I should close the loop on that—there was a surplus in the government's bookkeeping account pre-2000, and there was a court challenge launched by the unions about who should have access to that. It was in effect a bookkeeping account, but it was a surplus, and the government had basically used it against the bottom line on general revenues. The Supreme Court concluded that the Government of Canada was the risk holder, and therefore if the pension was in deficit, it had the risk; if it was in surplus, that was the government's money. The court challenge was denied and there was no money required to go back to the unions.

If you look at the government's financial statements, we have substantial disclosure around the pension plans, both funded and unfunded. From my own perspective, it's too much; it's an awful lot to get through.

If I could take you to the notes on the pension plans, which start on note 7, on page 220 in the English version, and page 221,

● (1630)

that will go through the benefits and the plans for both funded and unfunded. You have a description of both. There are different discount rates in play. That's disclosed.

The other thing you will see here for your information, on page 225, which is likely page 226 *en français*, is a sensitivity analysis. You will not see this type of analysis in all pension plans if you compare us to other countries...assumptions like the discount rates, both for funded and unfunded. If you get a 1% change in the discount rate up or down, we disclose what that does to our liability. If you get a 1% change up or down in the inflation rate, you see what it does to the liability. It the same with wages. All the major assumptions that affect the pension plan, whether funded or unfunded, also have this disclosure here.

If I can go further, there's a whole additional section later on in volume 1 with additional information on pension.

[*Translation*]

in the French version,

**Mr. Alain Giguère:** That's not the information I was asking for.

I was saying that, pursuant to a Supreme Court ruling, as a state, you were responsible not only for unfunded liabilities prior to 2000, but also those after 2000. According to certain international conventions, all debts related to pension funds should appear in financial statements. That's what happened in Greece, where huge deficits were discovered. I do not see those international standards and the court's ruling reflected in the table on page 1.24. It may be a good idea to add this information. I would also like to point out that, if liabilities after 2000 were added, financial assets would be added, too. As for the net debt, we hope there will be no changes. If there were any changes, they would be noted immediately, and corrections could quickly be made.

Here is my question. Would it be possible for you to integrate that international standard and the Supreme Court ruling in this table to ensure that the liabilities are subdivided better and that the assets take into account funded dollars?

**Mr. Bill Matthews:** This is an interesting question. I know that we are following the accounting standards established in Canada by the Public Sector Accounting Board.

[*English*]

It doesn't require any such recognition of liabilities for all pension plans. That doesn't fit our accounting standard model.

I do appreciate there's an international norm out there. That sort of thinking has not found its way into Canadian accounting standards. If it ever does we would certainly have to follow it or we would be in trouble from our friends here to our left, but I would be surprised if any Canadian accounting standard would say the government is responsible for all pension deficits. For the government's own pension plans, absolutely, but I'm not aware of any kind of discussion that would take us down that track. I'm not sure if you are either?

No?

**The Chair:** The time has expired. Thank you.

Over now to Mr. Albas.

You now have the floor, sir.

**Mr. Dan Albas (Okanagan—Coquihalla, CPC):** Thank you very much, Mr. Chair.

Thank you to all our witnesses for your presence today.

I am going to start with Mr. Leswick. I believe page 1.6 discusses a little bit about the employment insurance regime. Could you just give me a brief outline of where we're at in the public accounts this year and maybe where we were the previous year as far as the EI fund is concerned.

● (1635)

**Mr. Nicholas Leswick:** When you say “where we're at”—

**Mr. Dan Albas:** Pardon me, that's not today, but as the public accounts closed out on March 31 of this year, could you just give us an idea? It does show that the revenues increased by $1.4 billion. Where is the fund at ? Is it in surplus? Is it in deficit? It's just for the people at home. I know many people rely on this program and would certainly like an update on that.

**Mr. Nicholas Leswick:** If you'd just allow me a moment, that would be very helpful.

**Mr. Dan Albas:** Sure.

**Mr. Nicholas Leswick:** Thank you for the question. Just to provide some background, the composition of the employment insurance account is driven by revenues collected from EI premiums. Those revenues are driven by total employment in the Canadian economy and also insurable earnings, so as insurable earnings go up people will pay more based on the EI premium rate. If more people are working, obviously there will be more revenues flowing into the employment insurance account.

