Standing Committee on Public Accounts

EVIDENCE

Thursday, May 19, 2016

Chair

The Honourable Kevin Sorenson
Standing Committee on Public Accounts

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The Vice-Chair (Mr. David Christopherson (Hamilton Centre, NDP)): I declare this 15th meeting of the public accounts committee now in order.

Colleagues, we are here to study the “Public Accounts of Canada 2015”. As per our procedure, we have before us our Auditor General, Mr. Ferguson, as well as Mr. Matthews, the comptroller general of Canada.

My understanding is that both of you have opening remarks.

With that, I will turn the floor over to our Auditor General, Mr. Ferguson.

You now have the floor, sir.

Mr. Michael Ferguson (Auditor General of Canada, Office of the Auditor General of Canada): Mr. Chair, thank you for the opportunity to discuss our audit of the consolidated financial statement of the Government of Canada for the 2014-15 fiscal year. I am accompanied today by Karen Hogan, principal, who is responsible for the audit of the Government of Canada's consolidated financial statements.

The audit of the Government of Canada's consolidated financial statements is an important aspect of government accountability. It is the responsibility of the government to prepare the consolidated financial statements. It is our responsibility to express an opinion on whether these consolidated financial statements are fairly presented.

The comptroller general will address any questions related to the government's consolidated financial statements. We will focus our comments on our audit opinion and our observations.

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 other sections of this volume and the two other volumes is unaudited.

Our independent auditor's report on the 2014-15 consolidated financial statements can be found on page 2.40 in volume 1 of the public accounts.

This marks the 17th consecutive year in which we have expressed an unmodified audit opinion.

For the year ending on March 31, 2015, the government adopted a new public sector accounting standard on liabilities for contaminated sites. Over the past few years, the government has started recording its liabilities for contaminated sites in anticipation of this new standard. Therefore, the adoption of the new standard did not increase the recorded liability but did result in more comprehensive note disclosures.

During the audit, and as we discussed in our observations, we noted that the government has an extensive inventory listing of contaminated sites and of possibly contaminated sites, which supports the estimated liability.

We concluded that there was room for improvement in the timeliness and refinement of the estimation process for contaminated sites. Regular updates are required as sites are remediated, as changes in environmental standards emerge, and as estimation techniques improve.

In addition, our observations over the past several years have highlighted concerns about the financial reporting of inventories at National Defence. Although the department continues to make progress on several initiatives to improve its financial reporting capabilities, we continue to find errors.

For 12 years, we have been reporting concerns about inventories at National Defence, which are significant to the government's consolidated financial statements. This year, we noted a reduction in quantity errors, but we continued to find errors related to obsolescence and inaccurate pricing of inventory.

We were pleased to see increased awareness of these issues and coordination by the department's senior managers, who are beginning to take the steps needed to implement improved financial management controls. Strong internal controls reduce the risk of misstating the consolidated financial statements and making decisions without accurate information.
The audit of the Government of Canada's consolidated financial statements is a large and extremely important one for our office. The time devoted to this audit is approximately 48,500 hours of work across several departments and agencies, which is carried out by more than half of our financial auditors.

This work adds value by strengthening oversight, promoting transparency, and encouraging continuous improvement, all of which support the accountability relationships among departments, agencies, and elected officials.

[Translation]

We thank the comptroller general and his staff, and others in the departments, agencies, and crown corporations who were involved with the preparation of these statements. A great deal of effort and work was required, and we appreciate the co-operation and assistance provided to us.

Mr. Chair, this concludes my opening remarks.

We would be pleased to answer the committee's questions.

Thank you.

[English]

The Vice-Chair (Mr. David Christopherson): Thank you, Mr. Ferguson.

Now over to Mr. Matthews.

Welcome, sir. It's good to see you again back at our committee. You now have the floor for your opening remarks.

[Translation]

Mr. Bill Matthews (Comptroller General of Canada, Treasury Board Secretariat): Thank you, Mr. Chair.

Good afternoon to you and to all the members of the committee.

[English]

Thank you for this invitation to appear before you this morning to talk about the public accounts of Canada for the year ended March 31, 2015.

[Translation]

I am really pleased to be here in my role as Comptroller General of Canada. With me today is Diane Peressini, executive director, Government Accounting Policy and Reporting, and Nicholas Leswick from the Department of Finance.

[English]

Public accounts include the audited consolidated financial statements of the Government of Canada, as Mr. Ferguson has just mentioned, for the 2014-15 year in addition to other unaudited financial information.

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

Every year the government presents the consolidated financial statements to the Auditor General of Canada who audits them to provide an independent opinion to the House of Commons.

[Translation]

Mr. Chair, Canadians can be confident in the accuracy of the public accounts.

[English]

For the 17th consecutive year, the Auditor General has provided an unmodified or clean opinion on the government's financial statements. This testifies to the high standards and quality of the government's financial statements and reporting, and is an achievement of which all Canadians can be proud.

I would like to thank the members of the government's financial community for all of their work in helping prepare these consolidated financial statements. This is truly a piece of work that goes across the government.

[Translation]

In addition, I would also like to thank the Auditor General and his staff for the continued professional working relationship that we have enjoyed.

[English]

Mr. Chair, I am aware this will be the first time that some members of this committee will have been exposed to the public accounts. For that reason, we have tabled with the committee a short presentation to provide members with a quick overview—but I do understand there was an information session already provided.

If it does please the chair, I would be happy to spend a few minutes to walk through the presentation, or the alternative is simply to leave it tabled with members and they can use it to ask questions as they wish.

[Translation]

I would like to make two other points before I close.

[English]

If members are asking questions that are specific to a certain page number in the public accounts, if you could be kind enough to provide us with that page number, then we can also find the equivalent page number

[Translation]

in the French or English version,

[0855]

[English]

as applicable.

I have one final plea. I did mention that these are a series of financial reports provided to the House of Commons and the Canadian public at large. If Diane and I had brought all of the relevant copies of reports for today's appearance, you would not be able to see us. We would literally be hiding behind a wall of reports.
Every year we ask that if there's information we're providing in the public accounts that members do not find useful, please tell us. Volume 3 of the public accounts contains information that you will not see published by any company in Canada. This is unique to the public sector: We are reluctant to propose reductions in information, in the interests of maintaining openness and transparency, but if there are things the committee sees, whether it's a threshold that seems too low, or information you truly don't find useful, please let us know when you do your study.

Thank you very much.

The Vice-Chair (Mr. David Christopherson): Very good. Thank you, Mr. Matthews.

I'm in the hands of the committee as to the presentation you have. I suggest to colleagues that we wait until we've done our rounds and then evaluate how much time we have and whether we want to receive it or move into a session.

Mr. Arya.

Mr. Chandra Arya (Nepean, Lib.): If it does not take too much time, I would prefer to have that upfront now with the comptroller general walking us through it rather than waiting until the end.

The Vice-Chair (Mr. David Christopherson): Sure. Okay. I'm in your hands. It's up to the committee.

How long would the presentation be, Mr. Matthews?

Mr. Bill Matthews: I'm in your hands there. I can do it in five minutes, or I can do it 10.

The Vice-Chair (Mr. David Christopherson): Great. It's a good opportunity for the public also to get part of this briefing.

By all means, Mr. Matthews, we are going to take you up on your offer to make your presentation. Then I'll take a few questions on that presentation to conclude that, and then we'll return to our usual rotation.

Mr. Bill Matthews: Mr. Chair, I'm sensing that maybe not everyone has a copy of the presentation.

Mr. Chandra Arya: It's not here.

The Vice-Chair (Mr. David Christopherson): It's on your iPad. There aren't copies available. There wasn't an expectation that they would be needed.

How quickly can we get copies?

Mr. Mike Bossio (Hastings—Lennox and Addington, Lib.): We can share.

The Vice-Chair (Mr. David Christopherson): Monsieur Godin, you're good?

Mr. Joël Godin (Portneuf—Jacques-Cartier, CPC): I just want to make sure that we are talking about the document entitled, “Presentation to the Standing Committee on Public Accounts”.

Mr. Mike Bossio: Good.

The Vice-Chair (Mr. David Christopherson): I see that all colleagues are good. There are no further interventions.

Mr. Matthews, would you be good enough to begin?

Mr. Bill Matthews: Thank you, Mr. Chair.

I will go through this quickly and just hit the highlights. Thank you for the opportunity.

I've already covered the material on slide 2, so I'm going to start on page 3 of the presentation.

Just to give you a sense of what is in the Public Accounts of Canada, we have broken this down for you in a pie chart of where expenses are happening as well as the assets held by the government. There are three big buckets here for us.

The biggest one is departments and agencies. That represents $272.2 billion in spending and expenses during the fiscal year. The other two you'll see here relate to crown corporations. On the upper left you'll see something called “Enterprise Crown Corporations”. Those are organizations like Canada Mortgage and Housing Corporation and Export Development Canada that are basically self-sustaining. The final bucket, which is a smaller one with expenses of $8.3 billion, relates to crown corporations such as museums, CBC, and VIA Rail.

The reason we've split those for you is to give you a sense of the spending; but also we account for those things differently. We account for the organizations, or the crowns, that are self-sufficient as assets. If you look in the public accounts statement of financial position—or balance sheet, if you are from the private sector—you would see the crown corporations like CMHC rolled up into an investment line. I wanted to highlight that for you.

[Translation]

On the next page, we see that the government's fiscal year begins on April 1 of each year and ends on March 31. As I already mentioned, today, we are looking at the public accounts for the year that ended on March 31, 2015.

[English]

I want to give you a sense of the government's financial reporting cycle. If you feel like you're in three fiscal years at once, you're understanding what's happening. We are wrapping up the year-end at March 31, 2015. This is the final piece of that. The public accounts were tabled back in the fall, but the public accounts committee's study of those is important. We are now in the process, with our colleagues from the Auditor General, of getting ready for the audit for the year that just ended March 31, 2016. At the same time, Parliament has already seen a budget, the main estimates, and supplementary estimates (A) for the current fiscal year, the year that started March 31, 2016. There are three things going on at once.

