



HOUSE OF COMMONS
CANADA

**CHAPTER 7, ACQUISITION OF LEASED OFFICE
SPACE OF THE MAY 2006 REPORT OF THE
AUDITOR GENERAL OF CANADA**

**Report of the Standing Committee on
Public Accounts**

**Hon. Shawn Murphy, M.P.
Chair**

September 2006

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THE STANDING COMMITTEE ON PUBLIC ACCOUNTS

has the honour to present its

EIGHTH REPORT

Pursuant to Standing Order 108(3)(g), the Standing Committee on Public Accounts has considered Chapter 7 of the May 2006 Status Report of the Auditor General of Canada (*Acquisition of Leased Office Space*). The Committee as agreed to table this Report as follows:

INTRODUCTION

1. The Real Property Branch of Public Works and Government Service Canada (PWGSC, the Department) provides office accommodation for the federal public service. The Department manages 6.6 million square metres of rental space in approximately 1,900 locations across Canada at an annual cost of approximately \$3 billion.

2. Because of the substantial costs involved, and the economic impact that federal acquisition of office space has on Canadian communities, the Committee decided to review the findings of a follow-up audit conducted by the Auditor General based on an earlier audit in 2002. To help it understand the findings of the latter audit, the Committee met on 8 June 2006 with Mr. Ronnie Campbell, (Assistant Auditor General) and Mr. Bruce Sloan (Principal) from the Office of the Auditor General of Canada. Deputy Minister I. David Marshall represented Public Works and Government Services Canada. He was accompanied by Mr. Tim McGrath, Acting Assistant Deputy Minister, Real Property Branch. Because the Department shares responsibility and accountability for the cost of office accommodations with Treasury Board Secretariat, Mr. Jim Libbey (Executive Director, Financial Systems Acceptance Authority) and Mr. Blair James (Executive Director, Assets and Acquired Services Directorate) appeared on the Secretariat's behalf.

BACKGROUND

3. In 2002, the Auditor General audited the Department's acquisition of leased office space to determine the extent to which Public Works and Government Services Canada exercised due regard to economy and efficiency in meeting its responsibilities and complied with applicable government regulations and policies in carrying out its office space acquisition activities.

4. The audit found that improvements were needed in several areas. PWGSC needed regional plans and consistent national information on the supply of office space in order to better match available space with client needs. In addition, the Department needed to base its investment decisions on a review of complete life cycle costs and consider all available accommodation options. In 2002, the Auditor General summarized her concerns this way:

The [Real Property] Branch needs to make better use of financial and operational information and improve the way it analyzes options, particularly those with longer-term implications. It has difficulty accessing cost information and needs to do more work on creating cost information by client. Because investment in real estate involves large sums of capital and large lease payments, it requires a long-term perspective. The Branch needs to consider fully all practical alternatives, including the full costs of each. Good

information and full analysis of options are needed to deliver service effectively to client departments and agencies.¹

5. Although, at the time of the 2002 audit, the Department had made improvements to its management and planning processes, some of the concerns raised by the Auditor General were already long-standing and needed to be resolved. Previous audits (in 1991 and 1994) called for improvements in the way in which the Department obtained information from its clients (federal government departments and agencies) on their space requirements. The Office of the Auditor General had also recommended that the Department develop long-term accommodation plans. Thus many of the deficiencies that have been identified by the follow-up audit (which was completed on 15 September 2005) are long-standing in nature and have so far been immune to the Department's efforts to fix them.

OBSERVATIONS AND RECOMMENDATIONS

6. The follow-up audit found that the Department had made unsatisfactory progress in implementing the Auditor General's 2002 recommendations (although it made good progress in analyzing the long-term cost of long-term options). Overall, the Auditor General found that shared responsibility (and thus accountability), lack of management information, and inadequate risk assessment add to accommodation costs.

7. The Committee fully endorses – and the Department has agreed to implement – each of the Auditor General's recommendations to address the shortcomings she identified. However, while these recommendations – if successfully implemented – will lead to improved performance in specific areas of the Department's real property operations, the Committee believes that a fundamental change in the relationship between Public Works and Government Services Canada and its clients for office accommodation is required before meaningful improvement and proper accountability can be achieved. This is particularly so in the following areas.

Responsibility for Accommodation Costs

8. Responsibility for accommodation is shared between the Department, Treasury Board (and its Secretariat), and client departments. This arrangement can result in delays and unnecessary costs. While the Department has the authority to impose solutions on its clients, it does not always do so, and the audit has provided a number of stark examples – and the resulting extra costs borne by taxpayers – of what can happen as a consequence.

9. Client departments do not always adhere to the Department's accommodation standards, instead selecting accommodation options that exceed standards (and are more costly to the government and taxpayers) because – according to a PWGSC internal report cited by the Auditor General – departments

¹ Office of the Auditor General of Canada, *Report of the Auditor General to the House of Commons, December 2002*, Chapter 8, paragraph 8.2

often consider that office accommodation is a “free” good.² This attitude is to some extent understandable because PWGSC, rather than its client departments, pays for basic building costs (including operation, maintenance, repair, and capital improvement) in Crown-owned assets, and the leasing and fit-up costs of leased assets out of its own appropriations. These costs – while paid by PWGSC – are reported in departmental public accounts but as a service that is provided without cost.