Then also there's the actual EI premium rate setting. In the current setting the rate is $1.88. Then there are EI benefits, which is the entire suite of employment insurance benefits from regular benefits, sickness benefits, and then special benefits like maternity benefits and fishing benefits, for example, plus any administration costs from Employment and Social Development Canada and the Canadian Revenue Agency, which are the two biggest players on that.

In terms of the EI operating account balance, our most recent projection was in Budget 2014, where we projected the cumulative balance in a deficit position for 2014-15 of approximately $1.5 billion, leading to successive surpluses in future years—gradually going to the surplus position as the economy strengthens.

I'll leave it at that.

**Mr. Dan Albas:** It says that EI premiums revenues increased by $1.4 billion, and you made the connection that obviously if you have high revenues, that's because there are more people working. Is that the case?

**Mr. Nicholas Leswick:** That's it in part. In fact, it's those three things I mentioned: employment; how much people are making, so insurable earnings; and the premium rate setting itself. Those three factors drive the revenues.

**Mr. Dan Albas:** Great.

And this next question may—

**Mr. Bill Matthews:** Sorry, can I just interject one thing, if you don't mind?

If you're interested, in section 4 of volume I, the EI account actually has its own financial statements, so if you want to follow up on those and actually track against projections, they get their own audit opinion.

**Mr. Dan Albas:** Great. Thank you very much.

This question might be either for you, Mr. Matthews, or for Mr. Leswick.

Obviously in Okanagan—Coquihalla we have a lot of people who retire to British Columbia. It's a wonderful place to be. I've had a lot of people ask questions about benefits for the elderly, and obviously the changes in demographics always make me ask these kinds of questions. I understand there was an increase year over year in actual dedicated funding for benefits for the elderly. Could someone just give a little bit more detail as to what the increases were and the rationale behind them?

**Mr. Bill Matthews:** I'll start and if others want to join in, please do. The important thing about the benefits for the elderly is that they are statutory votes. So they're actually protected in legislation as opposed to being voted on by Parliament each year.

The benefits themselves are a function of the number of recipients who are of the appropriate age, and the payments that they receive on a biweekly basis. Those benefits are fully indexed to the consumer price index, so they will go up based on the consumer price index.

The only thing I should add to that in terms of forecasting is that they did go up, but they didn't go up quite as much as we had forecasted simply because the CPI was lower than anticipated. So when we actually did the math, it worked out to be a little less than anticipated. They are fully indexed to the consumer price index, and that's why they're protected, and that's what drives the increase. Those numbers will continue to go up based on our population trends.

**The Chair:** Sorry, time has expired. Thank you.

We will move over, back again to Mr. Regan.

You have the floor, sir.

**Hon. Geoff Regan:** Thank you, Mr. Chair.

Mr. Matthews, as you noted earlier, I'm not a regular member of this committee. I'm normally a member of the natural resources committee. I don't want to offend the analysts at that committee—who are excellent, by the way—when I say how impressed I was with the quality of the research material provided by the analysts at this committee, and I want to thank them for that.

**The Chair:** Thank you. We do take great pride in the work they do, and, quite frankly, without them, we couldn't do our work. So that's well noted and supported by this committee.

Thank you.

● (1640)

**Hon. Geoff Regan:** Thank you, Mr. Chair.

Let me return to the question about tax avoidance that I was asking earlier.

Mr. Matthews, you mentioned, of course, that the pension board is arm's length from government, but of course in the budget this year, the government talked about correcting this problem of tax avoidance, so I guess the question is whether what the board's doing is really in the spirit of what the government, in particular CRA, is trying to achieve.

**Mr. Bill Matthews:** The CRA's focus—and you're quite right that it was the focus in the budget—was on taking a strong stance against international tax evasion. If I recall correctly, the 2013 economic action plan, which was the budget, focused on three things. One was the offshore tax information program. Another was strengthened reporting requirements around international electronic funds transfers. And the third was expanded reporting for taxpayers with foreign income.