• (0900)

[Translation]

Perhaps you are wondering why it takes several months to prepare the government's financial statements. It is important to understand that the fiscal year ends on March 31.
We table the public accounts in the fall.

We have a good sense of expenses several months after year-end, but nailing down the revenue numbers is what takes the longest, and it's because our friends at the Canada Revenue Agency have to process a certain number of tax returns before we can get a good estimate. We also have to give our colleagues at the Auditor General's office some time to go through that information and properly audit it.

The other piece, of course, is that we do wait until Parliament is sitting before we table the Public Accounts of Canada.

Look at page 5 for roles and responsibilities, because they are a little confusing. It is a team effort, as I mentioned earlier. The Receiver General, which is part of what used to be called Public Works and Government Services Canada, and is now Public Services and Procurement, compiles the data. They run the systems that produce these things, and they're responsible for the printing of the documents.

The Office of the Comptroller General takes care of the government's accounting policies in terms of what the standards are, how to interpret them, and preparing the note disclosure for the financial statements.

The Department of Finance—and as I mentioned, Mr. Leswick is here—is responsible for section 1, which is the overview discussion and analysis of the financial results.

Those are the three organizations involved in the preparation.

The Auditor General's office is responsible for giving an audit opinion on those financial statements themselves.

Maybe we'll wrap up with slide 6, because I don't think there's any point in going through the numbers. We'll get to those later. There are three volumes, as was mentioned.

Volume 1 is the consolidated financial statements of the Government of Canada. What that means is that it's a statement of financial operations, which is what some older people would call an income statement. It's revenues and expenses. You will see a statement of financial position, which some of us from the private sector many years ago would call a balance sheet. That means assets and liabilities. We're like the private sector in that regard. You'll also see a statement of net debt and a statement of cash flow. That's what the Auditor General audits.

Volume 2 is where we get back to Parliament and tell them how much money it voted for each department and how much was spent. Volume 2 relates back to the estimates. It's where Parliament gets a chance to see what was voted, how much was spent, and what gets carried forward.

Volume 3 is the volume 1 mentioned in my opening remarks, which is the volume you will not see anywhere in the private sector, where we have additional disclosures and information that is out there for your information.

I think with that we'll wrap it up. I want to flag for you there is some technical language here. At the end of this presentation, we do have a series of definitions that may help you if you're looking for technical terms. Before that, we have some financial highlights to focus your attention. One point you will notice is that there is a budget that we compare to the financial results achieved, both the initial budget that was tabled as well as the results achieved the year before. That's for the expenses and revenues. It give you a sense of what the budget was and what the actuals were. Then we have information on assets and liabilities. You'll notice that there is no budget for those. It's just the results. The budget numbers are only relevant for revenues and expenses, and not for assets and liabilities.

I will stop there, Mr. Chair.

I would be pleased to answer any questions the committee members may have.

The Chair (Hon. Kevin Sorenson (Battle River—Crowfoot, CPC)): Thank you very much, Mr. Matthews, and thank you to our Auditor General and his department for being here.

I should welcome Mr. Leswick back, from the Department of Finance.

If we do have questions, we have the Treasury Board and Auditor General's office present, as well as the finance department.

We'll move into the first round of questioning.

Thank you for the overview of public accounts. As you mentioned in your briefing, we have had other representations that have gone through the public accounts volumes with us. As new members of Parliament, many would have received last fall a package with these three big volumes, opened it up, and wondered, “Wow, what now?” Thank you for helping us to understand a bit more about them.

We'll go into the first round of questioning.

Mr. Lefebvre, please, for seven minutes.

Mr. Paul Lefebvre (Sudbury, Lib.): Good morning everyone. Thank you for being here this morning.

I have a question for the Auditor General.

We reviewed the documents of the public accounts. One of the main concerns I have is your observations with respect to DND. After looking at this for 12 years, you're saying that there've been some improvements with respect to their inventory. Around $6 billion of the $7 billion in government inventory is with DND, and yet for the past 12 years they've had some major challenges in determining the pricing and the obsolescence of some of their materials.

What improvements have you seen?

My next question after that is, are you intending to do a full audit down the road, or has an audit already been done in the past and some recommendations have been given in the past?
Mr. Michael Ferguson: Certainly, it's been an observation, as you said, that we've been making for a number of years. We have been seeing some improvements—I'll ask Ms. Hogan to give you some details on that—remembering that these observations are based on the bigger audit we're doing of the consolidated financial statements of the government. We do not get down into the level of detail of an audit, like a performance audit, or something specifically about DND inventory. That's something that we could consider.

I'll ask Ms. Hogan to provide some details about some of those improvements or changes we've seen in the past.

Ms. Karen Hogan (Principal, Office of the Auditor General of Canada): Over the past year we've been happy to see that senior management at the Department of National Defence is now much more coordinated and focused together. There's an increased awareness of the concerns and the issues related to inventory. We're happy to see that the public servants and the military are now talking and working toward improving the financial reporting around inventory.

One of the things we did also notice was a reduction in errors when it came to the quantity of the items on hand. We chalk that up to the fact the department has started to do a lot more stocktaking of high-risk items. They do it on a rotational basis. We're definitely seeing improvements there, because they're taking a much more active interest in counting it.

Mr. Paul Lefebvre: In the past 12 years we've known this is an issue. Why hasn't a performance audit been done on this?

Mr. Michael Ferguson: To this point we have continued to raise it as part of the audit observations. It's something we can consider, whether there would be more value if we looked at it more in depth in a performance audit. To this point, at least in my memory, we haven't done one, and certainly not in recent years, but we'll take it as a suggestion to consider.

Mr. Paul Lefebvre: This question is for Treasury Board Secretariat. With respect to crown corporations, in 2005 we see that their revenues were $7.2 billion, and in 2014-15 it was $13.5 billion in revenues. How can you explain the huge increase in revenues in the sector over the last 10 years?

Mr. Bill Matthews: Maybe I will start and then see if my colleague, Mr. Leswick, wants to add in.

We have had roughly the same number of crown corporations. It is not an increase in the number of crowns, but some of them have increased in size. Particularly, over that period, I would flag for your attention the Canada Mortgage and Housing Corporation, which has certainly grown. If you go back to the recession, for example, the Canada Mortgage and Housing Corporation was used as a vehicle to deliver stimulus to the economy, so there was some growth there. Also, the mortgage business in Canada in general has grown over that period of time. If you are going back 10 years or so, that is the one I would flag as the one that has probably grown the most.

Nick, you may wish to add something.

Mr. Nicholas Leswick (Assistant Deputy Minister, Economic and Fiscal Policy Branch, Department of Finance): I would add only a couple of other points.

One is the foreign exchange gains. A lot of crown corporations hold financial assets in U.S. dollars, which translate to a Canadian dollar equivalent for the purposes of public accounts.

Mr. Paul Lefebvre: Do you have some examples of which crown corporations would have been affected by that?

Mr. Nicholas Leswick: It is our foreign exchange account in general, our foreign exchange holdings held at the Bank of Canada, which is in the order of magnitude of around $60 billion. Some part of that...I don't want to put a number on the table, but about half of it is held is U.S.-dollar assets.

In the middle of 2014, with the market in decline and the value of the Canadian dollar linked to the collapse in oil prices, there was a depreciation of the Canadian dollar, which led to a revenue gain. Likewise, another point related to that is the CMHC's disposal in 2014 of a large amount of investment assets. When it carries them in another comprehensive income line until disposal, it realizes the gain and brings that into its revenue line. Hopefully that was understandable. It realizes the gain and brings it into revenue upon disposal. That was a transaction in 2014 as well.

Lastly, I would say that the government of the day continued to dispose of its holdings in General Motors. For the 2014-15 year, that was in the order of magnitude of about $1 billion. Coupled with what the comptroller general said, it gives you a sense of why the other revenues line topped out.

Mr. Paul Lefebvre: The liabilities for contaminated sites—environmental liabilities—increased by $1.2 billion in 2014-15. Can you explain why there was a big increase in that year?

Mr. Bill Matthews: In his observations on the contaminated sites, the Auditor General has already touched on it. When you look at the contaminated sites inventory, changes in evaluation are to be expected. As you clean up sites and further assess things, estimates go up or down. There are roughly 6,600 that we have yet to assess. Understand that we book a liability once we have done an assessment to a certain point where we have some confidence in the number, and that will change over time. If you think about Giant Mine or Faro Mine, that is a very complicated cleanup. As time goes on, the liabilities go up and down.

The final point I will leave you with is that the vast majority of our environmental liability really relates to a handful of sites: Faro Mine, Giant Mine, Esquimalt Harbour. I have forgotten their names off the top of my head, but there is one or two more. I think about 65% or 70% of our liability probably relates to four or five sites. For the new members here, you will see changes in the environmental liabilities of the government as further assessments get done and as greater experience happens in terms of cleaning up. Generally, they trend upwards, but sometimes you have an initial assessment of a site where a very comprehensive cleanup is required. Then they look at the environmental standards and go, “You know what? Maybe we don't have to do that much; maybe we can do something different.” In other cases, it goes down. Every year, we ask departments to update their estimates based on current information.
As the Auditor General mentioned, there is a new accounting standard in place. That drove some of the change, for sure, because we had to change our practices a bit. It is quite normal for these estimates to change year to year.

The Chair: Thank you very much, Mr. Matthews and Mr. Lefebvre.

We will move over to the official opposition and Mr. Godin.

Mr. Joël Godin: Thank you, Mr. Chair.

First, I would like to thank you for taking part in this exercise. It is always nice to see you and to get answers to our questions. I thank you for being here this morning.

The information I am getting here this morning is music to my ears because our committee is often trying to make systems more effective.

