

Public Hearing: Department of Northern Saskatchewan and Sask Housing Corporation

Mr. Chairman: — . . . introductions this morning. First of all, I may run out of energy and breath before I get finished; and secondly, I'm not sure I know everyone. Could you introduce your officials this morning?

Mr. Bailey: — Mr. Chairman, the officials we had here yesterday as DNS are the same ones here today, but I will introduce, if you've not already met him, Stan Willox, general manager of Saskatchewan Housing Corporation, and then leave up to him to introduce his officials.

Mr. Willox: — On my right is Leo Larsen. He is the executive director of finance and administration for the corporation. Right directly behind me is Tom Carter, our director of research. To his immediate right is Gary Lloyd, director of our northern housing branch; and to his right is Alex Fowlie, assistant general manager.

Mr. Bailey: — Mr. Chairman, I'm sorry, I overlooked one addition — Mr. Ed Krip, sitting here behind me, who works for Saskatchewan Government Services, and formerly he was with the Department of Northern Saskatchewan as director of buildings and municipal engineering.

Mr. Chairman: — I was informed of that, too. The Clerk is, I think, in a moment going to distribute the name tags for the members so you'll know who's asking questions. Since there are some new people here, let me repeat a comment that I make at every set of these committee meetings, and that is that what is said here is privileged in the sense that it cannot be the subject of a libel/slander action, or indeed any criminal action. On the other hand, it is taken down verbatim and is available the next day, and to that extent it is readily available for use outside the House.

It also means that witnesses cannot give evidence from that second row. If Mr. Willox, for instance, determines that Mr. Fowlie could probably give the answer clearer and more succinctly than he, and he'd like Mr. Fowlie to answer the question, Mr. Fowlie would have to move up to the table and speak into a mike. He can't really speak from that second row. And so I leave it to Mr. Willox and Mr. Bailey to try and keep that in mind. I'm just wondering how we are going to handle this. I guess we'll do the same. I guess all questions will be referred to Mr. Bailey. He may ask Mr. Willox to respond, but I think we'll continue the practice of referring questions to Mr. Bailey.

Okay. I don't know who was on the floor yesterday when we left off, but I'll recognize the first hand I see.

Mr. Dutchak: — Mr. Chairman, there's a set of questions which were submitted to Mr. Bailey yesterday and I was wondering about the form of his answer, whether it's in writing or verbal.

Mr. Bailey: — Mr. Chairman, the questions related to public housing? There were a number of them.

Mr. Dutchak: — Yes.

Mr. Bailey: — Our own seating arrangements here are such that we weren't sure which topic you'd be raising first. And if it's public housing and if Mr. Willox wants one or two others to join us at the main table here, my own staff can move to the back. We just weren't certain of that until we determine which subject you want to deal with first. If you want to deal with public housing first . . .

Mr. Chairman: — He's asking what you want to deal with now, so he can get the public officials at the table.

Mr. Dutchak: — Whatever is more appropriate for you.

Mr. Chairman: — I think it's your decision, not his.

Mr. Dutchak: — It doesn't matter. I don't care.

Mr. Bailey: — Public housing was the first that came up in the order of questioning yesterday, so . . .

Mr. Chairman: — All right. Why don't we go with public housing then since you've . . .

Mr. Katzman: — Mr. Chairman, if possible, why don't we move some of our officials and Mr. Engel down a little? In that way they can get some more around the table. That may make it easier, instead of playing musical chairs.

Mr. Bailey: — Mr. Chairman, in the area of public housing then, if we can move to that, a couple of comments first. As mentioned yesterday — as agreed to yesterday by the committee — we've asked Sask Housing officials to join us today to respond generally to the questions related to public housing. I could perhaps just respond to the first question myself, and then I will turn it over to Stan Willox to speak to the other points.

But the first question, as I recall it, was that who was the legal adviser for DNS in terms of housing foreclosures in the year under review, and in the year under review there were no foreclosures — that is 1981-82. Had there been, or had we sought legal advice related to foreclosures, it's likely we would have gone first to the Attorney-General's department to get some advice. But that's rather hypothetical because there were no foreclosures in 1981-82.

