



HOUSE OF COMMONS  
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CANADA

**CHAPTER 6, TRANSFER PAYMENTS TO THE  
AEROSPACE SECTOR — INDUSTRY CANADA, OF  
THE FALL 2012 REPORT OF THE AUDITOR  
GENERAL OF CANADA**

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

**David Christopherson  
Chair**

**JUNE 2013**

**41st PARLIAMENT, FIRST SESSION**



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# **THE STANDING COMMITTEE ON PUBLIC ACCOUNTS**

has the honour to present its

## **SIXTEENTH REPORT**

Pursuant to its mandate under Standing Order 108(3)(g), the Committee has studied Chapter 6, Transfer Payments to the Aerospace Sector — Industry Canada, of the Fall 2012 Report of the Auditor General of Canada and has agreed to report the following:

## **INTRODUCTION**

Aerospace companies are important contributors to the Canadian economy. The Canadian aerospace sector is the fifth largest in the world, and, as of 2008, had total revenues of \$23 billion. The aerospace sector includes commercial aerospace; military aerospace; aircraft maintenance, repair and overhaul services; and the development, deployment and operation of space assets.

Projects in this sector often have high development costs, high risk, long development times and long payback periods, making it difficult for the private sector to fund research and development at levels that may be required to stay competitive. Many countries, including Canada, have programs to support research and development in the aerospace sector. The federal government sees the aerospace sector as crucial to Canada's economic development, sovereignty, national security and public safety. It has provided financial support to the sector continuously since the 1950s.

Industry Canada manages several programs to provide support to the aerospace sector. The Strategic Aerospace and Defence Initiative (SADI) is the government's second-largest research and development spending program. As of 1 April 2012, 22 companies had signed 25 unconditionally repayable or conditionally payable contributions with a total value of \$825 million as part of the SADI program. Industry Canada also manages two conditionally repayable contribution agreements with a total value of \$350 million with Bombardier Inc. in support of the Bombardier C Series Program. Lastly, Industry Canada manages the Defence Industry Productivity Program (DIPP) and Technology Partnerships Canada (TPC), which are both in the repayment phase. For DIPP, recipients received \$2 billion from 1985 onwards, and for TPC, Industry Canada disbursed \$3.1 billion in repayable contributions.

In its *Fall 2012 Report*, the Office of the Auditor General (OAG) released a performance audit of transfer payments to the aerospace sector.<sup>1</sup> The OAG examined whether Industry Canada had sufficient information to determine if SADI and the Bombardier CSeries Program were meeting their stated objectives, and whether the programs were managed according to the Treasury Board Policy on Transfer Payments and the terms and conditions of the programs. The OAG also examined whether Industry Canada collected the amounts recipients were to repay under the two legacy programs—DIPP and TPC.

The Standing Committee on Public Accounts (the Committee) held a hearing on this audit on 28 February 2013.<sup>2</sup> From the OAG, the Committee heard from: Ronnie Campbell, Assistant Auditor General; Glenn Wheeler, Principal; and Nadine Cormier, Director. From Industry Canada, the Committee heard from: Marta Morgan, Associate Deputy Minister, and Mitch Davies, Associate Assistant Deputy Minister, Science and Innovation Sector. This report represents the Committee's observations and recommendations from its study.

## **PROGRESS REPORT**

In its audit, the OAG found that Industry Canada had a reasonable management control framework in place to guide the way it manages contributions to aerospace companies. For example, the OAG noted that prior to signing agreements with recipients, Industry Canada conducted eligibility reviews, reviews of project feasibility and reviews of companies' ability to deliver on proposed technological, social and economic benefits. Industry Canada also had a process in place to verify claims that recipients submitted, and it met its service standards for processing SADI claims.

On the other hand, the OAG noted a number of areas for improvement. For example, prior to 2010 Industry Canada had inadequate performance information to determine progress being made to achieve program objectives, had delayed or

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<sup>1</sup> Auditor General of Canada, "Transfer Payments to the Aerospace Sector – Industry Canada," Chapter 6 of the *Fall 2012 Report*, Ottawa, 2012.

<sup>2</sup> House of Commons, Standing Committee on Public Accounts, *Evidence*, 1<sup>st</sup> Session, 41<sup>st</sup> Parliament, 28 February 2013, Meeting 79.



cancelled some of its evaluation commitments, and had not reported publicly on program results. The OAG made seven recommendations in its audit.