What's interesting to note on that front—and I'm speculating here—is that in terms of our income tax receipts from foreign recipients, there was a bit of a spike this year. It's not a huge number in terms of the overall global revenue, but it was up by about 23%. I'm speculating that has to do with those measures, but I don't know that for a fact. However, there was an increase.

In terms of your question about whether what the board is doing is consistent with what CRA is doing, we'll have to wait and see the board's response. This is a media story. I'm not aware of any charges of wrongdoing, but they are arm's length from government, so I suspect they will come out with a statement fairly soon. I would assume they would be respecting the international tax laws. It would seem very odd if they weren't, but I'm not part of that board, and they're not part of government. So we'll let them respond.

**Hon. Geoff Regan:** As all of you know, of course, the winter of 2013-14 was a very tough one in eastern Canada, particularly in Atlantic Canada. Icebreakers and their crews that are run by the coast guard were stretched to the limit, and ferries and other ships were stuck because they couldn't be moved. Now we see that in fact there was a lapse, and yet I have a memorandum from the Atlantic regional director of the coast guard to the commanding officers of all the Atlantic region fleet outlining the fact that funds were running out and they could not afford to bring on additional employees to assist with the demanding winter that they were experiencing. Yet this department lapsed $172 million that it didn't spend. I've had some past familiarity with the Department of Fisheries and Oceans and I enjoyed my time there, but I'm at a loss to comprehend how you can run out of money on the one hand and then lapse money on the other hand.

**Mr. Bill Matthews:** I have a couple of comments when you're looking at the lapses.

Parliament votes money in three different votes. It's an antiquated system, but it's operating, capital, and grants and contributions.

If I recall correctly, the lapse at Fisheries and Oceans was around capital. They had delays in projects, and so the money is sliding and is re-profiled.

I haven't seen this memo so I'm speculating here, Mr. Chair, but when you're looking at bringing on additional staff, that's operating dollars. So we hold departments to account. They cannot exceed any one of those votes.

If they want to move money between a capital vote and an operating vote, they have to come to Parliament.

So it's not a global total. You can't just say the Department of Fisheries lapsed *x*. You have to understand the lapse. If I recall correctly, their operating lapse was fairly small. I think the lapse is capital money.

**Hon. Geoff Regan:** One hundred and seventy-two million dollars.

**Mr. Bill Matthews:** Is it operating or capital?

**Hon. Geoff Regan:** I'm sorry, I don't.... I have it in front of me. It says $172 million in lapsed funding.

The point is the memo was dated January 14, 2014, leaving the government two and a half months before the fiscal year end to make the adjustment. Parliament sat during that period obviously. It could have dealt with this. Instead $172 million was lapsed, and during that winter you had ships tied up that couldn't move.

I'd be interested to hear from the Office of the Auditor General if that is value for money. Is that considered proper management?

**Ms. Nancy Cheng:** Thank you, Mr. Chair.

The questions posed to us are not falling within the scope of the public accounts audit.

I should use this opportunity to once again clarify that our audit work is strictly on the consolidated financial statements, and that's only in section 2 of volume 1.

Many of the questions of interest to members are in section 1. This is primarily the government's own explanation as to what's happening with its finances and the financial performance of the government over the fiscal year.

The member is now posing questions on volume 2, and we would not have touched any of the tables or data in volume 2.

We are looking at these numbers for the first time just as you are when you're referring to them. We know where to find the numbers, but, again, it's not based on audit work, and I would be very reluctant to speak to them.

As you know we do performance audits, and from time to time we'll be selecting some of these subjects, and that gives us a much more in-depth opportunity to study the issue and then be able to come back with reports.

We will note your interest, Mr. Chair, in what the member's asking, but at this point it wouldn't be right for me to try to speculate and provide a response.

● (1645)

**The Chair:** Thank you. The time has expired.

Moving along, back over to Mr. Hayes. You have the floor, sir.

**Mr. Bryan Hayes:** Thank you, Mr. Chair.

I will stick to public accounts questions. I think the honourable member has strayed considerably from public accounts.

We recall in public accounts we discuss the difference between tax evasion and tax avoidance. In his statement he mentioned tax evasion, and none of us know whether there's been tax evasion or not.

