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Chair

Mr. Tom Lukiwski

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• (1545)

[English]

The Chair (Mr. Tom Lukiwski (Moose Jaw—Lake Centre—Lanigan, CPC)): Ladies and gentlemen, I believe we have quorum.

Before I start with our guests from the Privy Council Office, for the benefit of committee members, I'll need about 15 minutes for committee business before we adjourn today to deal with a number of items.

This will be a truncated meeting, and because of votes, we'll probably only have about an hour and a half between the witnesses from the Privy Council and the Public Sector Pension Investment Board. Would you like the full hour with the Privy Council Office? That would only leave about half an hour for the Public Sector Pension Investment Board, or would you like 45 minutes each?

Ms. Yasmin Ratansi (Don Valley East, Lib.): I'd like 45 minutes each.

The Chair: Mr. Lucas, welcome, and please introduce your colleague. I understand you have a 10-minute opening statement. I'd like you to keep that as brief as possible and then we'll have about half an hour's worth of questions for you.

Mr. Stephen Lucas (Deputy Secretary to the Cabinet, Plans and Consultations and Intergovernmental Affairs, Privy Council Office): Thank you, Mr. Chair.

Good afternoon, members of the committee. Thank you for inviting us to speak today.

I'm accompanied by Karen Cahill, executive director, finance, planning and administration directorate, and deputy chief financial officer at the Privy Council Office.

It is a pleasure to be here today, and I look forward to answering your questions with regard to the PCO 2016-17 supplementary estimates (A).

In the supplementary estimates, PCO is seeking \$23.9 million for the following items:

First, PCO is seeking \$18.9 million to support our information technology modernization project. A substantial portion of the new funding is required to make much-needed investments in our information technology environment, including overdue life-cycle updates to PCO's IT systems. PCO has embarked on a transformation initiative to modernize and expand the organization's capacity with a view to improving the sharing of information with Canadians, as well as federal, provincial, and territorial government organizations.

[Translation]

PCO is increasing its investments in its IT infrastructure. Our current aging infrastructure has an impact on how we work and, in order to better serve Canadians, cabinet ministers and the Prime Minister, investments are needed. We need to be able to respond in a nimble and agile way with Canadians who want to use technology to connect with their government in an ever changing digital landscape.

[English]

The transformation initiative will touch on all areas of the department and can be summarized in the following activities:

First, there is the replacement of aging IT infrastructure that supports PCO business solutions and systems to better align with government technology and security standards. As an example, we are planning to replace existing desktop computer systems with mobile technology to enable PCO employees to work anywhere, any time, on our protected network. Flexible and dynamic workplaces are now the expectation, and as such, help to increase our impact, productivity, and efficiency.

[Translation]

Second, we propose to introduce new technologies such as business intelligence and collaboration and information management tools to improve PCO's ability to analyze business information and enable PCO employees to work collaboratively, and simultaneously share or exchange business information.

Third, we will modernize web tools that support new, open and transparent processes for government appointments, including for the appointment of senators.

[English]

Fourth, there is the implementation of e-cabinet which will introduce 21st century tools to facilitate automated management and communication of cabinet documents in a secure digital and controlled environment. An additional \$0.5 million will be invested to support identification of business requirements and a new process and delivery model for the management of cabinet meetings using this technology.

•(1550)

[Translation]

Second, PCO is seeking additional funding of approximately \$3.5 million to support Government of Canada communications priorities. This includes: support to conduct public opinion research to better inform our policies, programs and services to Canadians; support to first ministers' meetings and associated federal, provincial and territorial activities; and support for engagement activities, including a digital-by-default approach to how we communicate and interact with citizens.

Across government, we are transforming how we communicate with Canadians to remain relevant in the current environment in which we operate.

Increasingly, Canadians are connecting by using digital communications. We are investing resources in our digital presence to deliver increasingly complex methods of communication, including live streaming and rich digital content.

[English]

These investments will facilitate the coordination, production, and distribution of richer, more dynamic content for posting on our websites, including the official Prime Minister of Canada social media accounts. This will include videos, photo-shareable social media, graphics, and interactive story lines pertaining to events in Canada and events abroad.

Part of the budget 2016 investments will fund the staff required to create this rich interactive content. This funding includes specialists in videography, video editing, and production. Of course, it goes without saying that we will need the capacity to publish rapidly at any time, pertaining to issues occurring in Canada or globally, to support the Prime Minister both domestically and internationally.

It's important to note that building and maintaining a website in the federal government environment is more complex and resource intensive since there is a number of statutory and regulatory obligations that must be respected, including those pertaining to official languages, accessibility, and interoperability across a wide range of devices, browsers, and platforms. Additionally, the PM website is not simply a static website. It's a living database and repository of all official products and communications that must be updated and maintained daily.

[Translation]

In terms of research, the Communications and Consultations Secretariat will undertake an expanded research program to ensure the Government of Canada has a better understanding of the views and concerns of Canadians when making decisions on policy development, programs and services. This will involve ongoing public opinion research data collection to allow the Government of Canada to listen to Canadians on various issues and priorities that affect them.

We will also ensure that all public opinion research contracted by PCO will be made public in a timely matter.

[English]

The program will also provide an ability to work across departments, in particular on more urgent requests, and enable partnering and elimination of duplication in this area of research.

[Translation]

Finally, PCO is seeking \$1.5 million to continue supporting the process for creating a non-partisan, merit-based Senate appointment process, announced by the Prime Minister on December 2015. Under the new process, an independent advisory board for Senate appointments was established on January 19, 2016 to provide advice to the Prime Minister on proposed candidates.

The second phase that PCO is supporting will implement a permanent process to fill the remaining and future vacancies, and will include an application process open to all Canadians. We are seeking funding to support the operations of the independent advisory board in its work to provide advice and recommendations for the Prime Minister's consideration.

•(1555)

[English]

Mr. Chair and members of the committee, I'd like to thank you for the opportunity to explain the initiatives related to the Privy Council Office's 2016-17 supplementary estimates (A). We'll be pleased to answer your questions.

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

We'll now go into seven-minute rounds. We'll start with Mr. Whalen.

Mr. Nick Whalen (St. John's East, Lib.): Thank you, Mr. Chair, and thank you both for coming today. It's good to have this opportunity to work through these estimates questions with you.

With respect to the information technology modernization project, we're in the process of doing an investigation and a report into Shared Services Canada, and we're wondering what role, if any, Shared Services Canada is playing in this information technology modernization project within PCO.

Mr. Stephen Lucas: Thank you for the question.

Mr. Chair, Shared Services Canada is working with the Privy Council Office in several regards in this project. In the first instance, they are supporting us on the procurement and installation of networks and systems, and they also participate in a joint governance model that not only engages the Privy Council Office but also other key business clients, including Treasury Board Secretariat, Communications Security Establishment, and Public Services and Procurement Canada.

The infrastructure services they provide support overall project management and they jointly lead with us on the delivery of projects and share resources and procurement contracts as appropriate, so it's indeed a joined-up effort and we work very closely with them to ensure seamless delivery.