Industry Canada agreed with all of the recommendations, and included timelines where relevant for the completion of actions, with December 2012 as the latest timeline. Prior to the Committee's hearing, Industry Canada provided the Committee with an action plan that had most actions designated as ongoing, and three as completed. At the hearing, Mitch Davies, Associate Assistant Deputy Minister, summarized the actions taken by the department. According to Mr. Davies, Industry Canada:

- had implemented a new performance measurement strategy;
- would maintain its practice of including project-specific objectives and anticipated outcomes in contribution agreements;
- would follow through with planned evaluations;
- had prepared a comprehensive report on program benefits, which is available on its website;
- had completed new guidance on risk management;
- had improved management controls and would complete work on related documentation by the end of the next fiscal year; and
- had implemented a new method to capture and report on service standards.<sup>3</sup>

Ronnie Campbell, Assistant Auditor General, told the Committee that, "we took a quick look at the department's action plan and it seems to be complete."<sup>4</sup> He also indicated that some areas of the plan could use more detail. Mitch Davies told the Committee that the only recommendation that the department has to complete work on is updating its documentation related to the revised transfer payments policy. He said, "That work is under way. Some is complete, and the remainder will be completed by the end of the next fiscal year."<sup>5</sup>

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<sup>3</sup> Meeting 79, 1555.

<sup>4</sup> Meeting 79, 1615.

<sup>5</sup> Meeting 79, 1650.

Subsequent to the hearing, on 11 March 2013, Industry Canada provided the Committee with updated information on its action plan. The department indicated that it was considering advancing the Bombardier CSeries evaluation to 2013–2014. Also, it had completed a Corporate Risk Management Framework and a Corporate Guide for Service Standards as part of its plan to meet the requirements of the revised Policy on Transfer Payments. The implementation of this plan was more than half completed and remaining items would be completed by the end of 2013–2014.

As some activities have yet to be completed and others are ongoing, the Committee would like to ensure that Industry Canada continues to make progress, and recommends:

### **RECOMMENDATION 1**

**That, by 31 March 2014, Industry Canada provide the Standing Committee on Public Accounts a report outlining progress it has made in implementing recommendations from the Auditor General's *Fall 2012 Report*, Chapter 6.**

### **MEASURING AND EVALUATING PERFORMANCE**

In order to determine whether the SADI and Bombardier CSeries programs are meeting their objectives, Industry Canada needs to develop a performance measurement strategy, collect performance information from recipients and evaluate the performance of the programs.

The OAG found that Industry Canada had established performance measurement strategies for the two programs. However, for SADI, the OAG did not find a clear link between the project-level objectives contained in many of the contribution agreements and SADI's overall program objectives. The OAG did note improvements in later agreements, including six agreements signed from April 2010 onwards. The OAG found that contribution recipients provided all of the progress reports that the contribution agreements required. Although, before 2010, Industry Canada did not request annual performance reports as required by the contribution agreements.

For the Bombardier CSeries Program, the project progress reports contained limited information on outcomes and benefits. Annual progress reports were required by the contribution agreements, but Industry Canada did not request them.

The OAG noted that since 2010, Industry Canada had made improvements and now collects and consolidates sufficient information. However, the OAG was also concerned that Industry Canada had delayed and cancelled some of its evaluation commitments. Evaluations help to determine whether program objectives are being met and identify opportunities for improvement.

Industry Canada had committed to conduct a final evaluation of TPC's effectiveness in 2011, but has delayed it to 2015–2016. For SADI, an initial implementation review was due in 2008–2009, but was completed in October 2010. An interim evaluation of the achievement of SADI's immediate outcomes, due in 2009–2010, was cancelled. An evaluation of whether SADI's program objectives are being met will be conducted in 2016–2017. For the Bombardier CSeries Program, no implementation review or evaluation has been carried out. An evaluation will be conducted in 2015–2016, but this will be after all funding has been disbursed.

Ronnie Campbell told the Committee that, “On a number of occasions commitments were made to evaluate and they haven't been followed through.”<sup>6</sup> He later added:

I think if there's anything that we think would really strengthen the management of these programs, it would be a greater commitment to evaluation and getting some good data on performance. I was very pleased to see in the department's response that they're committed to doing that, but I think it's something that they need to get on with, and I think it would help strengthen the programs.<sup>7</sup>

Marta Morgan, Associate Deputy Minister, explained why the implementation review was delayed:

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<sup>6</sup> Meeting 79, 1545.

<sup>7</sup> Meeting 79, 1550.