The balance of the questions, dealing with general foreclosure procedures, sweat equity and those other points raised under public housing, I'd ask Mr. Willox to respond, or can he have his officials do that?

Mr. Willox: — Well, with respect to general foreclosure procedures, it is our understanding (and I'm only speaking from information that we have received from the previous northern housing branch of the Department of Northern Saskatchewan), that they had in essence a collection committee that was responsible for reviewing arrears, making decisions with respect to foreclosures. I understand that that committee was not entirely operative with respect to the Saskatchewan Housing Corporation. In our recent involvement in housing in northern Saskatchewan, the general procedures that we follow is that within 15 to 20 days when we first obtained firm notice of an individual being in arrears, the individual receives a letter demanding payment, and there is a process that then proceeds from there, with regular letters going out until such time as we are in a position to proceed with legal notice of foreclosure, which process

generally takes about three months to get into that position, and the foreclosure actions would proceed from there.

Mr. Dutchak: — Mr. Chairman, in relation to that response, that is the procedure that would be followed. Was that the procedure followed in all cases?

A Member: — In the year under review?

Mr. Willox: — From what we understand, no. The collection committee was not fully operative, and it's also our understanding there were no foreclosures undertaken.

Mr. Dutchak: — I'm sorry. What did you say?

Mr. Willox: — It's also our understanding that there were no foreclosures undertaken in the year under review.

Mr. Dutchak: — And no collection procedures initiated at all.

Mr. Willox: — Not on a regular basis.

Mr. Young: — You keep mentioning this committee that wasn't really doing what it was supposed to be doing, or wasn't really in the collection business. Who was on it . . . Who was on the payroll for the collection committee in the year under review?

Mr. Willox: — We were not able to obtain that information.

Mr. Young: — Why would that be, that you couldn't obtain it?

Mr. Willox: — Well, we just received notice of the question yesterday, and there have been substantial changes in the DNS area. We were not part of that operation.

Mr. Young: — Do you have any idea how many people, if you don't know who they were, who were on the collection committee?

Mr. Willox: — I gather there were three or four.

Mr. Meagher: — How was the committee structured or struck? What were its terms of reference — hired or appointed?

Mr. Willox: — I believe — it's my understanding from the information we have received — that the committee was a committee composed of officials of DNS. I would presume they would involve the collections officer and some other program people with knowledge of the particular account. It's my understanding that that committee did not meet on a regular basis, as was initially intended.

Mr. Dutchak: — Do you know if that committee met in the year under review?

Mr. Willox: — I don't have information on that. I'm sorry.

Mr. Dutchak: — Are there written records of committee meetings?

Mr. Willox: — We have not delved into that. We haven't been able to obtain any information on that. I'm not suggesting the information is not there. It's just the

question came up in a relatively short time; our efforts to date have been dealing with the reality of the issue instead of the past history.

Mr. Meagher: — If there was a committee made up primarily of employees of the department, can you suggest any reason why it wouldn't function, why it wouldn't be able to hold meetings and do its job?

Mr. Willox: — There are a number of issues, I suppose, that may present problems, particularly in the area of northern Saskatchewan. It is our feeling that the financial information, the state of the accounts, was not as current as it could have been, which presented some problems with respect to obtaining the information on arrears, timely information. It is also our understanding that there was a separation of functions between the housing branch and, I guess, one of the central service organizations within the department relating to financial services. And from what we have been able to determine the flow of information was not as timely between those two areas as it could have been. That would present some problems in terms of obtaining current and accurate information on arrears and following them up.

The other reality, I suppose, in the North is that the situation is that a lot of people are unemployed. The geographics of the area make it very difficult to get out and actually get into collections promptly. And I suspect that that will continue to some degree to be the case, that one does have to question the economics of flying into a community to collect the rents of maybe \$150. So I would suspect the arrears process in the North may extend a little bit because of the geographic problems.

Mr. Young: — Mr. Willox, I can understand your concern with the reality of what you're left with today, but we unfortunately are dealing with the year under review, and accordingly must direct ourselves to that year. I would be very interested to obtain the names of the three or however many individuals who are on this collection committee. I think that would be very enlightening.