Mr. Nick Whalen: In this \$18.9 million in additional funding, what's the overall budget for the IT modernization project? Does it include any existing allocations or existing appropriations from the main estimates?

Mr. Stephen Lucas: I can certainly speak to the overall funding over the course of five years that was allocated in budget 2016 that will support this. It will total, over that period, \$57.7 million. We will be returning to seek approval through the supplementary estimates process again next year.

In terms of existing allocation, Karen will take the question.

Ms. Karen Cahill (Deputy Chief Financial Officer, Corporate Services, Privy Council Office): In terms of existing allocation, PCO will reinvest \$1 million per year toward its IT modernization. We are contributing from our existing funding \$1 million.

Mr. Nick Whalen: Are there any other transfers you routinely make to Shared Services Canada in respect of other aspects of IT services, or is that your total overall envelope of engagement with them?

Ms. Karen Cahill: With respect to the \$18.1 million, the engagement with Shared Services Canada is for \$9 million. That will include the provision of professional services, and that will include the purchase of equipment, hardware, software, etc.

Mr. Nick Whalen: Okay. For the other \$9 million, are there organizational or operational changes within PCO, new groups or departments that are being formed with the balance of the money, and how has the internal structure of PCO changed as a result of this initiative?

Mr. Stephen Lucas: The other non-information technology investments include funding, which I noted in my opening remarks, to support us in the communications realm. We are undertaking a substantive overhaul of our work to integrate digital communication technology and approaches to better support the Prime Minister, the government, and Canadians in having access to information and to engaging in two-way dialogue, for example, through engagement and consultations, as well to support the work of the government in regard to strong collaboration and relations with provinces and territories, including first ministers meetings.

In addition, there is non-IT investment supporting work to develop the e-cabinet system, which married with the technology will allow a fundamental change in the way cabinet documents are created, and ministers can review them. And they are securely transmitted and utilized.

Mr. Nick Whalen: In relation to the joint governance model with Treasury Board, PCO, and Shared Services Canada, are you able to provide us any additional information on who chairs those committees or the dispute resolution mechanisms that might be involved in escalation of problems that might occur? Are those all identified in the organizational documents that have been prepared to describe that relationship?

• (1600)

Ms. Karen Cahill: Actually, as part of the governance, there are multiple committees. The governance, of course, is like merging with the PCO overall corporate governance. At the top, there is a committee of DMs and ADMs. The president of Shared Services Canada, the CIO of the Treasury Board Secretariat, as well as the deputy clerk of the Privy Council, and the ADM corporate services all are part of the governance that we have established.

Of course, below the governance, there are DG committees, ADM committees, as well as working-level committees. The oversight governance is done by the CIOB, the CIO branch at TBS, which plays a strong oversight role in the projects that we have undertaken.

Mr. Stephen Lucas: I would just note, if I could, Mr. Chair, that the joint project team established and supported by this governance is, again, joint between PCO and Shared Services Canada, and is under the overall direction of PCO's chief information officer.

The overall intent here, I think, is to ensure strong oversight to keep the projects on time and on budget.

Mr. Nick Whalen: Excellent. When was this governance model created? Would you be able to provide the committee with copies of the overall governance model and process? I think it would assist us in our Shared Services Canada report, as well.

Ms. Karen Cahill: Certainly.

Mr. Nick Whalen: When was the governance model developed?

Ms. Karen Cahill: The governance model was developed over the last six months and has been in effect since we established the project.

The Chair: Thank you very much.

Mr. Blaney, for seven minutes.

[*Translation*]

Hon. Steven Blaney (Bellechasse—Les Etchemins—Lévis, CPC): Thank you very much, Mr. Chair.

Let me once again welcome the officials from the Privy Council Office appearing before the committee today.

We had the opportunity to welcome you on May 3. One month and a few days later, we are seeing you today regarding supplementary estimates (A). At the time, we talked about the main estimates and an amount of \$118 million, including \$1.4 million for creating a site, which you said was non-partisan, for the appointment of senators.

Today, are you asking for funding for additional spending on the Senate appointment process?

Mr. Stephen Lucas: The amount of \$1.5 million earmarked for 2016-17 to support the Senate appointment process and the work of the independent advisory board is the same amount as the one I mentioned on May 3. The funds are also used for the website, as you said, but also for a small secretariat of five PCO employees to—

Hon. Steven Blaney: My understanding is that the amount of \$1.4 million was supposed to be used for setting up the secretariat and now you're requesting additional funding to create the website. Is that correct?

Ms. Karen Cahill: Let me clarify one thing, Mr. Blaney.

The amount of \$1.4 million that we requested was included in the supplementary estimates (C) in 2015-16. It was not included in the main estimates. That is why today we are asking again for \$1.4 million for 2016-17. It was not included in the total of the main estimates when we met on May 3.

Hon. Steven Blaney: Ultimately, you are asking for \$18.5 million. You are talking about information technology and we are wondering whether this is not becoming Prime Minister Trudeau's propaganda centre.

In May 2016, the President of the Treasury Board said that new rules were going to be created and that the government would eliminate partisanship. One of the rules was that there would be no government advertising with an MP, a minister or the Prime Minister. At the same time, a federal agency goes ahead and makes an ad with the Prime Minister for Destination Canada, so here we go.

Minister Brison was clear that the rules apply to all advertising, even on social media. As the saying goes, it seems that the left hand does not know what the right hand is doing. It's "do as I say, not as I do".

Are there mechanisms to ensure that the rules are followed? Since the Privy Council Office is the Prime Minister's department, are you able to apply the rules that have been established by the Treasury Board on advertising, for instance, to ensure that they are being followed properly?

• (1605)

Mr. Stephen Lucas: Mr. Chair, as Mr. Blaney said, the President of the Treasury Board, Mr. Brison, announced a new government communications policy on May 12. If I'm not mistaken, this one replaces the old policy from 2006. The policy includes some key elements such as a definition of non-partisan activities.

[English]

The oversight of advertising is being undertaken on an interim basis by Advertising Standards Canada. In addition, that will be supported by a review by the Auditor General in regard to that oversight of advertising.

The policy also confirmed that deputy heads are responsible for approving public opinion research and that the government intends to move ahead on its mandate commitment in regard to engaging parliamentarians on the oversight of advertising.

Hon. Steven Blaney: In the end, who is responsible for the oversight of advertising, Mr. Lucas, in your explanation?

Mr. Stephen Lucas: At present, based on the new communications policy and the interim measures that Minister Brison announced on May 12, Advertising Standards Canada is responsible for reviewing federal advertising on budgets greater than \$500,000 relative to the definition of non-partisan.

Hon. Steven Blaney: So this advertising council is under the authority of the Auditor General.

Mr. Stephen Lucas: No, Advertising Standards Canada is an independent third party body.

The government also indicated that it will ask the Auditor General to review the advertising oversight it conducts relative to the policy to ensure that it's being undertaken in that regard.

Hon. Steven Blaney: We certainly agree with the rules that were set by Minister Brison. We would just like to ensure that they are applied, and obviously it seemed that it was not the case in that particular case involving the Prime Minister in a publicity stunt on social media.