I look forward to studying our chapter on aggressive tax planning, and I'm sure we'll give the member some more feedback after we study that chapter.

That being said I want to pick up a little to get some clarity on EI. I understand, Mr. Matthews, that there's a specific section on EI. I'm not looking at that right now. This is just a general statement, an observation, that we paid out $17.3 billion in EI benefits as an expense yet we generated revenues of $21.7 billion. I think, Mr. Leswick, you mentioned that the balance of the account is still in a deficit position.

So is it fair to state the surplus that occurred in EI this year would go to the balance to offset that particular deficit, resulting in our being in less of a liability than before.

Is that a fair statement?

**Mr. Nicholas Leswick:** Yes.

**Voices:** Oh, oh!

**Mr. Bryan Hayes:** Very good.

**Mr. Nicholas Leswick:** We accumulated significant....

Fair enough.

**Mr. Bryan Hayes:** Now, I don't know....

Ms. Cheng, do you want to comment as well.

**Ms. Nancy Cheng:** Thank you.

If you go back to volume 1, go to page 4.19, which is where you will see the complete set of the statements on the EI operating account. You have a fair bit of information there, Mr. Chair.

If you look at 2014 actual numbers column, you will see the revenues stated in terms of premiums, penalties, and interest. You will see the expenses in terms of payouts, whether it was a support measure, whether it was other labour market payments. Then you see the funding from Canada. You will see a line that says net surplus for the year. It would appear there was a surplus of $3.2 billion, which was offset against the balance from last year. Now the new balance is a smaller deficit of $2.7 billion.

This also speaks to the point our colleague from Finance Canada spoke about, which is a budgetary projection that there would be a surplus this year, and in fact your surplus exceeded the budgeted surplus.

Hopefully, that helps.

**Mr. Bryan Hayes:** Yes, it does help. Thank you very much.

Now, again for Mr. Matthews or Mr. Leswick—I'm really not sure—I want to talk a little bit about expenses as opposed to revenues. I want to get an understanding of this.

In the English version on pages 1.10 and 1.11, we have two charts: one on page 1.10, which is called “Comparison of 2013-2014 Outcomes to 2014 Budget”, and then one on page 1.11 called “Comparison of 2013-2014 Outcomes to March 2013 Budget”. Why are we looking at two comparisons? Which comparison should I be looking at? I find it confusing that we have two reference points there.

**Mr. Bill Matthews:** It's amazing, but Mr. Leswick and I were discussing this by email last night.

Our financial statements are driven by externally set accounting standards. It's important to compare results against budgets. That just makes them meaningful. In the way the accounting standards are written, basically the comparator is the initial budget. For the year 2013-14, which ended on March 31, 2014, the first budget was Budget 2013. That's where we first set out the plan for that year.

For Budget 2013, I don't remember the exact date, but it was probably February 2013. A lot happened between that and the year in question: things like the changes we made to the retiree health care plan, the pension plan changes, and the Alberta floods, which I mentioned earlier. As for what Finance will do, they have things like the fall economic update, and then they also have Budget 2014, so for any chance they have to update the economic forecast before the financial results, they'll take that opportunity to say, “Here's our updated forecast.”

In the analysis here, they quite rightly compare it to Budget 2013, which is our starting point, but when they did Budget 2014 they came along and said that some things had changed, and they factored those into their forecast. That's why you get both reference points.

Mr. Leswick can add to this, but Finance always has an amount they set aside for risk. I think it was $3 billion in Budget 2013. I think that by the time Budget 2014 came along, that amount had been reduced, because things were on the upswing and things were looking better.

They make those types of changes.

Do you want to add to that, Nick?

● (1650)

**Mr. Nicholas Leswick:** Yes, that's fair. We set out an adjustment for risk, based on potential risks to the economy, in the order of magnitude of $20 billion of nominal GDP. Then, as the year progresses, we unwind it, based on what the actual impacts were on the Canadian economy, on upswings or downturns in actual economic data.

By the time you hit February Budget 2014, we have at least two quarters of economic data and we have eight periods of fiscal data—or what the government has actually spent for eight months of the year—so it's obviously a more robust forecast when we're only a couple of months from the finish line.