According to what I see here, public debt charges decreased by 5.8% from $28.2 billion in 2013-2014 to $26.6 billion in 2014-2015. The work that has been done is positive. Throughout your presentation, you talked about the reduction in the accumulated deficit-to-GDP ratio. That is very good and we can only be pleased about it.

Comptroller General, in the presentation that you gave following the Auditor General's remarks, you mentioned that this testifies to the high standards of the government's consolidated financial statements.

I understand that the existing standards are very effective. Good work was done in the past and an effective system was created. We are now getting into the fine-tuning. Is that correct?

Mr. Bill Matthews: Thank you for your question.

I have three things to say.

First, with regard to accounting standards, in 2003, we changed our accounting method and adopted an approach that was more consistent with what was being done in the private sector.

Standards change from time to time, so we are always having to keep up with changes in accounting standards. Accounting standards are set independently in Canada, so we follow accounting standards set by an independent board.

The Auditor General mentioned that the government adopted a new accounting standard with regard to contaminated sites.

We have to keep up to speed with those things.

The other thing I would say is that we have roughly $250 billion to $270 billion in expenses and revenues, depending on the year. There are always going to be errors found by the Auditor General. That's their job: to go through an audit, challenge our estimates, find mistakes. Every year we learn, and every year we get better, but there is still work to do, especially on National Defence inventory. That's been a challenge we've had for a number of years. It continues to get better, but it's still not good enough.

It is, then, a matter of continuous improvement for sure, on the base, but also of keeping up with the changes in accounting standards.

Third, the preparation of the government's financial statements requires considerable estimations and judgment. This is not an exact science. We talked about estimating the environmental liabilities. You're really projecting what it's going to cost to clean up a contaminated site, and they're all different.

Think about something such as veterans' expenses and veterans' liabilities. We are trying to project the eventual cost of caring for our current group of servicemen and servicewomen and existing veterans. There are estimates involved in health care costs, in age, in how many people will take up the services. It is quite a complicated process, and we're always refining those estimates as we learn and get more exposure.

Those are the three things I would leave you with.

Mr. Joël Godin: Thank you, Comptroller General.

You mentioned that the accounting standards changed in 2003 to become more consistent with what was being done in the private sector. To be honest, it also made things easier to understand.

I would like to know what you think about that change. Was it a good thing or a bad thing? What are the pros and cons of that change?

Mr. Bill Matthews: It's a long story.

The private sector has been using accrual accounting for many years, while governments across Canada were using cash accounting.

It was cash accounting then, versus accrual accounting. For the non-accountants around the table, here is a very simple example. With cash accounting, if you buy a car you have an expense of $20,000 on the day you buy it. Under accrual accounting, you would depreciate that vehicle over ten years or five years, or however long you're using it, so you'd have an amortization expense. It's more complicated than that, but that's a simple example.

This change was good in that it helped us to understand all of the government's assets and liabilities. It focuses on assets and liabilities, which was not the case in the past.

I think that was a positive change.
That said, it was a massive change, and any change such as that requires an awful lot of work. It was not done overnight; it took many years of preparation. It helps us follow best practices, and the standards are independently set, so it was a good practice.

That being said, Parliament still votes funds to departments on a cash basis. That subject comes up frequently for debate, as the estimates.

[Translation]

The government's estimates still function on a cash basis, because it is easier to understand. That is the first reason.

[English]

That still exists, then, on a cash basis, but the budget of the government and the public accounts are based on independently set accounting standards for the public sector. They're accrual-based, comparable in a sense to what has happened in the private sector.

[Translation]

Mr. Joël Godin: I would like to take this opportunity to draw your attention to the fact that the page numbering is not the same in the French and English versions of the document. It is confusing. I would like the document to be changed so that the sections and references are the same in both documents.

Mr. Bill Matthews: Thank you.

Mr. Joël Godin: Thank you.

[English]

The Chair: We will now move to Mr. Christopherson, please, for seven minutes.

Thank you for filling in for me when I was at another appointment this morning.

Mr. David Christopherson: My pleasure, Chair. Thank you very much, and thank you for giving me the floor.

Once again, it is worth underscoring and shouting from the rooftops that the country has its 17th straight clean audit, and regardless of what party is in power, this is great news for Canada. It also underscores why the World Bank, the WTO, and others are pushing, especially emerging democracies, to strengthen their auditor general and public accounts system, in those cases in which they have the Westminster-style parliamentary system.

Basically, what this tells Canadians is that at the very least nobody is stealing the money that should be going into the public bank account; that between the money's being sent here and being received, there's no interference. We know there are countries in which, long before that money ever gets into the national treasury, it's off into some offshore account somewhere and literally stolen. That clean audit is important; this needs to be underscored.

That audit is separate and apart from the performance audits, which constitute the area in which we dig in and find out how well the money that was not stolen was spent. I take great pride, however, in being a member of Parliament in a G-7 country that produces its 17th clean audit in a row. That is impressive, and to all involved on the political side, but I would say especially on the bureaucratic side—the staff—thank you for the work you do on behalf of Canadians. It's appreciated, and it's reflected in this 17th clean audit.

Moving on, having said all that, things are still not perfect. We need to persevere, and National Defence continues to be one of our biggest problem children. In this particular file, again, 12 years—I'm going to pick up where Mr. Lefebvre was... Then we see from the Auditor General that they're beginning to take the steps needed. That's nice to see, but in the context of a problem that's been around for 12 years, it's not overly encouraging.

The one thing I want to ask Mr. Ferguson is this. It says they're beginning to take the steps needed. Was there any obvious impediment to their taking these steps—oh, I don't know—12 years ago?

Mr. Michael Ferguson: I think we have over time seen the department take the steps at various times and at different rates of speed. What we are pointing out now is that we feel that the department is engaged in this. We have seen improvements, particularly in their count of the inventory, in knowing the quantity of inventory.

We are still concerned, thought, that they are making what I would call, in some cases, fundamental pricing errors. To get a number for the financial statements, you have to know how much of something you have and how much it cost, in order to put a value on it. We were still finding some fundamental errors of using the wrong numbers and just putting a price on things. There were also some problems with identifying what pieces of inventory are obsolete and what ones are still useable.

I think we've seen significant progress on the quantity side. There are still some improvements that they need to make on the pricing and obsolescence side. Fundamentally, we would have liked to see much better progress over the last 12 years, but given that we are where we are, as Ms. Hogan mentioned, we are now satisfied with the importance the department has put on this. We're satisfied with the progress they've made on the quantity side, but they still need to do more work on the pricing and the obsolescence assessments.

Mr. David Christopherson: Are you satisfied that they're on the right track with the pricing and obsolescence?

Ms. Karen Hogan: It is a very complex bucket of inventory. It's not your typical widget in DND, obviously, so we're pleased that they're making some progress. There's still a big road to go.

Mr. David Christopherson: When do you think they'll have it solved?

Ms. Karen Hogan: I think that would be better asked to the Department of National Defence or to the comptroller general, perhaps.

Mr. David Christopherson: Comptroller, Mr. Matthews?

Mr. Bill Matthews: Let me add just a few points, because this member has raised this issue repeatedly, and he's right to do so. This has been ongoing for 12 years. I have a couple of thoughts for you.
DND is the biggest inventory holder we have. They actually, if I recall correctly, have more than 200 million parts that they're tracking. We're not going to solve this with manual intervention; this is a systems issue. They had two systems: one to record the inventory and track where it was and a second one that did the pricing. They have recently made some improvements on the systems side, which will help us.

The other piece, and the one I'm preoccupied with, is that I care very much about how old the errors are. DND is still tracking parts that date back to World War II. They're in the system. They're probably not relevant anymore. Now, I don't know that; I'm speculating here.

I get fussed when I find out that the errors are on new stuff. Are the errors on relatively new purchases or are they on stuff that dates back to 1964? It's the new stuff I care more about.

We are in discussions with National Defence. The Auditor General mentioned obsolescence. Maybe there's a certain bucket of parts we should just write off, move on from. Let's be done with those, figure out what's no longer relevant, and just start fresh with the relevant things.

That's a massive undertaking itself, but to fix this, I think that's what we need to do.

Mr. David Christopherson: Okay. A long time ago, in another life before I got into elected office, I worked in a parts department for International Harvester trucks, so I know a bit about parts and tracking them. I know it's a massive undertaking, but I also know that it can be done. Right down to the last little lock washer, you can actually...and I'm talking about systems that were in place back when I didn't have any grey hair, which is quite awhile ago now.

I would assume, then, that for both of you this is an ongoing watch and that we can expect to hear further updates as you're getting evaluations from them.

Mr. Bill Matthews: Yes.

Mr. David Christopherson: Very good.

Do I have time, Chair?

The Chair: Yes, you have one minute.

Mr. David Christopherson: I'd like to return to the issue of the environmental liabilities increasing by $1.2 billion in 2014-15. I think it was Mr. Matthews who mentioned that four or five sites account for about 65% to 70%, if my notes are correct. Is that a mix of public and privately owned land, or is it more one than the other?

Mr. Bill Matthews: The big ones, Mr. Chair, were private at one stage, but the government is always the ultimate risk holder in these cases. Think about Faro Mine and Giant Mine. These were initiatives that were at one stage in the private sector's hands, and in fact the government now is basically responsible for them.

The other big ones—because I have found my list, Mr. Chair—are Port Hope and Port Granby, the other two I mentioned, and also Esquimalt Harbour. Esquimalt Harbour, I think, has traditionally been public sector-owned. Some of these other ones are things the government inherited from private sector organizations that went bankrupt. Environmental standards were quite different, way back when.

Faro Mine and Faro Mine together account for more than $2 billion. That's the big chunk of this liability.

Mr. David Christopherson: I'm troubled by the fact that it used to be private when it was profit-making, and then suddenly, when there was a liability, lo and behold, it becomes the property of—guess who—the Canadian taxpayer.

I just want to drill down a little bit. I don't have a lot of time.