To get back to this modernization of the web tool, as I get back to the initial question, it is said that you are asking for \$1.4 million on top of the five additional employees who have been hired for the new appointment process. Is that correct?

Mr. Stephen Lucas: Yes.

As I indicated, the funds we are seeking through the supplementary estimates in regard to supporting the Senate process are to fulfill several functions, one through the PCO secretariat through the five employees to support the work of the independent advisory board, plus to support the expenditures of that independent advisory board, including their travel.

The Chair: Sorry, Mr. Blaney, the time is up. Perhaps you could continue in the next round.

Mr. Weir, you have seven minutes, please.

Mr. Erin Weir (Regina—Lewvan, NDP): Thanks very much for coming and for your presentation. I, too, am interested in the new Senate appointment process.

How many Canadians have applied, so far, to become senators?

Mr. Stephen Lucas: I'm just going to see if I have that information here.

There was an initial round, as you are aware, and the government will be launching the permanent phase shortly.

I would note that, in the transitional process or the process that was completed with the announcement of the seven senators, the advisory board reviewed a total of 284 candidates. Then, as the permanent process is launched to fill the further vacancies, a website will be opened and Canadians will be able to apply directly as opposed to just being nominated by someone.

• (1610)

Mr. Erin Weir: Were the senators who were appointed among those 284 applicants?

Mr. Stephen Lucas: It is my understanding, yes.

Mr. Erin Weir: Okay.

What sorts of qualifications are going to be posted for Canadians who are applying to become senators?

Mr. Stephen Lucas: I'm just going to find a very specific answer.

There are specific constitutional eligibility requirements including age, citizenship, net worth, real and personal property, and residency. In addition, the government has established criteria with respect to gender, indigenous and minority representation, and non-partisanship. The overall process will work on the basis of merit-based criteria that will help to assess a candidate's knowledge of the legislative process, personal qualities, and other criteria related to his or her level of expertise in the legislative process and public service.

These criteria will be posted.

Mr. Erin Weir: You cited non-partisanship as one of the criteria, and I guess I'm wondering how that is assessed in an application.

Mr. Stephen Lucas: I don't have that information at hand. There is information posted on the website of the Minister of Democratic Institutions, but we would be pleased to follow up with the committee to provide that information.

Mr. Erin Weir: I would definitely welcome that.

I also want to follow up on the secretariat at PCO. We've talked about the five employees. Have those people been hired, or is it an ongoing process?

Mr. Stephen Lucas: It is indeed an ongoing process. A manager was hired. There are a number of staffing processes under way, and temporary staff are being assigned to help support the process as we run through staffing processes.

Mr. Chair, if I might, my colleague Karen did provide me with information from the website pertaining to the definition of non-partisanship that would set the criteria. I can read that now, or we could just provide it to the chair.

The Chair: Mr. Weir, would you like it read into the record or just provided?

Mr. Erin Weir: I think if you have it in writing, you may as well just provide it and save some time for other questions.

Given that it sounds as if the staffing of the secretariat is at a fairly preliminary stage, who is reviewing the 284 applications that were received?

Mr. Stephen Lucas: I would say two things. The role of reviewing the applications and providing recommendations to the Prime Minister falls to the independent advisory board, which comprises three federal nominees and two nominated by provinces. They provided the five recommendations for consideration by the Prime Minister.

The secretariat support—and we allocated staff during the winter from other duties to help this initial phase—helps facilitate the meetings of the committee, but the actual work is done by the independent advisory board.

Mr. Erin Weir: Those board members were in place and they were reviewing the applications with some help from other PCO staff.

Mr. Stephen Lucas: That's right. Also, we're now bringing in the permanent secretariat staff to help the process going forward.

Mr. Erin Weir: Okay.

Did the 284 applications strike your organization as a sufficient number, a large number, or a small number? How many might we expect, going forward?

Mr. Stephen Lucas: I can't comment on that. I think the independent advisory board did provide a report on the process. It worked with a pool of applicants from which seven senators were announced.

Mr. Erin Weir: Okay.

I'm just asking because it strikes me as kind of a low number, thinking back to the last general election when far more Canadians than that applied to become members of the House of Commons. I wonder if it says anything about the state of public confidence in the process. I don't know how far you can go in offering any views on that.

Mr. Stephen Lucas: I won't offer a broader view. I would just observe that this was an initial interim process. It was based on nominations. I think what's envisaged in the permanent phase coming is that it will be a broader opportunity for Canadians to apply and show their interest, without necessarily being nominated.

• (1615)

Mr. Erin Weir: Recently, the government leader in the Senate requested almost \$1 million in order to manage these senators who are supposed to be independent of the government. I wonder if that in any way compromises their independence, or if there is any way of addressing that through the process that PCO is overseeing.

Mr. Stephen Lucas: There's no relation between PCO support or funding and that of the Senate. Indeed, the Senate Standing Committee on Internal Economy, Budgets and Administration is best suited to respond to that particular question on Senate funding.

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

Madam Shanahan, please, you have seven minutes.

Mrs. Brenda Shanahan (Châteauguay—Lacolle, Lib.): Thank you very much, Mr. Chair.

Thank you very much to both our witnesses for being here today.

It's very helpful for us newer members of Parliament to understand so much more about how our government functions.

If my understanding is correct, the purpose of the Privy Council Office is not to oversee the Senate or to oversee the publicity; it is to provide the support—as do our clerks in our committee and our staff in our member of Parliament offices—to the work we carry out on a day-to-day basis.

In that light, and correct me if I'm wrong, when we're talking about the work you have to do in the creation of a non-partisan merit-based Senate appointment process, the instructions are coming from another body. Can you just explain to us how you receive and carry out your instructions?

Mr. Stephen Lucas: Certainly.

Mr. Chair, more generally, as noted in the question, the role of the Privy Council Office is really threefold: one, to support the Prime Minister; two, to support cabinet in its decision-making; and three, to provide support for the public service through the Clerk's role as head of the public service. That includes support for appointment processes, both for Governor in Council appointments where decisions are taken by the Governor in Council but we provide and enable support in that process, and as announced and put into practice by the government, the new process for Senate nominations.

The process the government decided to undertake is one whereby there is an independent advisory board, as I noted, that provides recommendations to the Prime Minister. That advisory board has different configurations of membership on a province-by-province basis, with three federal members, chaired by Madame Huguette Labelle, and two members recommended by the province, or nominated by the Government of Canada if the province chooses not to recommend anyone.

In the case of the process that's being completed, they undertake a review of the nominations provided to them. Then, on that basis, they make recommendations to the Prime Minister of five names per vacancy.

The PCO's role, again, is to provide secretariat support for that process, anticipating the permanent phase of a web portal enabling Canadians to indicate their interest in applying.

Mrs. Brenda Shanahan: Indeed, it is to create the website that's going to receive these applications, which I'm just guessing are going to be quite numerous when they are coming from the general public.

If I were not here as a member of Parliament, but just sitting at home, I'd certainly be interested in what the criteria is, as my fellow members are. It's pretty easy. You just google "Senate nomination process" and "Privy Council", and that comes up.