**The Chair:** Thank you.

Your time has expired.

We're moving over now to you, Mr. Allen. You have the floor again, sir.

**Mr. Malcolm Allen:** Thank you, Chair.

Mr. Matthews, I'm going to take you back to the deck you provided me. Maybe it's because it's Thursday and many of us are leaving this evening, but it's cloudy today, perhaps, inside one part of my hemisphere. You talked about restatements. You were talking about bond buybacks. I believe there was one other piece as well, the valuation for social housing. It looks like you took it back over the last two years, 2013-14 and 2012-13, and restated the position based on how you changed the accounting procedure. I get that piece.

Here's what the issue becomes. It looks as if it's somewhere in the neighbourhood, for 2013-14, of about $7 billion, with $5.4 billion for bonds and $1.6 billion for social housing. Does that seem about right to you?

**Mr. Bill Matthews:** That's $5.7 billion for bonds on the accumulated deficit, I think, and $1.6 billion—

**Mr. Malcolm Allen:** Yes, and a $0.2 billion decrease. I didn't get down to the bottom line. I got ahead of myself. That would take it down to $5.2 billion, say, of an increase in the deficit for that particular year. Is that correct?

**Mr. Bill Matthews:** It depends on which year you're looking at. If you're looking at the 2013-14 year, there was an increase in the opening balance accumulated deficit of 2013-14 and a $0.3 billion decrease in the annual deficit of 2012-13. If you're looking for the annual deficit impact, it's $0.3 billion in 2012-13 for bond buybacks and then in 2012-13 it's $0.2 billion in the annual deficit related to the social housing program.

The big numbers are on the balance sheet, the statement of financial position, the opening accumulated deficit. That's where you see the larger numbers.

**Mr. Malcolm Allen:** Okay.

The question that's like an earworm burrowing in there is that without the changes....

And I'm not questioning the validity of this in the sense of our deciding to do this in a certain way. That happens. We've seen this before at this committee. Accounting practices get changed from one to another. That's just the way it is.

But what difference would that have made to the specific deficits of those two years if you hadn't had to make this change? Is that a cumulative piece—in other words, you just simply make a straight subtraction? If you hadn't had to do that, it would obviously be less.

**Mr. Bill Matthews:** If we hadn't done that adjustment, if we had just decided not to make these changes at all—that's your question?

**Mr. Malcolm Allen:** Yes.

**Mr. Bill Matthews:** We would have had a $0.3-billion decrease related to the bonds, and then $0.2-billion related to social housing. Basically, the impact in the 2012-13 year would be $0.5 billion.

**Mr. Malcolm Allen:** So it's $500 million, give or take.

**Mr. Bill Matthews:** My colleague to my right might want to explain the impact on 2013-14.

**Mr. Malcolm Allen:** No, it's okay. That's about the highest level I need it to be. I don't need any more detail.

No offence, Mr. Vaillant.

**Mr. Bill Matthews:** I want to get Mr. Vaillant on the record.

**Voices:** Oh, oh!

**Mr. Malcolm Allen:** I understand you do, sir, but the guy with the gavel here doesn't give us a lot of time. I really didn't need that much detail. I just needed that level to make sure I had it clear in my head.

The other piece in the deck that stuck in my head was with regard to the one-time payments in the revenue stream from the sale of GM shares. I spent 32 years there, so that kind of stuck in my head.

I don't know if you actually gave us a number. I recognize that you sold some properties overseas, including the high commissioner's residence, I believe, in London. I had breakfast there once a couple of years ago, so I guess I'm not having breakfast there again.

Is there a number attached to that, sir? It is one-time funding.

● (1655)

**Mr. Bill Matthews:** On the GM front, GM is ongoing. The government ended up with shares—

**Mr. Malcolm Allen:** Yes, you have some left.

**Mr. Bill Matthews:** —so we're selling those in pieces.

As to the actual gain in the 2013-14 year, I will turn to my colleague, because he just told me the number.

**Mr. Malcolm Allen:** You're up, Mr. Vaillant.

**Mr. Michel Vaillant (Acting Executive Director, Government Accounting Policy & Reporting, Office of the Comptroller General of Canada):** It's $679 million.