Mr. Vice-Chairman: — I wonder if I might just interject at this point. I would wonder if Mr. Bailey would be able to shed any light on that aspect; maybe you are familiar with what transpired with that committee.

Mr. Bailey: — Mr. Chairman, I'm not personally familiar at all with what transpired with that committee, nor are any of my officials here. As I said to the committee yesterday, at least four levels of the hierarchy from the assistant director to the director to the assistant deputy minister to the deputy minister are no longer with the public service of Saskatchewan. The branch and its records and responsibilities have been moved to the Saskatchewan Housing Corporation. By all means we'll do what we can to assist in researching and reviewing those records to see what transpired in the year under review, but none of us here from DNS, today, have any knowledge, any specifics at all, of the operation of the northern housing branch. That operation was contained within that branch.

Mr. Young: — Mr. Willox, yesterday we heard from Mr. Bailey as to . . . He gave us an outline of what the collection procedure was. And if I recall him correctly it was about five months before it got turned over to a set of lawyers. Today you say that it's roughly a three-month period before you get down to hardball collection. And if you could take a moment and run through what the collection procedure is.

Mr. Bailey: — May I interject here. The collection procedure we outlined yesterday

has to do with the economic development loan fund, not with the mortgage administration program at all.

A Member: — I misunderstood.

Mr. Vice-Chairman: — Okay, we're still sticking with this though for the moment. I would like to know if there's anyone in this room that was with the Department of Northern Saskatchewan in the year under review. Is there any one of you?

Mr. Bailey: — Mr. Chairman, we were with the Department of Northern Saskatchewan. We did not have any responsibility or were connected with the northern housing branch of the Department of Northern Saskatchewan.

Mr. Vice-Chairman: — No one in this room was connected with it then?

Mr. Bailey: — Mr. Krip was with buildings and municipal engineering, and he is here to speak to the Pinehouse and Stony Rapids questions. He was involved on the construction of public buildings. He had nothing to do with the construction or the area under review at all.

Mr. Vice-Chairman: — So, what you're telling me then is that there is no one here who was connected with the public housing in the North during the year under review?

Mr. Bailey: — That's correct.

Mr. Vice-Chairman: — And no one here that would know any of those people who were on that committee?

Mr. Bailey: — No, I don't know who was on the committee. I'm sure the files will tell us who was on the committee. It's just a question of getting to the files. Again, as Mr. Willox said, the questions were asked yesterday; we've done the best we can to get whatever information we can today for you. But I imagine the files would reveal who was on that committee, with a more extensive research.

Mr. Dutchak: — I think there's a question on the floor. Mr. Young's question to Mr. Willox was: what was the collection procedure? Do you have that?

A Member: — On the housing now.

Mr. Dutchak: — Well, was there one?

Mr. Willox: — As I understand, there was a policy in place. It provided for the identification of accounts that were in arrears for a certain period of time. I gather that when accounts were in arrears for three months they were to go before the collection committee. And the collection committee then was to take action on those accounts. And presumably that would mean going into a legal process that could involve foreclosure.

Mr. Dutchak: — Is it correct that in fact no collection procedure was followed, according to your records?

Mr. Willox: — The indications we have is that the committee was not fully operative.

I'm not sure exactly what that means, but it is my understanding that they did not meet regularly, and the policy in effect was not carried out to any great degree.

Mr. Dutchak: — Who collected the loan payments from the individual householders?

Mr. Willox: — In terms of loans collections, in most cases it's my understanding that that would be a function of the DNS staff and housing branch. They did, when we became involved with the corporation, have identified in their organization chart housing officers and collections officers.

Mr. Dutchak: — Actually went out to these homes and collected money?

Mr. Willox: — That's my understanding.

Mr. Dutchak: — Have you determined how much in loan funds was lost through theft during the year under review?

Mr. Willox: — By theft, do you mean non-payment of accounts?

Mr. Dutchak: — Theft by loans officers.

Mr. Willox: — I have no knowledge of . . . (inaudible) . . .