The work you will be doing is creating a website designed to take in applications. As we saw with the recent resurgence of the census, the excitement on the part of the public can be such that the website could crash. Please tell us about what measures you're taking to make sure we can accept these applications.

• (1620)

Ms. Karen Cahill: We have taken very careful measures. We have done load tests, because we are knowledgeable of the fact that there will be a number of applicants who will go to our website to submit applications. We have taken measures. We have done load tests, as I said, to ensure our website can support this number of applicants.

We will have people monitoring the site and ensuring the site is available at all times so people across the country can apply.

Mrs. Brenda Shanahan: Excellent.

Chair, do I have time?

The Chair: You have about one and a half minutes.

Mrs. Brenda Shanahan: I'm giving that to my colleague, Mr. Drouin.

Mr. Francis Drouin (Glengarry—Prescott—Russell, Lib.): Thank you, Mr. Chair, and thanks to the witnesses for appearing here today. We really appreciate it.

I want to build a little on Ms. Shanahan's question, but mostly on process with regard to the results and delivery, and the impact on performance management.

I'm trying to understand. The government has a new agenda for how they will measure, and they have new metrics. How does that transform from, let's say, cabinet to you guys, and then to individual departments? How do you measure that with different deputy ministers? Do you also set standards for their assistant deputy ministers, their directors general and directors, or do you just let the deputy ministers do that themselves?

Mr. Stephen Lucas: Indeed, Mr. Chair, it's a very good question because it is an area of transformation in the government's work. The government has always, through the report on plans and priorities and departmental performance reports, set performance measures and reported on those. I think the intent now is to have a closer oversight on both the establishment of those metrics identification data sources to support the measurement, and the ability to report on those to track progress of implementation and government priorities and report to Canadians through Parliament.

It's really a teamwork effort between the Privy Council Office and, as you noted, the secretariat on results and delivery, working with the Treasury Board Secretariat with the support of the President of the Treasury Board. They are responsible, if you will, for the stock of government spending through the normal planning and reporting process. They're looking at working to transform that and strengthen performance measures for which deputies and ministers will need to ultimately sign off.

Then, through the Privy Council Office, it's working with departments, as well as supporting cabinet, looking for the top priorities of government to have a particular focus on the results that are being sought to be achieved, whether it's closing the socio-economic gaps between indigenous communities and Canadians in general, or working to achieve targets of the government in regard to climate change and providing that oversight and support to ensure a focus on implementation and delivery of results for Canadians.

The Chair: Thank you very much.

I think we have enough time for two five-minute rounds.

Mr. McCauley, you're up.

Mr. Kelly McCauley (Edmonton West, CPC): Welcome back.

I want to clear this up. You mentioned the oversight of the partisan ads. You mentioned that the Auditor General was going to be overseeing that, but he is not. I understand he is overseeing the overseers of that. Is that correct?

Mr. Stephen Lucas: Let me respond to that point. I'll just find my specific note here, so that I give you the best possible answer.

As I said, the measure that has been announced by the President of the Treasury Board is to ensure that government advertising with a budget greater than \$500,000 will be subject to a mandatory external review by Advertising Standards Canada relative to the criteria set by the government—

Mr. Kelly McCauley: So it's not the Auditor General.

Mr. Stephen Lucas: Right.

However, the Office of the Auditor General is being asked to audit this overall review process to assess its effectiveness. This will help inform the government and parliamentarians as they consider a permanent oversight process, which the government had—

Mr. Kelly McCauley: You're using up my time, but you've answered my question. Thanks.

That comes from the minister, not from your internal body, as a decision-making—

Mr. Stephen Lucas: It was a decision announced by the President of the Treasury Board, who was mandated by the Prime Minister to have regard to the communications policy and the advertising oversight.

Mr. Kelly McCauley: Perfect.

Very quickly, I couldn't help but note that you've put 17% of your entire comments on your preamble justifying the Prime Minister's website. I found that a bit odd.

Getting back to the five people who are being hired to help the Senate selection committee, what will their general role be? Are they going to be taking these 400 or 500 applications for people who want to be in the Senate, collating them, and then passing them on? They will not have any ability to call any people who aren't at all qualified in any way. Are they just collating and passing it up the line to the Senate selection committee?

• (1625)

Mr. Stephen Lucas: As I indicated, the body providing the advice to the Prime Minister in regard—

Mr. Kelly McCauley: The people will apply. It will go to—

Mr. Stephen Lucas: No, no, I hear you.

Mr. Kelly McCauley: I'm trying to figure out, frankly.... A lot of people around the table have worked in the private sector and have had five full-time people to collate resumés before any of the heavy decision-making has been done. I know my counterpart here thinks it's nowhere near enough, but there are never enough government employees for the NDP.

Literally, what else are they going to be doing besides accepting a resumé, printing it, and passing it up the line to the appointed people from the government who are going to choose, or push through the chosen few?

Mr. Stephen Lucas: Mr. Chair, the secretariat would support several functions.

Indeed, one is helping to establish and support the website. The second is indeed being able to—

Mr. Kelly McCauley: They're going to build a website?

Mr. Stephen Lucas: No, but—

Mr. Kelly McCauley: They're going to support it. Are they going to provide IT support for the website?

Mr. Stephen Lucas: —they're providing the framework and the requirements for it, and drawing material from it, but more fundamentally, supporting the committee in terms of helping schedule and organize their meetings. The committee members are dispersed across the country. It's not one committee, but committees per province. There are multiple meetings given that the vacancies span a number of jurisdictions across the country.

It's also about being able to support the committee in its deliberations to come from however many applications come in to the five nominations for the Prime Minister, and being able to support those decisions ultimately by the Prime Minister.

Mr. Kelly McCauley: Do you believe that the five are justified?

Mr. Stephen Lucas: Yes, I do.

Mr. Kelly McCauley: Perfect. Okay.

Do we know how much the cost of the website's going to be? I understand, when looking at the website, it was supposed to be up by spring 2016. Of course, we're almost done, so I know the application website won't be up and running. Is it being built right now? What's the cost behind that? Is that on top of the...?

Ms. Karen Cahill: Mr. Chair, we're forecasting an amount of \$400,000 to develop the website.

To be clear, this initial website will be based on the structure that we have, which is the foundation that we have for our Governor in Council appointments, so we're not starting from scratch.

Mr. Kelly McCauley: You're not starting from scratch. That's on top of an existing base.

Ms. Karen Cahill: Overall, the website will be, we're estimating, \$400,000. This is for the first shot at the website.

Once this first round of appointments is finalized, we will also enhance our website to ensure that we have—

Mr. Kelly McCauley: I'm sorry, let me interrupt, you said the first —

The Chair: Sorry, Mr. McCauley, we're over the five-minute allotment right now, and we do have another set of witnesses here, so I'm going to have to cut it off.

Thank you very much, Mr. Lucas and Madame Cahill, for being with us. We'll suspend for two minutes while we wait for our next witnesses to come forward.

• _____ (Pause) _____

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• (1630)

The Chair: Colleagues, we'll begin again.