**Mr. Bill Matthews:** But if I could, just to—

**Mr. Malcolm Allen:** Do it quickly, though, because I don't have much time.

**Mr. Bill Matthews:** All right. If you have more questions, you go ahead.

**Mr. Malcolm Allen:** Okay.

Let me take you back to something. My friend Mr. Regan talked about the lapsed funding. I have the numbers, and I heard your comment in the newspapers and all that stuff, so I won't go down that road.

I understand lapsed funding. As an ex-municipal person who used to work in corporate finance when I was an elected official, I understand that you can take funding of 5% when the operating says 20% in the capital sense. But I have two questions here.

One, when you move the capital...and not the operating, because I'm not concerned with that. Operating is operating. You may have changes in operating next year, so you just move the money. In the capital sense, does it stay with the same project?

Second, does the lapsed funding you looked at concern you, just looking at the ballpark number? If yes, you'll tell us that, but if not, does any one particular department's lapsed funding concern you in the sense that it may be larger than what it ought to be?

I get what you said from the very beginning, Mr. Matthews, that when we actually allocate money budget-wise for the government ask, it's an “up to”. If you spend 105%, you need to come back and see us. So I'm not arguing whether they did a good job or not, but rather a good job simply from an accounting procedure. When people are crafting budgets, are they doing a good job? That's really what I want to know.

**Mr. Bill Matthews:** Your first question, with regard to the capital and whether it stays with the same project, is a fascinating question. From a parliamentary control perspective, Parliament controls on the total vote. It's just one global number for capital. You're not approving certain projects. So from a parliamentary control perspective, no.

From an operational perspective, departments basically are tracking their projects. They have capital attached to them. If one is under budget and another is overbudget, can they move that money around? Yes, they can.

Two, are there any departments whose lapses concern me? No. The interesting thing about government is that the lapse is lower this year than the previous year. Typically speaking, when there are cutbacks or reductions in budgets, departments are so worried about overspending that they put the brakes on too hard. Ironically, in years when we're cutting back, lapses are typically higher than in years when we're not. It's kind of a strange phenomenon, but it speaks to the importance of not overspending your budget.

In this fiscal year, when you actually look at the net lapse, the vast majority of it is planned: capital carry-forward, operating carry-forward. We didn't talk about grants and contributions. Two major grants and contributions programs really accounted for the bulk of the lapse on that side—infrastructure, which is complex negotiations, so no big surprise; and our friends at Indian and Northern Affairs, where again, negotiations can be difficult stuff, so you often see large lapses there.

**The Chair:** Thank you.

Sorry, your time has expired.

Mr. Woodworth, you have the floor, sir.

**Mr. Stephen Woodworth:** Thank you, Mr. Chair.

Mr. Matthews, I want to put one last understanding onto what you were just speaking about with Mr. Allen.

I'm looking at the chart on page 1.10, which indicates that out of projected program expenses of $251,243 billion, there was $2.636 billion not spent. This amounts to something like 1%, or close to it, of the total projected program expenses.

I want to ask you about this. Am I right that in fact the difference between projected program expenses and actual program spending was something very close to 1%? If so, do you consider that a good performance or not?

**Mr. Bill Matthews:** This is a fascinating question—

**Voices:** Oh, oh!

**Mr. Bill Matthews:** —so my friend Nick is going to have to weigh in here. This is great.

When our colleagues at Finance do the budget, they know that departments are not going to spend all of the money that Parliament authorizes, so they make their own projection as to what will actually be spent. I believe the number you're looking at here in a projection would factor in Finance and central agency assumptions of spending patterns. When you saw the lapse that we've been seeing in the papers, that was the comparison against what Parliament authorized, so it was much higher.

This 1% here really speaks to Finance's ability to forecast accurately, and they did a pretty good job, so congratulations, Nick.

**Voices:** Oh, oh!

**Mr. Bill Matthews:** But that's a different number than what we've been talking about with the lapse, because Finance knows that infrastructure money generally lapses in fairly significant amounts. DND usually lapses big funding. That's kind of the trail.