I'm not going to do any drilling, am I, Chair?

The Chair: No, actually. The drilling is done.

Voices: Oh, oh!

Mr. David Christopherson: Well, anyway, I was hoping to.

Thank you, Chair.

The Chair: Thank you.

We'll go back to the government side.

Ms. Shanahan.

Mrs. Brenda Shanahan (Châteauguay—Lacolle, Lib.): I'd like to understand a bit more about what performance measures we should be looking at in the statements. If I go to the debt-to-GDP ratio, could someone walk us through a little bit what we should be looking at there and provide comparables with other countries?

Mr. Bill Matthews: I think that's probably best answered, Mr. Chair, by my colleague from the Department of Finance.

The Chair: Mr. Leswick.

Mr. Nicholas Leswick: The debt-to-GDP ratio is effectively a crude metric, with debt on top, as we calibrate it. It's just the total accumulated deficit of the federal government over the size our economy. It really just gives an indication to two primary audiences: one is investors, the folks who hold our bonds and expect coupon payments on our debt; and the second is taxpayers. The debt-to-GDP ratio is effectively the general debt dynamics of the country, our ability to service our debt based on the size of our economy.

Whereas we had more adverse debt dynamics in the 1990s, through fiscal consolidation efforts on the part of both governments over the last decade and a half, we have gotten our debt-to-GDP ratio down to about 30%. The net debt of the federal government represents 30% of the total size of the economy.

It gives you a sense of our ability to service our debt obligations.

Mrs. Brenda Shanahan: When we compare that against other OECD countries, where do we stand?

Mr. Nicholas Leswick: That comparison is on page—

Excuse me, Mr. Chair. I just want to make sure everyone has the right page in front of them.

Mrs. Brenda Shanahan: It's page 1.20.
Mr. Nicholas Leswick: To get to a level of international comparability there have to be some kind of inputs and outputs so that we're all talking about the same type of debt. For basic understanding, we have a highly decentralized federation, in the sense that there are many spending obligations that rest with the provinces compared with a place such as Germany, which is highly centralized. To get to a comparable total government net debt-to-GDP comparison, we have to establish the international comparability to get to the same kind of calculation for net debt.

To answer your question directly, you can see that far and away Canada has the best kind of debt dynamics among G-7 partners.

Mrs. Brenda Shanahan: I guess I would ask this of the Auditor General: When we're looking at risks going forward, is this a matter of concern?

Mr. Michael Ferguson: If you look at the front section of volume 1, the financial statement discussion and analysis section, you see significant improvement over the last 20-odd years in the performance of the federal government.

I think it is important, as was just mentioned, to remember when looking at things such as level of net debt and net debt-to-GDP, that in Canada there is only one taxpayer. The level of debt of the provinces is also important when making the comparison to total GDP, because the GDP for the country is what it is. I think there has been significant improvement.

There has always been a bit of an issue of trying to identify what an appropriate level of net debt-to-GDP is. I don't think anybody has ever said that X is what a country's net debt-to-GDP should be.

The risk lies with such things as interest rate increases. You can see that in 2015, out of $280 billion worth of spending, $26 billion is an appropriate level of net debt and net debt-to-GDP, that in Canada there is only one taxpayer. The level of debt of the provinces is also important when making the comparison to total GDP, because the GDP for the country is what it is. I think there has been significant improvement.

I also want to ask you about where I would find the marketable securities that are contained.... We're looking at the venture capital program. Where would I find the valuation of the assets that are within that program?

Mr. Nicholas Leswick: To answer your first question, the financial statement discussion analysis should give you a picture at the highest level of what some of the one-off gains are. We referenced these one-off gains to other revenues in the context of crown corporations here.

For more detail, you'd have to go to deeper levels into some of the departmental financial statements to understand what the nature of these gains was in such places as CMHC or in other places, such as the Bank of Canada with respect to our foreign exchange gains and losses.

To answer your second question, venture capital, I would submit to the chair that I could work with the clerk to provide you more detail on the valuation of our venture capital program, but it is housed at BDC. If you went to BDC's financial statements you would see their initial investment and the valuation allowances against that initial investment.

I was just looking at that a couple of weeks ago. It's pretty clear in the footnotes.

Mrs. Brenda Shanahan: Excellent. Thank you.

The Chair: We will now go to Mr. Poilievre, please, for five minutes.

Hon. Pierre Poilievre (Carleton, CPC): One of you was talking about CMHC and the increase in the size of its book over the last decade.

I think it was you, Mr. Matthews.

Are you concerned about that increase?

Mr. Bill Matthews: If you look at our crown corporations, Mr. Chair, they operate under very strict parameters. The expansion I referred to under CMHC was deliberate growth, if you will, by way of additional programs implemented by the government of the day to increase liquidity in the Canadian financial markets. It is not as though it was done without notice; it was deliberately done, and they were the vehicle of choice.

If you ask me whether I am concerned about their size from a financial risk perspective, there are lots of articles these days about the mortgage industry in Canada, etc. I would be concerned if I had a crown corporation that was operating outside of its legal mandates, taking on programs we weren't aware of, but this was very much, I would call it, deliberate growth.

Mr. Leswick may want to join in.

Mr. Leswick: If you look at our crown corporations, Mr. Chair, they operate under very strict parameters. The expansion I referred to under CMHC was deliberate growth, if you will, by way of additional programs implemented by the government of the day to increase liquidity in the Canadian financial markets. It is not as though it was done without notice; it was deliberately done, and they were the vehicle of choice.

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Mr. Leswick may want to join in.

Hon. Pierre Poilievre: When you talk about policy decisions to expand liquidity, are you talking about the mortgage purchase program that happened during the height of the recession?

Mr. Bill Matthews: That would be one example, yes.

Hon. Pierre Poilievre: That was approximately $75 billion?

Mr. Bill Matthews: If I recall correctly, I think you're in the ballpark, but I can't say I'm certain.
Hon. Pierre Poilievre: The book of CMHC right now is just over half a trillion dollars, I think?

Mr. Bill Matthews: It's in that neighbourhood, yes. Their financial statements are disclosed.

One thing I did not mention, Mr. Chair, is that the Auditor General does individual audit opinions on all of the crown corporations, so there is specific information out there on CMHC.

Hon. Pierre Poilievre: What portion of the growth in the book is accounted for by the liquidity program that you mentioned earlier?

Mr. Bill Matthews: I'd have to undertake to get back to you. I suspect Mr. Leswick doesn't know off the top of his head; we'd have to get back to you to isolate the impact of those programs on CMHC overall.

Some of those programs, to be fair, have been unwound. That was a really good example of an event that was deliberate growth. Then there is also the growth of the mortgage industry in general.

Hon. Pierre Poilievre: Do you have anything to add to that?

Mr. Nicholas Leswick: I don't have the ratio at the tip of my fingers, but I think the direction in which the member is going is correct. The size in that balance sheet is being driven by the size of the long book, in terms of CMHC's underwriting of mortgages with high loan-to-value ratios.

Mr. Bill Matthews: I'm sorry, Mr. Chair, my colleague may have some information.

Ms. Diane Peressini (Executive Director, Government Accounting Policy and Reporting, Treasury Board Secretariat): According to CMHC's published annual reports, the economic action plan in 2009 added about one billion dollars in both 2010 and 2011 related to social housing and those types of initiatives. They also provided $2 billion in direct low-cost loans to municipalities.

Hon. Pierre Poilievre: Those are very small [Inaudible—Editor]

Ms. Diane Peressini: Then, through economic action plan 2014, the CMHC's guarantees under the MBS—the mortgage-backed securities program—went up to $80 billion, and new issuances for the Canadian mortgage bond program were $40 billion. In economic action plan 2013 there was an investment of more than $1.25 billion over five years, starting in 2014, to extend investments in affordable housing.

So there have been some sizeable investments.

Hon. Pierre Poilievre: Okay, but those individual $1-billion or $2-billion investments in affordable housing would not be a large share of the half-trillion-dollar book of the CMHC.

Mr. Bill Matthews: No, Mr. Chair. For the member's question about the actual size of the loan book, we'll have to get back with a little bit of analysis for you, if that's acceptable.

Hon. Pierre Poilievre: Have you examined CMHC's securitization program at all?

Mr. Bill Matthews: I have not and I can't speak to whether the Auditor General has looked at that as part of their audit.

Mr. Michael Ferguson: We have not looked at the program specifically. The audit we would do at CMHC would be on the financial statements and expressing an opinion as to the fairness of the presentation of those financial statements, making sure that all these programs have been properly accounted for.

Hon. Pierre Poilievre: The interest ratio of the Government of Canada right now is just over nine cents; for every dollar in revenue we have about nine cents in interest expense on Canada's national debt.

How does that compare historically?

Mr. Bill Matthews: I'll start, and Mr. Leswick may wish to add.

If you look right now, on revenue of roughly $280 billion, the interest expense....

I lost my number. Let me get Diane to grab that for me.

Ms. Diane Peressini: It's $27 billion.

Mr. Bill Matthews: Thank you.

It's $27 billion, so it's in the nine cents ballpark, as the member mentioned, Mr. Chair.

Interest expense in general has been going down because, as we are aware, there are low interest rates right now. Government holds a mix of shorter-term and longer-term debt arrangements, so it's not all just short-term rates, but the interest rate itself is going down, and that has been driving down public debt charges.

Is there anything you wish to add?

Mr. Nicholas Leswick: No, but I will reference page 1.9 in volume 1, which shows you the interest ratio on public debt charges since 1990. It shows the downward trajectory that the comptroller general was speaking to.

Hon. Pierre Poilievre: Given the terms and timeframes of Government of Canada debt issuance, how long would it take for an increase in interest rates to translate into an increase in debt service charges?

The Chair: Mr. Leswick.

Mr. Nicholas Leswick: It's immediate, and there are two reasons for this. One is that, as the comptroller general was saying, we borrow across the yield curve. We have our debt management strategy, which tries to manage its cost and risk dynamics.