With us we have two witnesses from the Public Sector Pension Investment Board, Mr. André Bourbonnais and Mr. Garant.

Mr. Bourbonnais, I understand you have a brief opening statement. Please go ahead, sir.

[Translation]

Mr. André Bourbonnais (President and Chief Executive Officer, Public Sector Pension Investment Board): Mr. Chair, members of the committee, good afternoon.

My name is André Bourbonnais and I am the president and chief executive officer of PSP Investment Board. My colleague Daniel Garant, executive vice president and chief investment officer, and I are pleased to appear before the committee today to discuss PSP Investment Board's mandate and operations and to provide you with an overview of our activities.

I joined the organization just over a year ago and it's a real honour for me to have an opportunity to contribute to its long-term success and to the long-term sustainability of the pension plans whose assets we invest.

[English]

PSP Investment Board is an arm's-length crown corporation that was established in 2000 to invest the amounts transferred by the Government of Canada for the funding of the post-2000 obligations of the pension plans of the Public Service of Canada, the Canadian Forces, the RCMP, and since March 2007, the reserve force pension plan. Our statutory mandate is to manage the funds in the best interest of the contributors and beneficiaries and to maximize investment returns without undue risk of loss, having regard to the funding, policies, and requirements of the plans and their ability to meet their financial obligations. Our goal is to ensure that, given the current level of contributions, and in the absence of other factors that may affect the funding status of the plans, we earn sufficient returns so that there will be enough assets to cover promised pension benefits, or in other words, that we have fully funded plans.

Currently, the chief actuary has determined that this requires achieving a 4.1% real rate of return over the long term. One can appreciate that achieving such a rate of return is not risk-free. Indeed, there are no investment opportunities that can generate such a return without taking risks, accepting, therefore, a certain level of volatility. Accordingly, one should expect returns to be higher than the objective some years and lower in other years. What matters is that our investment strategy is carefully calibrated to maximize returns and the likelihood of achieving the return objective, while limiting the amount of risk the board and the management of PSP deemed the minimum necessary to achieve this objective. To that end, we have adopted a portfolio diversification strategy that goes beyond public assets like stocks and bonds to include less-liquid private asset classes, such as real estate, infrastructure, natural resources, private equity, and private debt.

My first priority when I joined PSP was to lead the strategic review process that will guide our evolution over the next five years. One of our key challenges going forward will be to manage growth. Our assets under management are expected to reach \$165 billion by 2021. This means we will need to find a significant number of new investment opportunities, and we will have to do it in an investment market that is increasingly competitive, not to mention, in the context of the current global economy, one that is generally expected to yield low returns and low growth over the next few years.

To succeed, it will be important to implement investment strategies that are scalable. For instance, in PSP's world, a scalable investment strategy is the development of investment platforms. Those are best explained by way of an example. A few years ago we purchased a participation in five airports from a German company. Also included in the investment was an operating team of highly skilled professionals who specialize in the management of airport investments. In addition to managing our participation in those airports, this team now helps us identify potential investments in others. The fact that we can rely on such a competent management team helps us submit stronger bids and attract other investors. This is just one of the many platforms we own.

Selecting the best investment partners is also very important to our success. Our expertise lies in selecting the best investment opportunities, not in managing the day-to-day operation of our investee companies that operate in a wide range of countries and industries. For that we rely on our investment partners. Since those partners have a very direct impact on the success of our investments, we need to ensure that we work with the very best and that our interests are totally aligned with theirs.

• (1635)

In order to attract the right partners, we rely on networks that are often local, and thus we must be present in the world's main financial centres. A local presence in key markets will also help us unlock new investment opportunities. A significant pillar of our strategy is therefore to expand our global footprint. We recently opened an office in New York, which is a key market for our new private debt asset class. We're also building a European hub in London, and eventually we would like to open an office in Asia.

[Translation]

Another important aspect of our strategy going forward will be to improve collaboration within our organization. We have already started to shift our focus from an asset class perspective to a total fund perspective. This, I expect, will have a profound impact on the way we conduct business, how we make decisions and how we manage risks.

For example, we've created a dedicated chief investment officer group, led by my colleague Daniel Garant. Under his leadership, we will form research groups composed of individuals across our asset classes that will develop thematic research that will translate into investment ideas and inform investment strategies.

The chief investment officer will also be responsible for designing and implementing a strategy to enhance our flexibility to make investments that are beneficial to PSP as a whole, even when they don't fit within our usual asset class approach.

Finally, our most important asset is our employees, so identifying, attracting, retaining and developing talent is one of my key priorities. Already, I'm proud to say we've made tremendous progress in promoting diversity in our ranks over the last year. We plan to continue those efforts.

[English]

In conclusion, we have our work cut out for us, but my colleagues and I could not be more excited and energized to tackle such a tremendously stimulating challenge. We are particularly proud to do it in the interests of the sponsors of the plan, the Government of Canada, and the plan's contributor and beneficiary.

• (1640)

[Translation]

Mr. Chair, this concludes my remarks. Mr. Garant and I look forward to any questions members of the committee may have.

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

[English]

Colleagues, as I mentioned earlier, we need a little time at the end of this meeting for committee business. Also, prior to going in camera for committee business, we have a number of votes on supplementary estimates, so I am suggesting that we go through one full seven-minute round and then we will suspend and get into the votes before committee business.

With that, Madam Ratansi, you have seven minutes, please.

Ms. Yasmin Ratansi: Thank you, Mr. Bourbonnais. You have a very impressive resumé.

From a governance perspective, the Government of Canada is responsible for risks if there is any underfunding of the plan. According to the Auditor General's report there was a cumulative underfunding of \$6.5 billion from 2011 to 2013. You came in 2015, but can you help us out here? How does the PSPIB determine the risk tolerance of your sponsors? They are different sponsors and there is not a central body working with you to tell you about their risk tolerance level.

Mr. André Bourbonnais: The risk tolerance is determined by the government. We have ongoing discussions with the government to determine what type of risk they want us to take in trying to generate the necessary returns to cover the pension plan.

Ms. Yasmin Ratansi: Is it Treasury Board or the Department of Finance?

Mr. André Bourbonnais: It's Treasury Board.

As I stated today, the funding risk needs to be equivalent to a real return of 4.1%.

Ms. Yasmin Ratansi: As I was looking at the investment portfolio, there were 10 large equity holdings in them, one of which was Valeant. I understand that Valeant was also the third largest equity holding of the Canada pension plan.

What impact has the decimation of the Valeant shares had on the pension plan?

Mr. Daniel Garant (Executive Vice President and Chief Investment Officer, Public Sector Pension Investment Board):

We invest in broad indices. For example, the Standard & Poor's 500 is a good reflection of the U.S. large cap market. Valeant being a publicly traded company is part of the index. You saw an illustration of the size of our portfolio in terms of U.S. equities. It's not an active decision to invest in Valeant. It's just that we own the index and Valeant is a part of it, but we don't have an active position in Valeant per se.

Ms. Yasmin Ratansi: If you are part of that index and the shares are decimated, what impact does it have on the pension itself? Does it create that underfunding and is the government then held accountable?