● (1700)

**Mr. Stephen Woodworth:** Very good.

**Mr. Bill Matthews:** Did I miss anything, Nick?

**Mr. Nicholas Leswick:** I would add only that for the $2.6 billion it was a revision to the Alberta flood liability in the order of about $1.2 billion that actually drove that number as high as it is.

**Mr. Stephen Woodworth:** Yes. So it actually makes the planning almost bang on, which I find very impressive, so thank you for that.

**Mr. Nicholas Leswick:** On the expense side, yes, we did well.

**Mr. Stephen Woodworth:** Yes, on the expense side. That's correct.

I also want to also go back, Mr. Leswick, to where I left off earlier about revenues and taxes. I'll start with the chart on page 1.6 that shows an increase in income tax revenues, an increase in other taxes and duties, and an increase in total revenues.

We know that under the current government taxes have been not only restrained but in fact reduced, so can you shed some light on this for us as to how we can continue to see increasing revenues even though the Government of Canada has been reducing rates of taxation?

**Mr. Nicholas Leswick:** Again, this links to our discussion earlier in the session. We continue to garner increased tax revenues because the economy is growing. While tax rates are going down, the economy is growing, people are consuming more, and people are making more money, so we collect more taxes, notwithstanding a lower effective tax rate. It's really just a function of economic growth.

**Mr. Stephen Woodworth:** The GDP growth in the year under examination was 3.4%, if I'm reading things correctly. I'd like to ask you a little bit about that. Program spending went up by only 1%, which was not as great as the 3.4% GDP growth. Would the increased revenue that we're seeing from GDP growth be enough to kill off the deficit if there had not also been restraint in program spending?

Did I make that question clear?

**Mr. Nicholas Leswick:** I think so.

Again, our program expenses are a function of the major transfers, major transfers to provinces, which are effectively tied to nominal GDP growth, so we'll pay more as long as the economy is growing more. Likewise, some of the transfers to persons are indexed, so for the expenses, a certain amount is out of our control.

**Mr. Stephen Woodworth:** I'm speaking of the program expense line, which I saw somewhere was limited to 1%, and other government expenditures in fact were reduced. What I'm asking you is whether the revenue increase alone would have slain the deficit, or was there also a need for fiscal discipline in restraining spending?

**Mr. Nicholas Leswick:** Go ahead, Bill.

**Mr. Bill Matthews:** I have a couple of thoughts, and Nick can weigh in with the actual detailed numbers. I'd say we're not back to a surplus yet. They're forecasting a surplus, but for the current year we've posted a deficit. We haven't actually realized a surplus yet.

If you think about the size of the savings measures, we certainly wouldn't be so close to being back in balance without those. The strategic and operating review, or DRAP, reduced the deficit by $5 billion annually on an ongoing basis. We had about $700 million related to pension contribution rates that's taking effect. We had an operating budget freeze of $550 million. Then we had retiree health care at $7 billion over six years. Those are pretty significant numbers. It would take a lot of growth to make these up.

At the same time, we have some expenses that are growing. From a legislative perspective, there are the old-age benefits. We need to make reductions in some spending to offset the growth in the statutory spending.

● (1705)

**The Chair:** Sorry, but the time has expired. I actually let a little time go by there.

Colleagues, that exhausts our usual rounds of questioning. At this time I will thank our guests for being here.

If I might, I have just one last comment before we close. There is lots of credit to go around for the clean audit, but as the longest-serving member of this committee in Parliament—I've been on this committee now since 2004—I can say that we continue to have an issue with National Defence. It's a chronic issue. It's a lot like health and social services for first nations people and other aboriginal Canadians. It's chronic. It just goes on and on. It crosses party lines. It is a management issue as much as it's a political issue. It's been over 10 years. That's long enough. There needs to be some resolution.

Mr. Matthews, I understood when you talked about the lapsing, especially in the case of defence, because of the big numbers. We've been through this before many times. The auditors are very much aware that there is that kind of latitude, yet we continue to get this notice both when we're doing public accounts and on certain chapters.