One is cost. Shorter-term borrowing is less costly, because we're borrowing at lower interest rates on the far left-hand side of the yield curve. But we want to manage our risk dynamics, in the sense that we don't want to roll over the stuff every three months, because we don't want to subject ourselves to the interest rate roll-over risk. Effectively, we borrow steadily across the yield curve.
To answer the member’s question directly, if short-term rates went up tomorrow, our short-term borrowing costs would go up tomorrow, so there would be a direct impact almost immediately. However, you have to manage that in context of the entire $600-billion borrowing program, which is the entire value of our interest-bearing debt.

The Chair: We will now move over to Mr. Arya, please, for five minutes.

Mr. Chandra Arya: My question is for Ms. Hogan. The Auditor General made a statement on DND: “Strong internal controls reduce the risks of misstating the consolidated financial statements and making decisions without accurate information.” In your opinion, do they have strong internal controls today?

Ms. Karen Hogan: We do not do an internal control audit over their inventory. We audit it substantively. As Mr. Matthews mentioned, there is room for improvement in the systems to ensure that inventory is more accurate.

Mr. Chandra Arya: Maybe I will ask Mr. Ferguson. In your opinion, do they have this?

Mr. Michael Ferguson: As Ms. Hogan mentioned, when we audit something—a balance sheet item or transactions in a set of financial statements—the first thing we will do is assess the internal controls to determine whether they’re sufficient for us to rely on when we are expressing our opinion.

In the case of the DND inventory, we do not rely on the internal controls. They have some, and as I’ve said, they’ve been doing a better job in terms of some of their quantity pricing, but their level of internal controls is not sufficient for us to be able to say that we can rely on those controls to be able to do what they are supposed to do. They definitely need to improve on their controls as well.

Mr. Chandra Arya: Thank you.

Mr. Bill Matthews: Just to further explain that, the Government of Canada has a policy on internal control that every department aspires to comply with, because it is fairly new in policy terms—meaning several years old. DND is targeting compliance by 2018-19. They would admit themselves that they have a distance to go on internal controls. As the Auditor General just underlined, the audit does not rely on that control environment, so it is a work in progress.

Mr. Chandra Arya: My next question is on volume 2, section 9. I was trying to find out the amount of money that was allocated or spent under one of the programs called Canada summer jobs. I couldn't find it. In the last committee meeting I was told that maybe we can find it on the website of the department. I went back and tried to find out, and I didn't find it there. The same volume 2, section 9 goes on to give details about a $2,000 item, but major program information is not available either in this report or on the website of the department.

How and where can I find it?

Mr. Bill Matthews: This drifts into an interesting area. The way that Parliament actually votes money, there are three buckets for most big departments: capital, operating, and grants and contributions. That's the vote structure.

But associated with that, every department has multiple programs—many programs, and the member has highlighted one here for Canada summer jobs. I'm going out on a limb here, but the way you can find that information is that every department produces what's called the departmental performance report, which is their actual results as compared to their planning information. You will see information by program there. It should be in the departmental performance report on the department’s website.

We will look and provide that information.

Mr. Chandra Arya: Concerning budget projections, what in your opinion is the general trend of budget projections during the last 10 years, as to whether governments underestimate or overestimate in their projections?

Mr. Bill Matthews: Maybe I will start. I like to get the first word in and then give my colleague the chance to clean up.

When you look at budget projections, understand that there is a revenue and expense base of roughly $280 billion, depending on the year. Plus or minus $10 billion is a lot of money, but as a percentage it’s pretty small stuff. Understand, then, that this is in context, because in the assumptions that we have to make, it’s quite possible that you will see that.

If you go back over history, the government has had a better track record in estimating expenses. Revenue is more problematic. The revenue estimates are tougher to do, but the reason varies by year. Some years it’s the exchange rate; some years it’s corporate taxes.

The budget is done typically two months or so before the year starts. In an environment in which the economy is changing rapidly, it is tough to estimate.

I’ll let Mr. Leswick see whether he has anything to add.

Mr. Nicholas Leswick: I’ll just say that the C.D. Howe Institute does a report card for all federal and provincial governments, and they grade us in terms of transparency and just general results—results in terms of bias and accuracy—and the federal government is at number two. We got an A-minus in the most recent report card, so we do all right.

Mr. Chandra Arya: Good.

Last, I have a couple of quick questions, if I have some time. Just to reconfirm, does the $671-billion debt on the balance sheet include guarantees, and does it include the consolidated debt of all crown corporations, including CMHC but excluding Canada Post?

Mr. Bill Matthews: My colleague Diane may have to help me on this, Mr. Chair.

In terms of the debt, it is all government debt, wherever we have a legitimate debt that we think we will have to pay. It is loans, it's pensions, it's accounts payable. We consolidate our crowns in it, but we have a different method of accounting for some crowns from the method used for others.

I'll have her weigh in on CMHC versus Canada Post Corporation.

Concerning the second piece, on loan guarantees, these guarantees don't necessarily result in payments, so the actual debt number would not include loan guarantees. Loan guarantees are disclosed in the notes to the financial statements so that you get a sense of the size, but they’re actually not part of the debt unless we think we would have a call on them.
Mr. Chandra Arya: Are they not all government liability?

Mr. Bill Matthews: They would fall into that category, and some we think might be realized and some we think won't be. You'll see in the notes to the financial statements some detail on that.

Diane, do you want to weigh in on debt for CMHC and Canada Post?

Ms. Diane Peressini: Both CMHC and Canada Post are accounted for in the same manner, as Bill mentioned earlier, in terms that we bring them in rather as an investment. Their individual debt balances are not part of the government's debt line, because they're reflected as an investment on the asset side.

That being said, there are a number of crown corporations that borrow from the federal government. I believe CMHC is one of them. I could be wrong. Therefore, because they borrow from the federal government their debt is part of our government debt.

We can confirm to you, if needed, whether CMHC is one of the five.

The Chair: We will now go back to the official opposition and to Mr. Poilievre, please.

Hon. Pierre Poilievre: I'm just looking at the maturity dates and benchmark bond target range sizes that are published in the debt management strategy of the budget, and I gather that this year we're doing a lot of bond options to raise money for not only this year's deficit but for previous accumulated debt that has come to term.

By my calculation, we will raise as much as $72 billion in two-year bonds. Is that roughly accurate, Mr. Leswick?

Mr. Nicholas Leswick: I don't have the debt management strategy in front of me, but if you're reading it from the debt management strategy, yes, it is accurate.

Hon. Pierre Poilievre: It's not 100% clear, but basically in February they were to have an auction of $12 to $18 billion and another similar auction in May, August, and November. If you add up those totals, it would be as much as $72 billion worth of two-year bonds. I guess what interests me here is that they're only issuing $12 to $18 billion worth of 10-year bonds and $16 billion worth of 30-year bonds. In other words, they're issuing more than twice as much debt through two-year bonds as they are through 10- and 30-year bonds combined. This probably sounds a little bit arcane to the listener, but what strikes me is that now we have such low interest rates, doesn't it stand to reason that we would want to lock in longer-term borrowing rather than shorter-term borrowing?

The debt we are auctioning now will come to terms in two years. If interest rates go up in, say, five years, then the record low rates that we enjoy right now will be of no value, because we will have extracted all of the benefit of it in simply 24 months. If we were to lock in on a 10- or a 30-year bond for a larger share of the debt offerings, then we would be able to take advantage of these lower interest rates for a generation.

Can you explain why it is? I know you don't speak for Finance Canada's debt strategy, but can you perhaps give us some idea why they might have done that?
Mr. Nicholas Leswick: It's difficult to answer that question. It's a $650-billion borrowing program, of which this current year deficit, projected to be in and around $30 billion, is just one part. It's difficult to say whether that deficit in particular is bought or paid for in any one particular period, as we manage that cash requirement within a larger debt management program. I appreciate what the member is saying, absolutely. It's just difficult to answer the question directly.

The Chair: We'll move to Mr. Harvey. We can come back to Mr. Poilievre's good line of questioning.

Mr. Harvey.

Mr. T.J. Harvey (Tobique—Mactaquac, Lib.): My questions are surrounding the liability in contaminated sites, and they're mainly around the assumptions that have been made with regard to the debt. You previously stated that the ongoing liability is estimated for the future at around $5.8 billion, of which $3.5 billion is attributed to the four major sites. We don't need to get into whether or not we should have ever acquired those sites as a government, because ultimately, number one, it's in the past; number two, we probably didn't have any reasonable alternative.

I need a little bit of context around those assumptions: what term the $5.8 billion is assumed as having, and what's included in it. I'm looking at this. You've basically said there are 2,400 sites in total that have been evaluated at some level, and there are 6,200 sites that haven't been evaluated basically at all.

This is just my own personal thought. If I were to say that $3.5 billion is attributed to the four major sites, that would leave $2.3 billion to be distributed over the other 2,400; is that correct?

Mr. Bill Matthews: In terms of what we've assessed so far, that is correct.

Mr. T.J. Harvey: Okay. If I were to use that and to divide it on average by the 2,396 other sites, that would leave an estimated cost of around $960,000 per site. If I were to multiply that by 6,200 sites, it would mean that we have about $5.6 billion of unaccounted debt that we haven't allocated. I know that's a broad assumption.

Mr. Bill Matthews: Well, the member has touched on an excellent point, Mr. Chair, and my colleagues from the Auditor General may want to weigh in on this.

Number one, the way we classify sites is not random. We look at the sites where we suspect there might be significant contamination or environmental risk. The big ones are assessed first. What's left is those we're less worried about. Understand that there is a hierarchy there. You can't just take the numbers we have so far and extrapolate them over the unassessed sites.

That being said, of the sites that are left, 6,600 or so, if they haven't been assessed, we have not booked anything for them.