Mr. Daniel Garant: Actually, you need to look at it on a global basis because, for one Valeant that goes down, you have one Apple or one Yahoo that will increase. You look at the overall valuation of the index. You can take some constituents, some companies, and some shares are going to go down and others are going to go up. When we look at the indexing part of our business, we look at it globally in terms of the global returns that we get from, in this case, U.S. equities.

Ms. Yasmin Ratansi: When you're doing your due diligence, what sort of risk mitigation strategies do you adopt? I know this is a long answer that you would have to give me, but give it to me in short terms so we can understand.

Mr. Daniel Garant: The most significant risk mitigation that we use is diversification, which means basically that you put your assets in different categories. The description my colleague gave you is that we have investment in real estate, in infrastructure, in public equities and bonds, and so on. By diversification in asset classes and geographies, countries and sectors, you get an overall better risk management by having not all of your money invested in the same type of investment. That's the key crux of how you do risk management. Also you look at the specific investments, but first you start with the diversification strategy.

Ms. Yasmin Ratansi: Okay. The one thing that the Auditor General also mentioned was that, when the reports are presented to parliamentarians, they do not generally understand them or aren't able to read them. What are you doing to ensure that parliamentarians have a better understanding? It's their money, not only parliamentarians' but the public sector employees'. How do we read it easily?

•(1645)

Mr. André Bourbonnais: We've made significant effort in the past year to have an annual report that will be more in layman's terms. Of course, what we're trying to do is to replicate the standard of public companies in terms of our disclosure, but we also understand that our audience is different. In addition to that, we will spend a fair amount of time later on this month and in July to meet each of the planned constituents and explain the results for the year and our activities for the year.

Ms. Yasmin Ratansi: Do you know how much money the plan lost in the Valeant investment? Do you have a rough idea?

Mr. Daniel Garant: I didn't look at that investment specifically. As I said, it's part of the index portfolio. We look at the overall return and we look at the return by categories. In this case, it would be U.S. equities.

Ms. Yasmin Ratansi: U.S. equities, you would lump them together. If I wanted transparency and I wanted to see what Valeant did or Rivera did, etc., I wouldn't be able to figure that one out unless I went with the private equities themselves.

Mr. Daniel Garant: In that case, yes.

Ms. Yasmin Ratansi: Okay. When you invest in private equities are you able to get, as a large body of investors, a seat on the board of any of these equities?

Mr. André Bourbonnais: Each investment is different, and our governance is tailor-made to the actual participation that we have and the actual interest that we have in each company. If we have a 20% interest, we'll have representation as is commensurate to a minority shareholder, or if we have a 50% interest. But in most of those private investments we have either board representation or board observers.

Ms. Yasmin Ratansi: Thank you.

The Chair: Thank you very much.

Mr. Blaney, you have seven minutes, please.

[Translation]

Hon. Steven Blaney: Mr. Chair.

Welcome, Mr. Bourbonnais and Mr. Garant.

Your corporation is of great interest. I think not too many Canadians are familiar with it. In fact, today is the first time I have heard about it.

You have 600 employees, \$112 billion of assets under management and a portfolio return of 14.5% in 2015. Is that correct?

Can we invest with you?

Some hon. members: Oh, oh!

The return over 10 years—

Mr. Daniel Garant: We take care of your pension.

Hon. Steven Blaney: Oh, even the pension of MPs?

Mr. André Bourbonnais: Yes.

Hon. Steven Blaney: All is well then.

The return over 10 years is 7.9%. Is that correct? So you have exceeded the actuarial return objective and you don't have an actuarial deficit. You actually have a surplus. How does that work? You still continue to collect contributions and then you capitalize the total?

Mr. André Bourbonnais: Since we are managing the post-2000 obligations, we are in a privileged position. For the next 12 to 15 years, we will have a surplus of contributions compared to the benefits paid out. Right now, we receive between \$3 and \$4 billion every year in net contributions. In addition, we have our return. As you mentioned, last year, the return on the assets we manage was 14.5%. That all adds up and, clearly, in the 2030s, we will have to pay out more benefits and, unless we continue to manage and maintain the return, the assets will go down because the benefits paid out will be greater than the contributions.

Hon. Steven Blaney: Could you tell us in how many companies you are investing right now?

Mr. André Bourbonnais: There are thousands of—

Hon. Steven Blaney: We are talking about thousands of companies.

Let me ask you another question and I'll go straight to the crux of the issue. You have invested in Isolux Infrastructure Netherlands B. V., or ROADIS.

Mr. André Bourbonnais: Yes.

Hon. Steven Blaney: It operates in Brazil, India, Mexico, Spain and the United States. You own roads, so—

Mr. André Bourbonnais: They are toll highways.

Hon. Steven Blaney: That's exactly what I was getting at.

As you know, there is a great plan for tolls in Quebec, a third link with tolls. The Caisse de dépôt et placement du Québec has recently invested in a development project. If there were a profit, would these types of opportunities or projects benefit you? Would they generate the return that you would like to see?

Mr. André Bourbonnais: I think you are asking the right question.

As you know, our mandate is to maximize returns without undue risk of loss. So the first investment criterion is to figure out whether the return is adequate compared to the risk we are taking.

As you say, we have highways around the world. We have ports and airports. We are a major institutional investor in infrastructure. I think we would like to do more in Canada. I think our country must develop an infrastructure policy that encourages investment by institutional investors like us. If such a policy were in place, we would certainly be ready to buy infrastructure here in Canada.

Hon. Steven Blaney: Mr. Bourbonnais, as I listen to you, I feel that we are like the cobbler's children. We are investing our own money in roads and ports outside the country. In the meantime, we are stuck in traffic on highway 20 and elsewhere and we are producing greenhouse gases. I hear your message loud and clear. I hope we will have an opportunity to work together.

Mr. Chair, since we have only one round of questions, I will be sharing my time with my colleague.

Thank you very much.

•(1650)

[English]

Mr. Kelly McCauley: Welcome, gentlemen. You don't have an enviable task of higher returns with lower risk.

Does the 4.1% come from an actuary or...?

Mr. André Bourbonnais: That comes from the chief actuary.

Mr. Kelly McCauley: I'm looking at some statistics, and between 2011 and 2015, the average life expectancy of men, thank heaven, has grown four months, 0.3%. This is a huge hockey stick. Does that take that into effect, or when was that last updated?

Mr. André Bourbonnais: We just manage the money. We leave the assumption to the chief actuary. I assume that he's taken them into account in his report.

Mr. Kelly McCauley: Oh, it's someone else.

The 14.5% last year, how much was that? I was looking at the diversity, and a lot of it seems to be because the Canadian dollar dropped and we had a lot outside the country. How much of that 14.5% can you attribute to our dollar tanking?

Mr. André Bourbonnais: Very little, because we were significantly ahead, and actually last year, the fall of the dollar played against us. It was mostly coming from the asset classes.

Mr. Kelly McCauley: What is your administration cost for \$100 invested?

Mr. André Bourbonnais: Last year, the operating costs were 24 basis points, so 0.024%.