Mr. Young: — Would these people, sir, go to the house and take a group of \$ 10 bills from some householder, and then be responsible to turn it back in at the offices? Would that be a collection? Of course, it's hard to tell, really.

Mr. Willox: — It's my understanding that that situation would come up. I gather that there were some collections officers in the field, and that they were to maintain accounts and records, and that people from the housing branch were to go out and verify those accounts and records.

Mr. Dutchak: — Mr. Chairman, the reason for my question was that I know there has been at least two convictions, criminal convictions, of loans officers who went out, collected money, and simply didn't turn it in to the government. I was wondering whether, for the year under review, you people have made a determination as to how much money was lost.

Mr. Meagher: — By that method . . .

Mr. Dutchak: — By theft.

Mr. Meagher: — . . . as opposed to other methods.

Mr. Willox: — If that request or question is directed to me, we have not identified any particular accounts, although I understood there were some legal actions taken previously on issues that involved theft or misrepresentation, whatever. We have not been apprised of that in terms of the accounts that we're dealing with. Our main action now is to consolidate the accounts and try to bring them into shape and initiate collection payments.

Mr. Dutchak: — I see. So would I be correct in saying then, for the year under review, you really haven't done any accounting to determine what the arrears were and what

caused the arrears — whether it was the people not paying or the loans officer stealing the money?

Mr. Willox: — We have gone through the records to determine the issue with respect to arrears payments. We're not entirely satisfied with the records that we did receive. There was an entirely different process for identifying arrears in the DNS area. Right at the beginning of the year, the accounts evidently were set up as being in arrears for the full year. Any payments and application of subsidy subsequent to the beginning of the year would reduce arrears. What we did see was a statement that indicated the arrears, I believe, were in the order of \$7.5 million. Because of the way the arrears were calculated, and our subsequent review, we think that it's probably more in the order of \$4 million. But some of the arrears go back for a considerable length of time, and I don't think that we will be able to collect that for a significant number of months.

Mr. Dutchak: — So you haven't determined, whether for the year under review these arrears are legitimate arrears owed to the government by the home occupiers, as opposed to theft.

Mr. Willox: — Oh, in terms of the arrears, I think we're reasonably satisfied that the arrears, as we have constructed the accounts — we're not completely through the accounts yet are legitimate arrears and the payments, in fact, have not been made. But we are in the process of talking to the applicants and trying to verify all of the payment records, as stated.

Mr. Dutchak: — According to our information for the year under review, several thousands of dollars was stolen by loans officers. Has your department commenced any legal action in civil courts to collect the money back from these loans officers that were convicted and sentenced? Criminal.

Mr. Willox: — Not to date, and I have not become aware of any particular cases where theft has been identified.

Mr. Dutchak: — I see. Well we've had . . . There have now been two convictions. One individual, I believe, was sent to jail for 30 days. The other lady from La Ronge stole approximately \$10,000 and the judge put her on probation, indicating that the system was run that way, and he couldn't in all conscience send her to jail. That's at least two individuals that I'm aware of. One was sentenced in Prince Albert and one in La Ronge, and I was just wondering whether you've initiated any proceedings to go after these people civilly to recover the money which they stole, which totals approximately \$20,000.

Mr. Willox: — Well, the general position that the housing corporation has taken is that we were responsible for the assets as at a particular point in time. And as I indicated, our main concern is dealing with: (a) the collections on what we feel are legitimate accounts to be paid by the federal government; and also, collections with respect to individuals, although there are some difficulties because of the length of time of arrears. We have not, to date, got into some of the nitty-gritty with respect to identifying any fraud or theft and I'm not aware of any particular cases that have been identified by our people at this stage. So it may be an issue that it may not be appropriate for us to deal with. It's past history, in the responsibility of the department.

Mr. Dutchak: — My final question in this area is: have you formed the opinion that documentation for the year under review is, in fact, missing?

Mr. Willox: — There were some cases where we could not find files, and there was some documentation that was missing.

Mr. Dutchak: — Did you determine where this documentation went to, or when it became missing?