One of the interesting questions around the new contaminated site standard is that it forces you to extrapolate more than we have in the past. If you have two sites that are identical or similar and you know what one costs, you should estimate the other one based on that. That's the discussion we've had with the Auditor General going forward: how much do we have to extrapolate? If we haven't actually assessed a site yet, there's really not much we can do there.

The other bit I should say in terms of the sites that are coming is that there's a program called the federal contaminated site action plan. I would commend to you to read about it, because it describes high-priority, low-priority, zero-priority sites as well as the reassessment to get a sense of what's coming. There's actually a database on contaminated sites of the government, so you can see what's out there.

There was money in the last budget to continue to clean up existing sites, but equally important, to continue to assess the ones we haven't yet gotten to.

As a final point, Mr. Chair, the parliamentary budget officer did some work around what the total package is here. The estimation that was done wouldn't meet accounting standards in terms of booking a liability, but it's interesting information to read so that you have a sense of what else is out there.

My colleague has just flagged to me that I should mention I can't talk about contaminated sites without talking about AECL. Atomic Energy is a big part of this as well.

Mr. T.J. Harvey: Okay, that's fair enough. Can you just elaborate a little bit, on the $5.8 billion that we have booked, what the criteria are around that number? I mean, for example, is it length of time? What's included in that $5.8 billion?

Mr. Bill Matthews: It's the cost to actually clean it up. If it's a multi-year project that goes 20 years into the future... To clean up AECL is a long-term game, as is Giant Mine. You would take the long-term expenses and actually discount them back to present value. There are discount rates involved, there are interest rates involved, but it is the present value estimate of the cost to clean up that site to meet current environmental standards.

Mr. T.J. Harvey: Then it would vary by site. In a former life I bought a bunch of contaminated sites before—

Mr. Bill Matthews: We have some more we could sell you.

Voices: Oh, oh!

Mr. T.J. Harvey: —from the private sector, but my understanding from that is that the length of time for which we could be committed to these sites could vary from 5 years to 10 to 30 to 100 years, depending on what environmental impacts are assessed around it.

What I'm asking is, when you book the cost, are you booking it based on a set amount of time, with plans to renew it and revisit it at another time? Are you booking it on what the projected total lifetime expectancy is going to be to clean up that site?

Mr. Bill Matthews: The projected total cost to actually clean it up is what is booked.

Mr. T.J. Harvey: Okay.
Mr. Bill Matthews: That being said—there's always a caveat—if the decision is that "we don't need to clean it up; we're just going to put a fence around it and put a security guard there; it's not that contaminated"—I'm making up an example here—that is an operational cost, not really a liability. If, however, it's actually a cleanup that is involved, we are estimating what it's going to cost to clean it up. If it's 100 years of work, we will take the 100-year projection of expenses, discount them back to present value, and that's what we book.

Mr. T.J. Harvey: Okay.

The Chair: A couple of weeks ago, when we were talking about accrual accounting, Mr. Christopherson mentioned that this was one of Daryl Kramp's areas. When we start talking about mine cleanup and contamination and mines like Giant Mine, I expect former minister Fletcher to come rolling in here and go on a rant about this, because this certainly was one of his big areas of concern.

We'll go back to Mr. Christopherson, please, for five minutes.

Mr. David Christopherson: Thank you, Chair. I appreciate that.

I want to continue on this, recognizing that I don't have drilling time but may have a little bit of probing time.

Picking up on the excellent questions of Mr. Harvey, I'm still concerned, given that we're talking about billions of dollars here, and that there's a transfer of debt going on between...

Is anybody there, as the financial people who are the macro-eyes for us, concerned about this as a growing concern? I know I am. I can give you examples in Hamilton of how situations are arising in which land is polluted, and then suddenly it becomes a question of whose problem it is. Since it's supposed to be a case of "polluter pays", I want to hear a little bit more about this. I would think this is a growing problem, and since we're talking about billions of dollars of debt that Canadians are assuming they didn't incur, I just don't want to let it go so easily.

Mr. Matthews, it looked as though you were ready to say something, sir.

Mr. Bill Matthews: I'll start. I don't know who wants to help me out on this one, but it's an important question, Mr. Chair.

Here are a couple of points.

These big liabilities especially are old. They do date back to a time when corporate expectations, shall we call it "social responsibility", were different from what they are today. The expectation of polluter pay—some of those concepts didn't exist way back when.

The second point I would make, and it's probably the reason you're concerned, is that when the health and safety of Canadians are at risk, the government is the ultimate risk-holder. If a corporation packs up and leaves, you can pursue various legal avenues and do what you have to do, but at the end of the day, often it's the government that's left holding the bag.

Of the unassessed sites, one thing that often comes up is the question, who is responsible? It could be the federal government, it could be another level of government, or it could be the private sector. In part of the assessment process, one of the key questions is who is responsible. If you're into joint ventures and partnerships, sometimes it's shared and sometimes there's a debate. If you go back to—what's a good example?—the Sydney tar ponds, there has been a lot of discussion about them. Is the responsibility federal? Is it provincial? Is it shared? There was a process not only to assess what the clean-up cost is, but who is responsible. That is part of the assessment process.

I know it's cold comfort to say that we own these things now. That's probably not fair from a "what's just to the Canadian taxpayer" perspective, but at the end of the day this stuff has to be cleaned up and, because of the rules at the time, the Canadian government and the taxpayer are the ultimate risk-holder.

Mr. David Christopherson: In light of that—and I probably should know this, but I do not—is there a fund that polluters have to pay into, almost like workers' compensation? Is there a fund that they collectively put into whose money is then used to pay for these cleanups? Something has to change.

Mr. Bill Matthews: I'm not an expert in this area. I don't believe there's any sort of generic fund—certainly not a government-held fund that people in certain types of industries would have to contribute to. What happens in the current day, if you're a company involved in mining or whatever where there is a risk of pollution, is that you're booking contaminated site liabilities just as we are. You are actually booking the liability, as you should, for their books, for their cleanup.

So they're recording the cost. Are they putting away money to allow them to clean it up? I'm not aware of any specific fund. I don't think anyone here is.

Mr. Bill Matthews: That being said—there's always a caveat—if the decision is that "we don't need to clean it up; we're just going to put a fence around it and put a security guard there; it's not that contaminated"—I'm making up an example here—that is an operational cost, not really a liability. If, however, it's actually a cleanup that is involved, we are estimating what it's going to cost to clean it up. If it's 100 years of work, we will take the 100-year projection of expenses, discount them back to present value, and that's what we book.

Mr. T.J. Harvey: Okay.

The Chair: A couple of weeks ago, when we were talking about accrual accounting, Mr. Christopherson mentioned that this was one of Daryl Kramp's areas. When we start talking about mine cleanup and contamination and mines like Giant Mine, I expect former minister Fletcher to come rolling in here and go on a rant about this, because this certainly was one of his big areas of concern.

We'll go back to Mr. Christopherson, please, for five minutes.

Mr. David Christopherson: Thank you, Chair. I appreciate that.

I want to continue on this, recognizing that I don't have drilling time but may have a little bit of probing time.

Picking up on the excellent questions of Mr. Harvey, I'm still concerned, given that we're talking about billions of dollars here, and that there's a transfer of debt going on between....

Is anybody there, as the financial people who are the macro-eyes for us, concerned about this as a growing concern? I know I am. I can give you examples in Hamilton of how situations are arising in which land is polluted, and then suddenly it becomes a question of whose problem it is. Since it's supposed to be a case of "polluter pays", I want to hear a little bit more about this. I would think this is a growing problem, and since we're talking about billions of dollars of debt that Canadians are assuming they didn't incur, I just don't want to let it go so easily.

Mr. Matthews, it looked as though you were ready to say something, sir.

Mr. Bill Matthews: I'll start. I don't know who wants to help me out on this one, but it's an important question, Mr. Chair.

Here are a couple of points.

These big liabilities especially are old. They do date back to a time when corporate expectations, shall we call it "social responsibility", were different from what they are today. The expectation of polluter pay—some of those concepts didn't exist way back when.

The second point I would make, and it's probably the reason you're concerned, is that when the health and safety of Canadians are at risk, the government is the ultimate risk-holder. If a corporation packs up and leaves, you can pursue various legal avenues and do what you have to do, but at the end of the day, often it's the government that's left holding the bag.

Of the unassessed sites, one thing that often comes up is the question, who is responsible? It could be the federal government, it could be another level of government, or it could be the private sector. In part of the assessment process, one of the key questions is who is responsible. If you're into joint ventures and partnerships, sometimes it's shared and sometimes there's a debate. If you go back to—what's a good example?—the Sydney tar ponds, there has been a lot of discussion about them. Is the responsibility federal? Is it provincial? Is it shared? There was a process not only to assess what the clean-up cost is, but who is responsible. That is part of the assessment process.

I know it's cold comfort to say that we own these things now. That's probably not fair from a "what's just to the Canadian taxpayer" perspective, but at the end of the day this stuff has to be cleaned up and, because of the rules at the time, the Canadian government and the taxpayer are the ultimate risk-holder.

Mr. David Christopherson: In light of that—and I probably should know this, but I do not—is there a fund that polluters have to pay into, almost like workers' compensation? Is there a fund that they collectively put into whose money is then used to pay for these cleanups? Something has to change.

Mr. Bill Matthews: I'm not an expert in this area. I don't believe there's any sort of generic fund—certainly not a government-held fund that people in certain types of industries would have to contribute to. What happens in the current day, if you're a company involved in mining or whatever where there is a risk of pollution, is that you're booking contaminated site liabilities just as we are. You are actually booking the liability, as you should, for their books, for their cleanup.

So they're recording the cost. Are they putting away money to allow them to clean it up? I'm not aware of any specific fund. I don't think anyone here is.

Mr. Bill Matthews: I have maybe one final point. It's a question that certainly goes beyond my area of expertise.