Mr. Kelly McCauley: CPP is 32¢ per \$100. Well done.

You have 570 employees now. I assume when it began it was passive, just following an ETF, following the general stock markets. You switched over to active.

Have you done a study comparing all of the new costs? The CPP is under a fair amount of criticism for out-of-control costs. Have you done a study of this is how much more you've spent but this is what you've gained, as opposed to just following a passive model where you have five or six as you had before but you are just mirroring stock markets?

Mr. André Bourbonnais: The first thing I will tell you is that we're very focused on our cost structure. I think it's an important thing. It's not our money. It's the beneficiaries' money. That being said, we also think and believe that active management provides better return, and in order to get that you need the proper people, the proper infrastructure. We've made a decision this year that we think that a global footprint... When I say "global", I mean a few offices in key markets will also significantly help us. We've already seen the benefit of that to our New York office and our private debt group.

We are very concerned, but at the same time we are growing.

Mr. Kelly McCauley: Let me premise that. I'm not criticizing the costs. I'm just asking if you have done an apples to apples

comparison. How much have you made active? How much would you have made if you'd done a passive...with the lower cost?

Mr. André Bourbonnais: No, we have not done that.

Mr. Kelly McCauley: Should you have, considering it's billions of dollars?

Mr. André Bourbonnais: Probably, but I think we need a more stable environment than the growing environment in which we operate.

Mr. Kelly McCauley: I'm not saying to switch back; I'm saying compare the two and see how—

Mr. André Bourbonnais: Yes.

Mr. Kelly McCauley: Will you?

The Chair: Thank you very much.

As a comment from the chair, you mentioned that it's not your money, that it's the beneficiaries' money. From this vantage point, I wouldn't mind if you had a little skin in the game yourself. I'd be pleased to see what you'd be able to get as a rate of return then.

The final seven-minute intervention, Mr. Whalen, please.

Ms. Yasmin Ratansi: No, no, no.

The Chair: Oh, I'm sorry, Mr. Weir.

Mr. Weir, I didn't want to ignore you. I didn't want to skip over you.

Mr. Erin Weir: Okay, well, thanks very much.

I did want to follow up on the line of questioning about Valeant Pharmaceuticals. The answer seemed to characterize it in terms of the S and P 500 and American equities. It's a Quebec company that's listed on the Toronto Stock Exchange, and surely your funds are invested in Canadian equities as well. I'm wondering if I'm missing something in terms of the answer focusing on American markets.

Mr. Daniel Garant: You're not, because we don't have an active position in Valeant. We own the index in some equities, but we also own a lot of private assets, like real estate, infrastructure, and so on.

•(1655)

Mr. Erin Weir: No, no, I—

Mr. André Bourbonnais: Valeant is quoted on the New York Stock Exchange.

Mr. Daniel Garant: On New York, yes.

Mr. Erin Weir: Yes, but it's on both Toronto and New York. Would you be exposed to it through both indices?

Mr. André Bourbonnais: We would be.

Mr. Erin Weir: Yes. It was the focus on the American side of things I was wondering about, but I guess you're exposed to it through both.

Mr. André Bourbonnais: If it's part of the TSX, we would be exposed to it.

Mr. Erin Weir: Yes. Okay, understood.

I also wanted to ask about some aspects of the plan that you're managing money for. Let me know if these are questions you can't answer, but I am curious to know if the pension benefits will be administered through the Phoenix pay system.

Mr. André Bourbonnais: Sorry, I didn't hear your question.

Mr. Erin Weir: Treasury Board and Public Works have brought in this new pay system for federal public servants. I'm wondering if the pension payments are going to be administered through that same system.

Mr. André Bourbonnais: I'm not aware of that.

Mr. Erin Weir: Okay, no problem.

I have another question about the plan itself.

There was a significant change in the benefits that took effect in 2013, where people who are in the federal public service prior to then are eligible to retire with a pension at age 60, or even 55 if they had 30 years of service. People joining the federal public service after that date have to wait until age 65, or maybe age 60 with 30 years of service.

An issue that's been brought to my attention is that people who were in the armed forces prior to 2013, but then transferred that pension credit into the federal public service plan because they get a civilian job, are put into the latter group, as though they hadn't started until after 2013. I wonder if you're aware of that problem and if you think there's any possible way of remedying it.

Mr. André Bourbonnais: That's a policy decision, and that's a very unsatisfactory answer, but we just manage the money that is given to us. That would not be in our privity to make any kind of recommendation with respect to that question.

Mr. Erin Weir: Okay. Perhaps this is an actuarial matter that you couldn't comment too much on, but I will ask whether treating veterans in the group that can retire at age 60, or 55 with 30 years of service, assuming they had started before 2013, would have a significant effect on the cost of plan benefits.

Mr. André Bourbonnais: I think it's a policy question that you and your colleagues need to address. It's not in our mandate.

Mr. Erin Weir: Okay.

I was going to ask if a member of the federal public service, or even a member of the general public, thought a return of a bit more than 4%, based on professional management, sounded fairly attractive, would you be at all open to managing other money that people might want to contribute to outside of the pension plan?

Mr. André Bourbonnais: I think there's a lot of speculation as to the enhancement of the CPP, or whether the CPP should manage other money. In our case we have a specific mandate. It's a policy question, and we would need a modification to the act. We'll let the politicians determine whether or not we should manage more money.

Mr. Erin Weir: I totally agree it's a policy matter. My question would be this. Would that pose any problems for you as managers? Would there be any technical problem with saying people could contribute money and essentially just receive whatever rate of return the fund generated?

Mr. André Bourbonnais: Yes, I think the difficulty would be if we have a different investment mandate. If it's the same investment mandate, I think the commingling of the funds could be an issue but we could deal with that with our infrastructure. But to the extent that we have the same investment mandate, I think we could take more money in. As a matter of fact, one of the questions for the Minister of Finance is to determine whether to fund the pre-2000 liability and get us to manage that money, and we've told the Minister of Finance that we would be ready within three months to accommodate them if they decide to make that decision.

Mr. Erin Weir: Okay, so if a mandate stayed the same, it was just to fund the public service pension plan, and there were people who were prepared to piggyback on that investment strategy and thought that the rate of return at relatively low cost was worthwhile, there wouldn't be any fundamental problem with that or reason that it couldn't be accommodated.

● (1700)

Mr. André Bourbonnais: Correct.

Mr. Erin Weir: Yes, so you feel confident that you could probably take on more money and perhaps might even benefit from the economies of scale.

Mr. André Bourbonnais: Yes.

Mr. Erin Weir: Excellent.

The Chair: You have 30 seconds.

Mr. Erin Weir: I won't worry about it then.

The Chair: Thank you.

Our final intervenor is Mr. Whalen.

Mr. Nick Whalen: May I have your 30 seconds?

Thank you very much, Mr. Chair. I'm going to share my time with Mr. Grewal.

Following up on Ms. Ratansi's question earlier regarding board appointments, we read a lot in the papers about the performance of boards that are both gender and ethnically diverse and how they perform better than other companies. Are there any stated requirements within your organization to ensure either that the boards of the companies you invest in are diverse or when you have the opportunities to appoint, are you trying to fill any quotas, or do you have any mandate to ensure gender diversity on the boards of our investments?