Mr. Willox: — We've had difficulty doing that. There are a couple of issues that come into play. One: the housing branch did not, as I understand it, deal largely with cash. Items that they dealt with in collection mostly in cash went through the financial services branch, and that in itself created some problems in terms of responsibility and control. So there are some difficulties with files, but in answer to your question specifically, it's my understanding there are some files that are missing, and we will have some difficulty tracing the particular accounts where the action has taken place.

A Member: — Thank you.

Mr. Young: — Mr. Willox, obviously there's \$7-plus million outstanding in arrears, or in accounts payable, and you are a crown corporation — corporate body. Mr. Bailey is a line; he is the Government of Saskatchewan, Department of Northern Saskatchewan. So you have two different persons at law out there. I would assume that you received an assignment of all outstandings from the government to Sask Housing.

Mr. Willox: — That is correct.

Mr. Young: — So therefore I would take it, sir, that the responsibility for collecting old debts now is in your ballpark and not some past . . . You have all of the responsibility now, and certainly if the debts get five or six years stale they're going to be uncollectable, and I am wondering what procedures you, if any, have taken under the year under review to ensure that your debt that you took assignment of — there's no rejuvenation there — what steps you have taken to ensure that laches does not set in make these debts uncollectable. Certainly, if DNS has been operable for five or six years, that becomes a very real problem. If a householder in the north of Saskatchewan hasn't made a payment for five years, you're on the verge of losing the entire account, and I'm wondering what steps you have taken.

Mr. Willox: — Well, first of all, you're correct. We have assumed the assets. With that we would assume the responsibility for collecting receivables that are due from CMHC and also for collecting on past arrears. However, I must say that I think some of the accounts have got to the stage where I don't think that it would be practical to collect the full arrears in all cases.

We have written to individuals and tried to establish the attitude that accounts are payable and people are expected to make payments. In terms of the cash received, the monthly cash receipts have gone up substantially, I believe from \$35,000 a month up to approximately \$80,000 a month. So we are assuming that responsibility for the collection of the accounts and we would try to collect them as best we could. Obviously it's money on the table and people who have contracted and are responsible for making payments should make the payment. The timing of some of those arrears is a bit of a problem for us because they have been outstanding for sometime. People have moved in and out of the houses and it's difficult to track the arrears over that length of time and verify all the payments. All I can say is that we would try to collect the arrears as best we possibly can, giving all due recognition to the position that the individuals are in.

Mr. Young: — Have you, in the year under review, itemized the accounts that are on the verge of falling into uncollectability by the six-year legal deadline which you are subject to, as everyone is, on collecting on contracts? Have you itemized the ones that are on the verge of going over the brink?

Mr. Willox: — We have itemized a number of accounts to determine or try to verify the extent of the arrears. As I indicated before, we had some difficulty with the statement of arrears. Our people feel that it's not \$7.5 million in arrears, but a lesser sum perhaps of \$4 million. We have tried to itemize those amounts. We've had discussions with applicants in terms of their making payments. There will be an attempt made to collect as much as we can — accelerate some of the payments. But, again, a lot of the people are very low income and there is a limit to how quickly we can collect those arrears.

Mr. Young: — Are you directly involved as the deputy . . . or the high man on the totem-pole in your department, to use your discretion in writing off a debt? And by that I mean letting it go beyond the six years, or, rejuvenating it by sending a man out to collect some money. Who has the responsibility with respect to letting a debt lapse by time, or writing it off, just abandoning it as a lost cause? Who does that?

Mr. Willox: — Well, within the housing corporation it is a policy of the corporation that all write-offs are referred to the board of directors. But apart from that there is the process that we go through. At some point in time you have exhausted all collections activities and procedures, and all recourse to collect the debt. That is largely a program function, a policy function and to ensure that the arrears and the collections are as current as possible it is a matter of getting on top of them as quickly as possible, notifying the applicant, and taking whatever action you can to ensure collection.

Mr. Young: — Are all of the loans that were extended for the purpose of buying a house, on the housing end of it, were they secured by a first mortgage? Or are some of them not and some of them are?

Mr. Willox: — It's approximately half and half. There are mortgages that are registered. Those are the accounts that we are concentrating on initially. In a lot of cases there are what are called 'interim occupancy agreements' where for one reason or another a mortgage cannot be registered or a title transferred. And that is effectively a lease arrangement.