Environmental standards are different now than they were then. That helps, but it's not the endgame. Also, there wasn't a good understanding of some of the impacts of those things way back when. By example, with regard to Giant Mine, I think people knew there was contamination there, but the assumption was that it was going to stay frozen. It's up north. It's underneath the ground. Guess what, with changing temperatures some of that stuff is starting to melt. All of a sudden the plan has to change in terms of how to clean it up. It's a really interesting area. Things do change. It does come down to what the oversight mechanism is for industries in these areas, which again is not my area of expertise.
The Chair: We'll now move to Ms. Zahid, please, for five minutes.

Mrs. Salma Zahid (Scarborough Centre, Lib.): Going through the public accounts, I've noticed a pattern of large variances between the total authorities available for use and the amount that was actually used. For example, the Department of Citizenship and Immigration has loans to immigrants and refugees authorized for approximately $68.4 million, as per volume 2, whereas only $1.2 million was spent, creating a budgetary difference of about $67 million.

Another example can be found in the Department of National Defence. Their national combat and support operations are budgeted for about $1.6 billion whereas only $1.2 billion was spent, creating a variance of almost $350 million.

A third example can be found in the Office of Infrastructure Canada where the new building Canada fund has funds for national and regional projects authorized for $114 million, but only $11 million, or less than one-tenth of the authorized funds were spent.

This seems to appear as a common theme of underspending of authorized funds or the estimation of projected expenditures. What can be done to address these discrepancies? Is there any specific reason as to why such a large variance is being seen?

Mr. Bill Matthews: It's an important question, so thank you, Mr. Chair.

There are a couple of points from me on this front.

First of all, the way that the parliamentary appropriation system works is that it's illegal to overspend your vote. Number one, you have an authorized amount. You don't want to spend right up to the penny because then you're risking overspending, which is against the law. We actually want some cushion.

The other thing is that when you're dealing with programs where take-up is important, so loans to immigrants and veterans affairs programs and any kind of grants and contribution program, the government is estimating how many people will come forward and apply. However, at the end of the day, we are takers. If the applications don't come in, you can ask whether you were not advertising this properly and why you underestimated.

Mrs. Salma Zahid: Sorry for interrupting, but how are these estimated the first time? Do you compare some facts from the previous years and do projections for the next year?

Mr. Bill Matthews: We'll look at previous years. Some programs, by their nature, change. For instance, veterans programs changed last year. There were emerging issues with increased take-up due to post-traumatic stress. It is hard to project those things. Other things are very easy to project. You should be able to project your salary costs. That's kind of steady state-type stuff.

We have what I call the serial lappers. We have a few departments that lapse big dollars on an ongoing basis. Infrastructure Canada, as the member highlighted, is number one. To spend money, they have to negotiate agreements with provinces, territories, and municipalities, so they're taking an estimate at the beginning of the year on how many agreements they might be able to negotiate. They have to get cover in case they all come to fruition, but the reality is that negotiations typically take longer.

It's the same thing with Aboriginal Affairs. When you're into negotiations of land claim agreements and some settlements, they're projecting what might happen. Frankly, they have to project the worst-case scenario because it's illegal to overspend.

The third one you mentioned, National Defence, is usually around procurement. Defence procurement is a very complex area. Again, they have to assume, I guess we'll call it best-case scenario, in terms of how many contracts they can let and how much equipment they can buy. Historically, it takes longer than expected.

The big ones are normal, and I would call them serial lapers. The same ones pop up every year.

The final one I would flag for you, because it's a little more complicated, is that Treasury Board Secretariat as a department manages things called central votes, where we're holding money for other departments. There are things that allow them to carry a certain amount of their operating budget forward, a certain amount of their capital budget forward. Those dollars lapse every year as well, and that's quite normal. Where you should look is where you have a department that normally doesn't lapse dollars in a program but all of a sudden lapses significant dollars. You can ask why that is. That's where I like to look; it's where they've changed.

The ones here that you've highlighted are quite normal in terms of lapses.

Mrs. Salma Zahid: For the new building Canada fund, only one-tenth of the actual amount projected was spent. That means the money was there, but it did not flow out to the municipalities or whoever it was.

Mr. Bill Matthews: Right. Again, with applications, you have to negotiate agreements. Once you miss the construction season, if you don't get the agreement in place in time, you've lost the season for the next year. Infrastructure is a notorious laper. When my colleagues in Finance actually project the budget, they assume a certain amount of lapsing will occur because we want to project the best possible spending. From a departmental perspective, they have to assume the worst-case or best-case scenario, depending on your perspective, to make sure they don't actually overspend what Parliament authorizes.

Mrs. Salma Zahid: Is my time over?

The Chair: Do you have one more quick one?

Mrs. Salma Zahid: I will share my time, Mr. Chair.

The Chair: We will come back to you because you're already over time.

We'll go to Mr. Poilievre, please.

Hon. Pierre Poilievre: To go back on the term to maturity of our debt, according to the budget, the average term to maturity of domestic market debt is seven to seven and a half years, yet of the $133 billion in new debt issuance being auctioned off this year, $92 billion is five years or less. In fact, the majority of it, roughly half of it, is two years or less.
Why, in this low interest rate environment, is Finance shortening the term of debt rather than locking in low interest rates over a longer period of time?

Mr. Nicholas Leswick: I think it's a valid question. I just don't have a very good answer here today in terms of—

The Chair: When we have questions like this, is it possible for the department—and I know it is—to come back with the answer to those questions?

Mr. Nicholas Leswick: Absolutely.

The Chair: If you could provide those questions to the chair or to the clerk of the committee, we will see that the answers are circulated.

Please continue.

Mr. Nicholas Leswick: I don't think I have anything to add. I think it is a valid question about why we're borrowing more in the two-year tranche. My hypothesis is around liquidity and cost and risk dynamics against our entire $660-billion borrowing program. In terms of exactly how we're matching our new cash requirements against our new borrowing program, the member's question is a good one, and I'll follow up with the clerk with a clear answer.

Hon. Pierre Poilievre: Does the Auditor General audit the debt strategy of Finance Canada?

Mr. Michael Ferguson: Mr. Chair, we did a performance audit a couple of years ago I believe, where we looked a bit at some of the debt strategy. I don't have the details of everything that was in that. We don't specifically audit that strategy on a regular basis, but we did do a performance audit that looked at some of those issues a few years ago, as I recall. Like I said, I don't remember the details of it.

Mr. Nicholas Leswick: I will say it's internally within the organization. Our internal audit operations would do an annual audit of our debt management strategy. We have international organizations, such as the OECD and IMF, which do an evaluation of our debt management strategy, if not an audit.

Likewise, we do market consultations. We work very closely with the private sector in terms of how our debt strategy plays in financial markets.

Hon. Pierre Poilievre: Those are the lenders.

Mr. Nicholas Leswick: The buyers.

Hon. Pierre Poilievre: The buyers, right, who are effectively lending us money.

Mr. Nicholas Leswick: Yes.

Hon. Pierre Poilievre: Their interests are the opposite of ours.

Mr. Nicholas Leswick: No, I wouldn't say that. The lenders are diverse. There are obviously some lenders who have a lot of appetite at the short end of the curve because they want that one- or two-year term, but pension funds are dying for the long-term paper because they need to match their obligations with the appropriate duration.

Hon. Pierre Poilievre: Right, but they want the Government of Canada to pay out less interest. We want the Government of Canada to pay out less interest. If I am a lender, I want more interest. If I'm a borrower, I want less interest. I think there's a limit to how much we want to keep these so-called “stakeholders” happy.

Mr. Nicholas Leswick: Mr. Chair, I would respectfully say that I don't think it's just the more or less interest argument. I believe that at the long end of the curve, they need the appropriate durations to match against their own liabilities. This stakeholder group of the lenders is diverse across the entire set of the yield curve. There are appetites on both ends.

Hon. Pierre Poilievre: The appetite for a government would be to seek shorter-term debt because the interest rate is lower. In the short term, while that government is in office, even if in the long run the cost to the crown is higher by virtue of the fact that it would have to be reissued at higher interest rates later on, how do we protect against the short-term interests of a government trying to minimize its interest costs during the lifetime of that government, balanced against the long-term financial interests of the Government of Canada, which is to keep debt servicing costs down for a generation?

The Chair: Thank you, Mr. Poilievre.

Mr. Nicholas Leswick: Mr. Chair, I'll just say that our debt management strategy is included as part of the budget. It forms part of the budget in terms of how we'll finance our cash requirements for the year, so it is subject to some parliamentary scrutiny.

I would just come back to say that the government acts with integrity to ensure that we're managing both those costs and the risk dynamics so that we're not subject to any sort of rollover risk. We minimize or establish an equilibrium to manage rollover risk.

The Chair: We'll move to Mr. Arya and Mr. Harvey on the split.

Mr. Chandra Arya: To come to contingent liabilities, we have about $443 billion. I see that a good amount of it, close to $209 billion, is from the Canada Mortgage and Housing Corporation. I know, Mr. Ferguson, that you audit CMHC separately, but have you looked into the risk to the federal government for any problems at the Canada Mortgage and Housing Corporation?

Mr. Michael Ferguson: Certainly, when we do the audit of Canada Mortgage and Housing Corporation, we would make sure that any contingent liabilities they have are appropriately accounted for and reported.

Again, with a contingent, when you're looking at something that is potentially a liability you have to assess it to first determine how much of it you actually think is a liability, and that would get recorded in the face of the financial statements. Then you also look at it from the point of view of what else there could be that meets all the definitions, according to the accounting standards, of the amount of contingent liability that would have to be reported.

We would make sure that all of that was adhered to when we did the audit of Canada Mortgage and Housing.

Mr. Chandra Arya: I was thinking in terms of the financial crisis we had about eight years back. If something like that happens and if CMHC is affected, that will in turn affect the federal government's finances.