Mr. André Bourbonnais: I will answer the question first internally. Our view is that we have a meritocracy but we do take very seriously diversity because we do think that it leads to better decisions, better operating decisions, better investment decisions, and we've made significant progress. We had no women on our senior management team. We appointed two women. We have increased the number of women in leadership positions at PSP, and we're really proud of our accomplishment.

Now, we're not going to stop there. We're going to continue to aim...without having quotas. I'm not sure quotas help organizations or women, quite frankly. You always want to make sure that you have the best candidates and you want to ensure that you give them the opportunity to access those positions, and you develop them.

With respect to our investment policies, we don't have any specific policy in our ESG, but we do try to influence the board to have diversity, and we do take that into account when we invest in a company, public or private.

Mr. Nick Whalen: With respect to performance, people need to be happy. The after-inflation rate of return at the end of last year was 5.8% over the last 10 years. It looks good. The target is 4.1% so we're ahead of target, but as baby boomers retire and they're going to have this need for cash, the thought is there's going to be a lot of supply of equities onto the market.

What's the forward outlook on sustainability of these returns, and how are you going to be managing the cash requirements to pay off pensioners, amounts that are going to greatly accelerate over the next 10 years?

Mr. André Bourbonnais: I'll let Daniel jump in because that's his area of expertise, but I will tell you that we do expect for the next few years that it's going to be a very low growth, low return environment, and the way to address that is to have diversification. We have the benefit of being able to invest in asset classes that for the time being give us better returns, whether it's infrastructure or real estate, and we need to make sure that we have the proper diversification. Where we're going to be able to generate return is in asset allocation, and we will determine what percentage of our assets in which asset classes.

Mr. Nick Whalen: In terms of liquidity on those investments, I'd love to hear from Mr. Garant on the liquidity part.

Mr. Daniel Garant: The good thing for us is, as my colleague was pointing out, we are receiving net inflows, net contributions, so liquidity for us is of course something we manage. We make sure we have enough liquidity to face ongoing obligations, but with positive inflows, positive contributions, coming our way for the next 10 years plus, it's something that helps, definitely, managing liquidity.

What we do is we look for assets that are going to give us a good combination of growth, capital gain, and revenue income. That would be, for example, infrastructure and real estate. They provide both characteristics, and with these asset classes and the diversification that André was alluding to, we hope to generate good returns, specifically risk-adjusted returns.

Mr. Nick Whalen: You don't expect there would be a problem with liquidity over the next 10 years.

Mr. Daniel Garant: No.

Mr. Nick Whalen: Okay.

Mr. Grewal.

Mr. Raj Grewal (Brampton East, Lib.): Thank you.

In terms of the investment strategy, what percentage of your holdings are in real estate or real estate tied assets?

Mr. André Bourbonnais: We have about 17% in real estate. Overall, we have about 32% in liquid assets.

Mr. Raj Grewal: Are those tied to real property or equities that have a mortgage-backed security?

• (1705)

Mr. André Bourbonnais: Some of them are: infrastructure and, to some extent, timberland and agri land. Other liquids are less tied to inflation, like private equity, which is more a function of the market.

Mr. Raj Grewal: Is that including financial companies that may have a large exposure to the housing market?

Mr. André Bourbonnais: I would have to come back to you on that. I don't have that here.

Mr. Raj Grewal: The leading question is that there's a concern in Toronto and Vancouver about the housing market. Is there anything the pension board is doing to curtail that strategy or hedge against that strategy?

Mr. André Bourbonnais: No. We are essentially in commercial real estate, with some residential, but mostly development, and we're also in shopping malls, so there's very little exposure to that kind of market.

Mr. Raj Grewal: Including lending companies that would be involved in....

Mr. André Bourbonnais: Yes, I—

Mr. Raj Grewal: There would be a trickle-down effect. If you unwrap some of the complicated financial assets or products out there, a lot of them.... If something happens like what happened in 2008—we're all hoping not—we want to make sure that our public sector pension plan is well aware of it and, more important, that they have a strategy in place to ensure we can respond to it adequately.

If you have more information on that and can get it back to the committee, that would be great.

Mr. André Bourbonnais: We will.

Mr. Raj Grewal: In terms of you and the Canada Pension Plan Investment Board, because you are both crown corporations that operate at arm's length, is there any investment strategy dialogue between the two organizations?

Mr. André Bourbonnais: We do. Certainly, at the CEO level, I can tell you that most of the CEOs of the large pension plans talk to each other. We would like to do more. As I've often said, it's at the deal team level that it's a little more difficult. They see more competition than we do, but we've recently seen examples, especially in the infrastructure space, where the Canadian pension plans have gone in together and not competed against each other, which is a very good sign.

The Chair: You have a few seconds to finish up.

Mr. Raj Grewal: It's okay. It was a more complicated question.

The Chair: Thank you very much.

Yes, sir.

Mr. André Bourbonnais: To go back to Mr. McCauley's point, we haven't made the analysis, but what we can tell you is that against a reference portfolio, which would be a zero or very low-cost base, in the last 10 years we've generated \$16.3 billion of value-added, net of our costs. I think it's evidence that active management is working.

Mr. Kelly McCauley: [*Inaudible—Editor*] you actually outperformed the standard of the S&P 500 quite significantly, but I maybe looked at the wrong numbers—

The Chair: Thank you very much, gentlemen.

Monsieur Bourbonnais and Monsieur Garant, I thank you on behalf of the committee. It's been very informative. Just from a personal vantage point, once again, keep up the good work.

An hon. member: Yes, please.

Some hon. members: Oh, oh!

The Chair: We're going to suspend for about two minutes. Then we'll come back, colleagues, have a number of votes on the supplementaries, and then go in camera.

• _____ (Pause) _____

•

• (1710)

The Chair: Colleagues, we are still in public. We have seven votes on supplementary estimates (A). You're all familiar with them. I think you have copies in front of you. I'll go through these as quickly as possible so that we can get into committee business.

PRIVY COUNCIL OFFICE

Vote 1a—Program expenditures.....\$23,250,293

(Vote 1a agreed to)

PUBLIC WORKS and GOVERNMENT SERVICES

Vote 1a—Operating expenditures.....\$290,359,023

Vote 5a—Capital expenditures.....\$60,943,600

(Votes 1a and 5a agreed to)

SHARED SERVICES CANADA

Vote 1a—Operating expenditures.....\$109,675,247

Vote 5a—Capital expenditures.....\$161,808,663

(Votes 1a and 5a agreed to)

TREASURY BOARD SECRETARIAT

Vote 1a—Program expenditures.....\$43,371,793

Vote 20a—Public Service Insurance.....\$1,909,207

(Votes 1a and 20a agreed to)

The Chair: In order to report to the House, I would ask for the concurrence of the committee to report this to the House tomorrow.

Some hon. members: Agreed.

The Chair: It shall be done.

Now we will go in camera.

[*Proceedings continue in camera*]

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