National Defence needs to know that this committee and the Auditor General's office are going to continue to stay focused on this until it ups its game and gets to where it needs to be. We're very proud of the things that are good, but we need to stay focused on the things that aren't, so that we can continue to earn that reputation. National Defence needs to up its game in this area. It's not good enough. I hope that gets carried back.

With that, I want to thank you all very much.

Mr. Matthews, I particularly want to thank you. There's a divide here, between the auditor folks and the folks who are working for the government, yet during a question from Mr. Allen, when you thought he might need to get a question in there.... I've seen so many bureaucrats come in. They can play the game. They can run the clock. But you actually paused and said, “I think there was maybe another question you wanted.” That's appreciated. Notwithstanding that you're here representing the government's interests, as the chair of this committee, I want to tell you that's exactly the kind of professionalism that underscores how proud we are of the work we do. That was very good, sir. I hope to see more of that from senior people who come here.

Colleagues, with that, this committee is ready to stand adjourned, with thanks to our guests. All in favour of adjournment, please leave.

**Some hon. members:** Oh, oh!

**The Chair:** The meeting is adjourned.

**STANDING COMMITTEE ON PUBLIC ACCOUNTS**
**November 6, 2014**

**Opening Statement**

**Bill Matthews**
**Comptroller General of Canada**
**Treasury Board of Canada Secretariat**

Good afternoon Mr. Chair and members of the Committee.

Thank you very much for the invitation to appear before this Committee to discuss the Public Accounts of Canada for 2013-2014.

I am pleased to be here in my role as Comptroller General of Canada.

With me are two members of my staff, Mr. Michel Vaillant, Acting Executive Director, Government Accounting Policy and Reporting and Natalie Deschamps, Senior Policy Analyst, Government Accounting Policy and Reporting.

Also with us today is Mr. Nick Leswick, General Director, Economic and Fiscal Branch, Finance Canada.

For the 16th consecutive year, the Auditor General has provided a "clean" audit opinion - now called an "unmodified opinion" - on the Government of Canada's financial statements.

This testifies to the high standards of the Government’s consolidated financial statements and reporting, and it is an achievement of which Canada can be justifiably proud.

I would like to thank the Office of the Auditor General for the continued professional working relationship that we have enjoyed.

The Public Accounts set out the audited consolidated financial statements for the 2013-14 fiscal year, which ended on March 31, 2014.

They are part of a series of reports to Parliament and the Canadian public providing information on the state of the Government's finances.

I would like to highlight a few elements that affected the Government of Canada consolidated financial statements during 2013-2014.

The opening balance of the accumulated deficit in 2012-2013 and 2013-2014 has been restated to reflect two accounting changes, which the Government implemented in 2013-2014.

The first restatement relates to a change in accounting standards that impacts the accounting treatment of premiums and discounts arising on the buy-back of Canada Savings Bonds.

This change has been applied retroactively to fiscal year 2012-13, as well as to fiscal year 2013-14, to allow for comparability of results between the two years.

The effect was a $5.7-billion increase in the opening balance of the accumulated deficit in the 2012-13 fiscal year and a $0.3-billion decrease in the annual deficit.

The effect on the 2013-2014 fiscal year was a $5.4 billion increase in the opening balance of the accumulated deficit.

The second restatement concerns the Government’s allowance for Social Housing Program loans administered by Canada Mortgage and Housing Corporation.

Some of these loans will be repaid out of future federal appropriations to CMHC.

In the 2013-2014 fiscal year, the Government determined that the allowance established in prior years was not as comprehensive as it should be.

The Government therefore adjusted its valuation allowance accordingly, which resulted in a restatement of the prior years' balances.

The effect on the 2012-13 fiscal was a $1.8-billion increase in the opening balance of the accumulated deficit, and a $0.2-billion decrease in annual deficit.
For the 2013-14 fiscal year, the effect was a $1.6-billion increase in the opening balance of the accumulated deficit.

Mr. Chair, we have a slide presentation outlining some of the key financial results for the fiscal year ended March 31, 2014.

We can go through the presentation, or if you would prefer, we can simply table the presentation and go straight to questions from the Committee.

Mr. Chair, we would now be pleased to answer the questions of the Committee on the Public Accounts of Canada.

Thank you.