Mr. Michael Ferguson: Again, I think it's very important to realize that the entity of the Government of Canada includes crown corporations that it controls, such as CMHC. Anything that happens at CMHC would be brought into the consolidated financial statements of the Government of Canada as soon as that happens.
That, I think, is the advantage of the way the Canadian standards are established for governments. One of the first things the standards do is say that you have to define what the government entity is, and it isn’t just the consolidated fund. It’s a consolidated fund plus a number of these crown corporations that the government controls. To the extent that there is any impact or any result from the those controlled entities, it also affects the consolidated financial statements of the government.

Mr. Chandra Arya: I have a quick question for you, Mr. Matthews. Is there any rule of thumb for providing a contingency reserve? What is the rationale behind it?

Mr. Bill Matthews: I’m sorry. I’m not understanding.

Mr. Chandra Arya: For a contingency reserve, is there some rule for what amount is to be provided as a reserve?

Mr. Bill Matthews: Is there a rule in general? When you’re dealing with specific industries, there might be best practices, but when you’re looking at the consolidated entity of the Government of Canada, there’s no rule of thumb that we can apply across the board. I do think that—

Mr. Chandra Arya: [Inaudible—Editor]

The Chair: [Inaudible—Editor] Mr. Leswick had an answer as well on the previous question. We’ll get that.

Mr. Chandra Arya: Okay.

Mr. Nicholas Leswick: I’ll be very quick.

With respect to CMHC, it does provide, in its annual report, the full detail of its stress-testing scenarios. It takes its own balance sheets and stress-tests them with various economic shocks.

One of the most extreme shocks is a U.S.-style housing collapse, whereby unemployment would spike by 5% and housing prices would decline between 20% and 30%. It shows you an effect on its income statement, a balance sheet, of in and around about $500 million.

That’s all to say that it establishes a pretty big contingency or reserve to buffer against an event like that.

Mr. Chandra Arya: You mentioned the U.S. housing crisis. Have you done the same thing for the Canadian housing market?

Mr. Nicholas Leswick: Yes, exactly. It imposes the equivalent of a U.S.-style housing crisis in Canada—sorry, I wasn’t clear in my first answer. Unemployment would go from 7% to about 11% or 12%. Housing prices would decline by about 20% to 30%, harmonized across the country. It shows the effect on the CMHC income statement. You can see, based on that shock, what that would do to the ultimate federal budgetary position, as the Auditor General said.

The bottom line, whether or not it gets you to read it, is that the CMHC has these enormous buffers to protect the federal income statement, the federal balance sheet against a housing shock like that.

The Chair: Mr. Harvey.

Mr. T.J. Harvey: Mr. Leswick, like everybody else in this room—albeit maybe I shouldn’t speak for everyone else—I have a house mortgage. I’ve never been ashamed to break that house mortgage.

Neither have I ever been ashamed to break any long-term mortgage for corporate debt. I’ve always been a firm believer that you should borrow over the long term.

As long as the benefits outweigh the penalty, you would break a mortgage in order to strengthen your own long-term position, and you would always finance over the long term. Over time, you would refinance and pull that debt back out, provided you could invest that money at a higher rate of return than you are paying in interest on your mortgage.

Do you see what I mean?

Mr. Nicholas Leswick: I did right up until the last statement, in the sense that—

Mr. T.J. Harvey: If you had a $300,000 mortgage that was financed over 30 years, of which there 10 years left, and all of a sudden borrowing rates were at 2.39%, then instead of refinancing your home at 2.39% for the 10 year period that was left, you would pull your money back out and refinance your home for the full 30 years again, provided you could reinvest that money at a higher rate of return than what you would be paying in interest. You would still come out ahead every day, right?

Mr. Nicholas Leswick: I can’t argue with that, Mr. Chair—

Mr. T.J. Harvey: I’m kind of reinforcing a little bit of what—

Mr. Nicholas Leswick: The government doesn’t invest the money, that’s the only—

Mr. T.J. Harvey: I understand that. What I wanted to ask was whether it would be possible for you to provide us with a one or two-page overview of the borrowing or debt strategy for this year, in terms of the length of time and the way it’s composed on both ends of the spectrum and in the middle? Could you also provide us with that information for the previous 10 years?

Mr. Nicholas Leswick: Mr. Chair, absolutely.

We do provide this as part of our debt management strategy. It is a very condensed document. The member to the chair’s left was referencing this document. It does discuss exactly this kind of cost-risk dynamic and whether the government has it right. That’s effectively its proposal. That’s how it communicates its debt strategies. We can definitely reference that and give that to the clerk.

Mr. T.J. Harvey: Okay.

Mr. Nicholas Leswick: Yes, exactly. It imposes the equivalent of a U.S.-style housing crisis in Canada—sorry, I wasn’t clear in my first answer. Unemployment would go from 7% to about 11% or 12%. Housing prices would decline by about 20% to 30%, harmonized across the country. It shows the effect on the CMHC income statement. You can see, based on that shock, what that would do to the ultimate federal budgetary position, as the Auditor General said.

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The Chair: Mr. Harvey.

Mr. T.J. Harvey: Mr. Leswick, like everybody else in this room—albeit maybe I shouldn’t speak for everyone else—I have a house mortgage. I’ve never been ashamed to break that house mortgage.
Mr. Nicholas Leswick: It's very clear the committee is asking for more detail with respect to, as you say, the short end of the curve.

Hon. Pierre Poilievre: I don't know if I'm wrong, but I'm not aware of any insured party throughout our entire economy that pays no premium and no deductible with respect to CMHC, except for the Canadian banks. The home buyer pays the insurance premium, and in the event of a mortgage default loss, the Canadian taxpayer insures that loss through CMHC, at no deductible to the bank. When I buy a home and I pay that CMHC premium, it doesn't insure me at all. It doesn't give me anything. In fact, if I lose my house because I default on my mortgage and there's a loss on the liquidation of my home, the insurance is there for the bank. The effect of this is that 100% of the profit of each mortgage issued in Canada goes to the bank or the lender, and 100% of the risk for CMHC-backed mortgages goes to the taxpayer.

Do you consider that it is possibly a perverse incentive for lending that the lender gets all the profit and the taxpayer gets all the risk?

Mr. Nicholas Leswick: I won't argue with the question or the logic that the member presents. I think it's something that we are looking at in the department, in terms of lender risk sharing, so that there's an appropriate distribution of the benefits and the costs across the spectrum of that agreement. That's only to say that things like the mortgage-backed securities program allow a securitization of these mortgages so that the benefits or the exposures are spread not just to banks, but are held in mutual funds and pension funds. It's not just the lender that gets any sort of exposure benefit to that. However, it's definitely something we're looking at.

Hon. Pierre Poilievre: CMHC is stamping those securities, is it not?

Mr. Nicholas Leswick: Absolutely.

Hon. Pierre Poilievre: So we're not actually spreading the risk to others. We're bringing it back on to our book when we stamp them, right?

Mr. Nicholas Leswick: CMHC is stamping them, yes. They're wholly backed by CMHC, and in effect the government, so the risk is on us.

It's just that the exposure, I guess, to some extent, or the benefits.... The exposure to the housing market is not just held wholly within the lending institution.

Hon. Pierre Poilievre: No, it's not held at all within the lending institution. It's held on the backs of the taxpayers.

Mr. Nicholas Leswick: Mr. Chair, I understand what the member is saying. In terms of lender risk sharing and the CMHC products, both insurance and the securitization program, we're looking at those.

The Chair: Mr. Leswick, on that point, the government in the past has put in measures to secure the housing industry, or to secure even the mortgages and CMHC, by lowering amortization periods of time and a number of other things.

What were those...?

Mr. Nicholas Leswick: The government has acted five times in the housing market since 2012 to effectively condense amortization periods, to increase down payment requirements and so on—credit score requirements—to mitigate any potential housing bubble or adverse housing shock.

Hon. Pierre Poilievre: I agree with all of those decisions, but if we're asking the lender to act strictly as a rational creature and he has a potential borrower of a mortgage sitting in front of him, that lender knows that in the event of default, it's someone else's problem. Right?

Mr. Nicholas Leswick: I completely understand, Mr. Chair, and that goes back to the way the member opened his comments, which is that deductibility and some distribution of that risk is exactly what we're looking at. As the housing market grows and household formation continues to slope on an upward trajectory, we need to take a look at our housing market and the distribution of those insurance risks.

Hon. Pierre Poilievre: Are you considering, then, deductibles paid by the bank in the case of mortgage default loss?

Mr. Nicholas Leswick: I can't speak to what's under consideration within the department, but the points the member is raising are good ones that we need to be mindful of.

The Chair: Mr. Matthews next, and then I think we're going to conclude.

Mr. Bill Matthews: I have two quick points.

There's clearly some interest around this table in the CMHC, and I believe it's with this committee's mandate, if interested, to call CMHC to have a discussion. I just want to offer that. We've done the best we can here today, but I sense there's an appetite for more.

I have noted three follow-ups that I want to confer with you on, Mr. Chair: CMHC, debt management strategy, and some information on the federal summer student jobs program. Those are our three takeaways, and I think that's all we have left on our plate.

The Chair: Yes, those are the three takeaways.

I would also suggest to our witnesses that if you leave this place and think you could have added more information to a different question, or you would like to provide information in response to a question, even though the information is not related to one of those three, please do. You can expand on an answer. You can do any of those things.

Thank you very much for coming.

One never knows the direction the committee may take as it hears from our guests. I knew that the Department of National Defence was one we did have an interest in, and the interest in CMHC kind of came on as we heard other testimony from you.

I would just add for committee members that when you go through the public accounts as a new committee, I find these documents are handy to keep close throughout the year. There is an amazing amount of information on every department of government within these three big volumes on the public accounts of Canada by our national government. Keep them close. They'll help you with other committee work, if you're doing that. They're a really great resource.
Thank you to our Auditor General and to the officials from Treasury Board and the Department of Finance. We appreciate your attendance here today.

We're going to suspend momentarily and come back quickly so we can deal with committee business.

[Proceedings continue in camera]
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