Mr. Young: — You are the owner of that house then?

Mr. Willox: — That would be correct.

Mr. Young: — You can't lose that one.

Mr. Willox: — I hope not.

Mr. Young: — You're just out a bunch of back payments of rent, is what you're out.

Mr. Willox: — That would be the problem.

Mr. Young: — He's a tenant, that guy, then?

Mr. Willox: — That's correct.

Mr. Vice-Chairman: — Mr. Willox, I wonder if I could refer you to page 22 of the auditor's report. And this is just a follow-up to Mr. Dutchak's line of questioning. And if you look at the third paragraph where he says:

During the course of the examination of the Department of Northern Saskatchewan, it was noted that there was no documented evidence that officials of the Department compared the amount collected by housing agents to the amount that agents had remitted to the Department.

And in the next paragraph he identifies \$24,000. I don't think we really got an answer as to what was being done now to correct that situation. Is it still going on?

Mr. Willox: — In terms of the present situation, when we took over the operation for the housing accounts in the North, it was a matter of reconstructing accounts. As I have indicated, identifying the arrears. There are some issues with respect to the collections officers that we are not satisfied. Where there are collections officers they should have fidelity bonds to ensure that we have some way of protecting ourselves from this kind of abuse. The other aspect of that is: where there are collections officers out in the field, the verification of the accounts that they have. What that would involve from the corporation's point of view is specifically indicating what the payments are to be and what the collections officer is responsible for collecting. I gather there was some confusion of that in the past.

With respect to the particular issue of the \$24,000, I'm not aware of that specifically, Whether that has been collected from the collections officer or not.

Mr. Lloyd: — On those we haven't involved collection agents. They were not part of DNS staff. They were hired under contract. And that's the two you were talking about that were probably sentenced, and there's probably no way of collecting that back because these people have no money.

Mr. Vice-Chairman: — Have you been able to identify some arrears as a result? People could, in effect, have made payments but it has not been credited to their particular account, and have you been able to identify those arrears which do not in fact exist?

Mr. Willox: — We are in the process of trying to verify that now, and that will be a rather lengthy process because there are some 1,600 accounts involved that will require interview with each individual applicant and a check on the records that we have been able to obtain with the particular applicants involved.

Mr. Vice-Chairman: — If they didn't issue a cheque, which obviously they wouldn't have, because that could have been traced, but if they gave money, strictly cash, then it's a case of each individual's honesty, 'Well, well, I paid that,' sort of thing.

Mr. Willox: — That would be correct. It's my understanding that the banking services, etc. . . . If you mean that in northern Saskatchewan there would be a reasonable number of cash transactions.

Mr. Katzman: — I have a feeling, Mr. Chairman, that this group may be back here tomorrow, and if that is correct hopefully some of the questions that were unable to be

answered maybe you'll be able to check between today and tomorrow. I may be incorrect but I have that feeling.

Mr. Dutchak: — I wonder if, Mr. Chairman, we shouldn't just go onto the answers that they have, and we'd like to get Mr. Krip in because he probably has to go back to Prince Albert.

Mr. Young: — Could I just get a couple more in? I asked yesterday, with respect to the overruns on the houses, and I ask Mr. Bailey: what aspect of the house was the biggest contributor to the overrun? Was it the cement work or the insulation work or what? I note that there's approximately 5 million supposedly owing to the feds on their contribution, which is in dispute as to whether they're going to pay it. And I have heard stories from people that some of the little 800-square-foot houses run up to \$200,000 a unit, final total cost, as opposed to a Revelstoke home at \$35,000.

And I'd like to know where the overrun was created. Was it the electrical contractor who overbuilt or where was it that these great overruns took place in the construction of these houses up there?

Mr. Willox: — There would be a number of areas. One of the major problems is in the administrative area. There was, I gather, a lot of attempt to make housing construction an employment program. Therefore there was probably a lot more people involved, I think, non-productively in many ways in the construction of the housing units. There were also a number of unskilled people working on these units who, I think you'd have to say, did not have the business experience to deal with the construction process and, as a result, there were a number of situations that we've been aware of where bills were not paid, material was not properly utilized that found its way into the site. There were also some problems with construction deficiencies and times in correcting them.