The implementation review that I believe you're referring to was in the department's internal plans, but the contribution agreement was signed only in March 2009, and the rate of spending on the project was slower than expected because that was right after the recession. We found in general that with our program, with SADI, and also with the C Series program, it was a time where demand in general slowed and R and D spending by companies slowed. At that time, the department judged that conducting an implementation review would not provide us with enough information because the work was insufficiently well advanced for the work to be useful.<sup>8</sup>

She also said:

With respect to SADI, we conducted an audit of SADI governance in 2010, an implementation review in 2010-11, a collaboration review in October 2011, and an evaluation in 2011-12. The next evaluation is scheduled for 2016-17. With respect to the C Series, the Treasury Board submission requires that an evaluation be completed in 2015-16, and we are fully committed to implementing the action plan that we have agreed to and in response to the Auditor General.<sup>9</sup>

With regard to specific or overall industry job related outcomes, Ms. Morgan stated:

One of the things we look for in our SADI agreements is the kind of employment that will be generated directly by the contractual agreements. However, we don't collect information on overall eventual employment gains from specific projects because it's very difficult to establish that from a causal relationship. When we think about employment, what we're really looking at is the overall success of the Canadian industry, which continues to be very successful on a global scale, to generate high-value jobs and employment.<sup>10</sup>

In the updated information provided to the Committee on 11 March 2013, Industry Canada indicated that it was considering advancing the evaluation of the Bombardier C Series Program to 2013–2014.

The Committee realizes that global economic conditions may have slowed program implementation, and thus delaying planned evaluations would have been

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<sup>8</sup> Meeting 79, 1550.

<sup>9</sup> Meeting 79, 1550.

<sup>10</sup> Meeting 79, 1625.

prudent. Nonetheless, timely evaluations can help managers make program improvements before all funds have been disbursed. The Committee recommends:

## **RECOMMENDATION 2**

**That, by 30 September 2013, Industry Canada examine the possibility of advancing its evaluations of the Technology Partnerships Canada, Strategic Aerospace and Defence Initiative and Bombardier C Series programs, and consider including job creation in Canada into the evaluation criteria.**

## **PUBLIC REPORTING**

Public reporting on program performance can help stakeholders, Canadians and parliamentarians monitor program results relative to the established objectives and outcomes. When SADI was approved in 2007, Industry Canada had committed to report publicly each year on contribution recipients and program results.

The OAG found limited public reporting to meet this commitment. In 2009, Industry Canada released Program Highlights 2007–2009, and in 2012, it completed an internal report covering 2010–2011. The OAG recommended that Industry Canada report publicly each year on how SADI projects met the assessment criteria and on program results and accomplishments.<sup>11</sup>

Mitch Davies told the Committee that, “We've achieved the first milestone, which was to have published a comprehensive report reflecting the 2011-12 fiscal year, which we did on February 8. It's available publicly on our website. The ongoing part is that every fiscal year thereafter we will do the same.”<sup>12</sup>

Marta Morgan summarized SADI's accomplishments to date. She said:

To date we have 28 projects under the program, of which 20 have completed some or all of the R and D. We've also leveraged, for every dollar of SADI funding, \$2 from other sources into those projects. ... We've encouraged collaboration, because we believe collaboration is a key to

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<sup>11</sup> Chapter 6, paragraph 6.45.

<sup>12</sup> Meeting 79, 1620. The report can be found at [http://www.ic.gc.ca/eic/site/ito-oti.nsf/eng/h\\_00813.html](http://www.ic.gc.ca/eic/site/ito-oti.nsf/eng/h_00813.html).

encouraging commercialization and closer links between research institutes and the private sector and universities. Twenty-three of our 28 projects currently involve collaborations with universities and colleges. The third is competitiveness and the impact of these R and D projects on the competitiveness of the companies. ... What we're seeing now, five years into the program, is that about half of the projects are commercializing or putting this technology into place.<sup>13</sup>

The Committee encourages Industry Canada to continue its public reporting on SADI contribution recipients, program results and accomplishments. The Committee notes that Industry Canada has not implemented similar reporting for the Bombardier CSeries Program, which involves \$350 million. The Committee recommends:

### **RECOMMENDATION 3**

**That, beginning in 2013–2014, Industry Canada report publicly on an annual basis on contributions, program results and accomplishments of the Bombardier CSeries Program.**

### **RECOVERING PAYMENTS**

Industry Canada's support to the aerospace sector is accomplished through repayable contributions; that is, recipients repay funds to the government once certain conditions are met. Repayments from Industry Canada's legacy program TPC flow back into payments made to companies under SADI and the Bombardier CSeries Program.