Assessing Accommodation Options

10. The follow-up audit found that decisions to fund accommodation choices are made on a different basis than the way in which financial assessments are made of available options. Financial assessments look at the full cost of an accommodation over its estimated life-cycle. This implies that an accruals-based approach to paying for the accommodation ought to be used in making the final choice. But the decision instead considers the cash expenditure at the time of the transaction. This means that the most cost-effective solution is not always chosen.

Management Information

11. According to the Auditor General, the Department does not have basic information to input into its management systems about the extra costs client departments have incurred when they exceed accommodation or fit-up standards. Current systems are cumbersome and expensive yet do not provide information that managers need. As a consequence they are reluctant to use them. The Department has “numerous” management systems that do not share information and are not designed to capture certain information needed to manage the accommodations portfolio on a strategic basis.

12. These deficiencies arise, in whole or in part, because the way in which responsibility and accountability for accommodations is currently structured does not provide sufficient incentives to cause a change in behaviour. As long as client departments do not have to charge their core accommodation costs against their own budgets, they will continue to view accommodation as a “free” good and will have no incentive to adhere closely to accommodation standards or track costs carefully. Thus the solution lies in getting the incentives right. As Mr. Campbell indicated in his opening statement, the government “should ensure that the system provides the right incentives for good management, including selecting the most cost-effective options.” (8:1100)

13. In its report following examination of the 2002 audit results – which were similar in many respects to those now being reported in 2006 – the Committee recommended that the Department press for changes in government policies in order to allow it to charge accommodation and realty charges directly to all departments and agencies.³ In its response to the report, the government admitted that “[a]t present, office

² The September 2004 report is cited in paragraph 7.16.

³ Standing Committee on Public Accounts, 19th Report, 37th Parliament, 2nd Session, recommendation 6, tabled 6 June 2003.

accommodation stands out as the one major area of spending in government without apparent accountability by user organizations.” It went on to state that:

There are good arguments in favour of direct charging. With the introduction of a market-type business arrangement, between the supplier and user of office space, greater discipline in the supply and demand of office accommodation would be fostered. The user would be more accountable because the cost of rent would be more visible and the demand for space and amenities would be better rationed. At the same time, PWGSC would be revenue dependent and even as sole provider would stay better focused on the needs of each and every client and how it allocates operating and capital resources.⁴

14. The Department indicated that it would study the possibility of becoming, in effect, the landlord for the Government of Canada; it is clear, from the results of the recent follow-up audit, that this has not happened. The only justification that was offered by the Department was that if its services to client departments were placed on a “user pay” basis, it would result in competition among these clients for office space thus creating upward pressure on real estate rates, primarily in Ottawa. (8:1135) Yet this rationale, by itself, is insufficient, as the following excerpt from the Committee’s 2003 report makes clear:

If a decision were made to adopt revenue dependency for PWGSC, it would be necessary for the Department to considerably improve its ability to determine the cost of accommodation and realty services and strengthen the relevant financial management and cost accounting systems.

Instead of mandatory common accommodation services being financed through appropriations, if PWGSC were allowed to treat all departments and agencies as reimbursing clients and charge them directly for accommodation and realty services, the Department would have more incentive to improve its financial management and cost accounting systems, policies and practices; this would eventually result in enhanced efficiency and cost effectiveness in the delivery of accommodation service; and greater parliamentary control over accommodation costs. It is also believed that if the federal government were to adopt revenue dependency or cost recovery for the delivery of accommodation and realty services, this would have a major impact on the way in which both PWGSC and its client departments plan, manage, finance and report on accommodation resources.⁵

15. The Committee is convinced that had the Government moved in the direction recommended by the Committee in 2003, many of the problems uncovered by the recent follow-up audit would have been well on their way to resolution. It is unfortunate that the Committee’s advice was not taken and that Canadian taxpayers have had to support millions of dollars in unnecessary costs as a consequence. The Committee has not changed its position on this matter – particularly in light of the government’s adoption of full accrual accounting – and recommends:

RECOMMENDATION 1

⁴ Government Response to the 19th Report of the Standing Committee on Public Accounts, presented to the House 3 November 2003.

⁵ Standing Committee on Public Accounts, 19th Report, 37th Parliament, 2nd Session, June 2003.

That Public Works and Government Services Canada be designated as the sole proprietor and lease-holder on behalf of the Government of Canada, of all office accommodation used by the departments, agencies, and other entities of the Government of Canada, thus giving the Department the authority to charge accommodation and realty services to its clients directly and to enforce government accommodation standards.