So there were a number of areas in which overruns could occur. I would say that probably, apart from the difficulties of construction in the North, the biggest problem would be having skilled people taking a business-like approach to the construction of the units, as being the major problem for . . . (inaudible) . . .

Mr. Katzman: — If I may, just an aside question, strictly from being here awhile, would you explain to the committee the system — I believe it was called non-profit or something — the way these houses were built? And that may indicate some of the problems you're coming to.

Mr. Willox: — I gather that the committee had asked yesterday about the process and how it was determined for the construction of the housing units. It is my understanding that initially housing units were constructed by the Department of Northern Saskatchewan by their own forces, and at some point in time the federal government, through CMHC, required as a participant in the financing of these units that non-profit organizations be involved in the construction of the housing units.

Non-profit organizations, I think, are more social or political than they are involved in the business dealings of the construction of units. It creates some problems. The normal construction process is that a contract is let; if it's a tendered process and bonded then you have some assurance that the house will be completed within the costs specified. Where there are no bonds, then you're almost totally dependent upon the individual contractor to be capable and perform the services. And in those instances, many of these people building houses did not have the expertise and the

knowledge to build the houses, and there were some difficulties in verifying their books and records as to whether creditors were paid, materials were received, who had worked on the houses, and ensuring that in fact the moneys did go into the house construction.

Mr. Katzman: — That last line is a good line: ensuring that the moneys did go into the housing. I read, from what I understand, in past experience, that some of the material may have been delivered to the site, and never got into that house because of . . . things got legs and walked away, for a lack of a better word.

Mr. Willox: — I gather there was some instances where that did happen.

Mr. Katzman: — In fact I understand one half of a house, or a whole house, disappeared in one case.

Mr. Willox: — That could be. I'm not familiar with that particular situation.

Mr. Young: — Have you taken a tally . . . These houses that were built as a result of this program, would 30 per cent of them be in town sites like La Ronge and . . . (inaudible) . . . and 70 percent be in the bush, or the other way around? How many are in the bush and how many are in built-up social communities?

Mr. Willox: — I gather most of them would be in the communities. I suppose some of the communities are pretty small and close to the bush, but most of them are in what would be organized communities in the North, under the new municipal act.

Mr. Young: — Are any of them over a thousand square feet?

Mr. Willox: — There would be some, yes.

Mr. Young: — So what kind of sizes did they go — from what to what? What's the littlest one that you funded and what's the biggest one?

Mr. Lloyd: — They go right from, well, a two-bedroom, three-bedroom bungalow, anywheres from 900 square feet in . . . (inaudible) . . . the last five years .

Mr. Young: — To 1,200? That big?

Mr. Lloyd: — 1,160.

Mr. Engel: — Mr. Chairman, there's a suggestion there's some cost overruns. Have you some figures on that or some calculations? By Mr. Willox answering the question, did you imply that there were cost overruns as much as \$200,000 for a house? Am I reading this report correctly?

Mr. Willox: — Well, there are some costs stated on the books that we have difficulty in determining as being reasonable costs, and we have difficulty in tracing all the costs and the flow of funds and materials. The records in DNS indicate that payments were made where bills and accounts — or paying of bills were received. But when you get into the efficiencies of construction, I think that's where you run into the problems as to whether the payment, for example, of labour in house construction is fully justified on the basis of that labour being productively employed in constructing the housing, and

we have had some cases of creditors registering liens and making claims against the housing units for non-payment where we thought there had been payment made. So, yes, there would be some cases where there would be legitimate overruns and they could be identified as such.

Mr. Katzman: — Mr. Chairman, just to make sure that there wasn't a misunderstanding, when I talked about the house in the North, parts disappearing, I understand they have the same problem in Saskatoon, too. Let's make that clear: that they have vandalism of the same kind in the South as well.

Mr. Young: — Mr. Willox, one more question before I turn it back to Mr. Dutchak. Is this still an ongoing procedure? Are there still houses being approved and starting out during the '83 year, or is this all past history? Are you still doing this — building these thousand-square-foot houses up there?