The OAG noted that since 1996, Industry Canada has received \$767 million in repayments for TPC and since 1985, it has received \$607 million in repayments for DIPP.<sup>14</sup> Over the next ten years, Industry Canada forecasts \$1.5 billion in repayments from the TPC program and \$299 million in repayments from DIPP. These amounts compare to \$3.1 billion disbursed to recipients under TPC, and \$2 billion disbursed under DIPP.

The OAG examined a representative sample of 41 TPC contributions and 10 DIPP contributions to determine whether Industry Canada monitored the repayment

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<sup>13</sup> Meeting 79, 1600.

<sup>14</sup> Industry Canada's TPC Repayment Status Report, as of 1 November 2012, can be found at <http://www.ic.gc.ca/eic/site/ito-oti.nsf/eng/00810.html>.

process and obtained payments on time from 2007 to 2012. The OAG found that 61% of TPC repayments and 80% of DIPP repayments were obtained on time. For repayments that were late, Industry Canada took appropriate steps to obtain the payments. The OAG did not compare the department's forecasted repayments against actual repayments.

The Committee encourages Industry Canada to continue its efforts in this regard, as it is important that the government receives funds owing. The Committee notes that as SADI and the Bombardier CSeries Program mature, the government will be seeking repayments from recipients for these programs. Marta Morgan told the Committee that, “[R]epayment expectations are higher under SADI, as we now apply a royalty to gross business revenues instead of product sales. There is a more standard and consistent approach to repayments, and the repayment period is shorter. ... Once the repayments begin in 2013–14, we will post all company-specific repayments.”<sup>15</sup>

In order to help Canadians and parliamentarians monitor whether the government has received value for the money invested in the aerospace sector, the Committee recommends:

#### **RECOMMENDATION 4**

**That, beginning in 2013–2014, Industry Canada report publicly on an annual basis, which the department has committed to do for SADI, on the amounts disbursed to and repaid by recipients, as well as estimates of future repayments for its aerospace sector support programs.**

#### **CONCLUSION**

Canada's aerospace manufacturing industry is the fifth largest in the world and is a significant contributor to the Canadian economy. The industry requires intensive research and development, which the federal government has supported with various transfer payment programs since 1959. It is important that these programs be well designed and implemented in order to achieve their objectives. Updated information

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<sup>15</sup> Meeting 79, 1545.

provided by Industry Canada indicates that between 2002 and 2011, aerospace industry GDP increased by 22%, GDP/worker increased by 34% and manufacturing research and development expenditures increased by 57%. However, over the same period, total direct employment by aerospace firms decreased by 7%. Industry Canada's letter stated, "the aerospace sector is affected by global markets. It was significantly impacted by the most recent downturn."

In its audit of transfer payments to the aerospace sector, the OAG found that Industry Canada is managing its aerospace programs in a sound manner—it is conducting due diligence before signing contribution agreements, ensuring that projects meet eligibility criteria, reviewing claims are before issuing payments and taking appropriate steps to obtain repayments.

The OAG also noted that some improvements can be made. Industry Canada could be more diligent in its collection of performance information, conduct evaluations according to its plans and report publicly on program recipients, results and accomplishments. In support of these findings, the Committee believes that Industry Canada should provide a report on its progress in implementing the OAG's recommendations, consider the possibility of advancing its evaluations, report publicly on the results of its aerospace sector support programs and report on amounts disbursed, repaid and estimates of future repayments.



# APPENDIX A LIST OF WITNESSES

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<b>Organizations and Individuals</b>	<b>Date</b>	<b>Meeting</b>
<b>Department of Industry</b> Mitch Davies, Associate Assistant Deputy Minister, Science and Innovation Sector Marta Morgan, Associate Deputy Minister	2013/02/28	79
<b>Office of the Auditor General of Canada</b> Ronnie Campbell, Assistant Auditor General Nadine Cormier, Director Glenn Wheeler, Principal		

# REQUEST FOR GOVERNMENT RESPONSE

Pursuant to Standing Order 109, the Committee requests that the government table a comprehensive response to this Report.

A copy of the relevant Minutes of Proceedings (41st Parliament, 1st Session: [Meetings Nos. 79, 95 and 97](#)) is tabled.

Respectfully submitted,

David Christopherson

Chair