16. As in 2002, the Committee believes that Parliament needs information on the government's accommodation costs that is complete, timely, and accurate. Furthermore, because this information is crucial in terms of understanding the overall costs of government operations and because under current arrangements the information is scattered, the Committee believes that this information should be collated and provided to Parliament in a single document. The ability to do this will be enhanced provided the changes called for in the Committee's first recommendation are made. The Committee therefore recommends that:

RECOMMENDATION 2

That Public Works and Government Services Canada prepare, on a full accrual basis, a single financial report containing detailed information on the cost of accommodation and realty services across the federal government and table this report in Parliament on an annual basis. The first of these reports should contain data from fiscal year 2007 – 08. Public Works and Government Services Canada must, by 31 December 2006, provide the Committee with an action plan for the implementation of this financial reporting regime. The Department must report to the Committee in April and September of 2007 on its progress in implementing this plan

CONCLUSION

17. The government has set a cost-savings target of \$1 billion savings over five years in the area of property management. This objective must be achieved by fiscal year 2009-10. Mr. Marshall testified that Public Works and Government Services Canada has met the savings goal of \$150 million for this year and is "working toward" the final savings objective. (8:1150) If the Department is to meet its commitment, it will have to make the changes called for by the Auditor General. The Committee is pleased, therefore, that the Department has agreed to all of the Auditor General's recommendations. However, the Department's inability to fully implement recommendations made in 2002 calls for optimism tempered by a large dose of caution. Therefore, to help the Department comply with the Auditor General's recommendations, meet its cost-savings commitments, and assist the Committee in monitoring progress, the Committee recommends:

RECOMMENDATION 3

That Public Works and Government Services Canada develop a detailed action plan that addresses each of the Auditor General's recommendations as contained in Chapter 7 of her May 2006 Status Report. This plan must make reference to the actions that will be taken, include specific timelines and performance indicators, and be submitted to the Committee no later than 31 October 2006.

18. In her Report, the Auditor General made reference to several cases which illustrated how shortcomings in the Department's acquisition of leased office space can result in significant unnecessary costs to taxpayers. Two of these examples – a decision to override a leasing recommendation by Public Works and Government Services Canada two weeks after the tendering process had ended and a winning bidder selected, and a decision to lease rather than purchase a property – cost taxpayers an additional \$4.6 and \$13 million respectively. The Committee is particularly troubled by these two examples and has asked the Department for documentation explaining how and why these decisions were taken. Depending on what it learns from this documentation, the Committee may hold further hearings on this issue and issue a report on its findings and conclusion.

19. Until the management of real property within the federal government is established on the basis of sound business practice, Canadian taxpayers will continue to pay more than is necessary for accommodation for departments and agencies. Under current arrangements, a lack of incentives results in choices that are costly and inappropriate. Once departments and agencies pay the full costs of their accommodations and are accountable for the choices they have made, management practices will improve and Canadian taxpayers will have the assurances they need that unnecessary costs will be reduced to a minimum.

APPENDIX A LIST OF WITNESSES

Chapter 7, Acquisition of Leased Office Space of the May 2006 Report of the Auditor General of

Canada

<i>Organizations and Individuals</i>	<i>Date</i>	<i>Meeting</i>
Bloodworth, Margaret Margaret Bloodworth Former Deputy Minister Public Safety Emergency Preparedness Canada	2006/06/08	8
Department of Public Works and Government Services Scott Leslie Senior Director Special Procurement Initiatives Directorate	2006/06/08	8
Department of Public Works and Government Services David Marshall Deputy Minister	2006/06/08	8
Department of Public Works and Government Services Tim McGrath Acting Assistant Deputy Minister Real Property Branch	2006/06/08	8
Department of Public Works and Government Services Henry Sano Director General Client Services for Public Safety and Emergency Preparedness	2006/06/08	8
Department of Public Works and Government Services John Shearer Former Assistant Deputy Minister Service Integration Branch	2006/06/08	8
Judd, Jim Jim Judd Former Secretary Treasury Board of Canada Secretariat	2006/06/08	8
Office of the Auditor General for Western Australia Peter Wilkins Executive Director Performance Review Division	2006/06/08	8

<i>Organizations and Individuals</i>	<i>Date</i>	<i>Meeting</i>
Office of the Auditor General of Canada Ronnie Campbell Assistant Auditor General	2006/06/08	8
Office of the Auditor General of Canada Bruce Sloan Principal	2006/06/08	8
Treasury Board of Canada Secretariat Blair James Executive Director Assets & Acquired Services Directorate, Government Operations	2006/06/08	8
Treasury Board of Canada Secretariat Jim Libbey Executive Director Financial Systems Acceptance Authority, Office of the Comptroller General	2006/06/08	8

REQUEST FOR GOVERNMENT RESPONSE

In accordance with Standing Order 109, the Committee requests that the Government table a comprehensive response to the report.

A copy of the relevant *Minutes of Proceedings* ([Meetings No. 8, 13, 14 and 17 including this report](#) is tabled).

Respectfully submitted,

Hon. Shawn Murphy, M.P.
Chair