Mr. Willox: — No, what we are concentrating on right now is on the process of completing and repairing the existing housing stock. We are giving serious consideration to the construction of additional housing units in some of the communities where the need can be fully identified. In the construction process we are looking at a different approach to the construction of the housing units.

Mr. Young: — I was going to ask then, if you were still doing this (I'm supposed to stick to the year under review), what corrective actions you have been taking to make sure that these great overruns didn't crop up? But you're not, so it's academic I suppose.

Mr. Willox: — Well, I don't think it's academic in that there are a couple of issues. If we had our druthers, all of the units would be tendered and they would be bonded. I think that in the North, that is not likely to be a reality because of the high unemployment in the North, the difficulty of small contractors getting bonding, and the need to try and establish some viable business operations in the North to construct houses and also to look after maintenance and repairs. So we are looking at a process of trying to deal with limited companies that are set up with businesses, but we will probably get into invitational tenders with local northern contractors.

Mr. Young: — Now, you're saying you're basically into repairs and — I promise this will be my last question — you're into repairs and refurbishing existing houses. Are you jibing that with the currency of the payments? If a guy is in arrears and he says, 'I want new siding,' what would be your come-back to him?

Mr. Willox: — Well, it would depend on the precise situation. Generally there would be two issues that could arise, one where the repairs would be the responsibility of the Saskatchewan Housing Corporation, either because we own the unit and it is a rental unit, or because we have sold the unit through the department of DNS to an individual and there are some legitimate construction deficiencies which we would deem to be our responsibility to correct.

The second issue is where an individual owns a home. If they are seeking the house to be repaired, and it is not a construction deficiency or not considered to be the responsibility of the corporation, they would have to arrange for the construction themselves, or apply for rehab grants, whatever, to arrange for those repairs.

Mr. Young: — You now tender out this refurbishing?

Mr. Willox: — It was tendered out. There was some invitational tenders though. You have to appreciate that a lot of the refurbishing work was small-scale work involving small dollar amounts that was spread throughout the North, so it was very difficult to tender it out all the time.

Mr. Young: — Thank you, Mr. Willox.

Mr. Katzman: — You have the same problem in the South too though.

Mr. Willox: — Yes. In some cases in the South we deal with maintenance contracts where you employ somebody on an hourly basis with a mark-up to do small repairs.

Mr. Engel: — Mr. Chairman, if I may, just one question. How many houses would you say were built in the year under review that were administered through . . . ?

Mr. Willox: — My understanding is that there were no new housing units started in the year under review. There were a number of units that were under construction. I believe, roughly, there was 150 units that were under construction in the year under review.

Mr. Engel: — 150 under construction? Out of those 150, how many are built on a basis where the individual is involved in purchasing his sweat equity, and that kind of thing, and how many are owned by, is it now Sask Housing? Or would it be . . . ?

Mr. Willox: — That's correct, yes.

Mr. Engel: — What percentage would that be? Half and half? Roughly.

Mr. Willox: — I couldn't say offhand, with those particular units. Overall it's about half and half at the present time, and I would expect that the units that were under construction, probably a large number of them would, or a bigger percentage of them would not be mortgaged . . . (inaudible) . . .

Mr. Engel: — So the cost overruns you're talking about are on the ones that are owned by the government rather than — I'm saying government, because I don't know if it's department of DNS or Sask Housing — but the overruns occurred in the ones that weren't sold-out-type operations. Is that what you're saying?

Mr. Willox: — In all probability. In most cases the mortgage was not registered or delivered until the housing unit was completed, which is why I say most of these would still be owned by the corporation.

Mr. Engel: — How did you determine how much you set that mortgage at? Was that a pre-arranged figure, or would that be the final figure that it was finished at?

Mr. Willox: — Well, the arrangements under the federal-provincial sharing agreement and the policies of CMHC required that that sales price be set when all final costs are known. Personally I think that's a bad business practice. There has to be some notification to the individual as to what they're going to pay for the house. Where we enter into contracts and arrangements to build a house, I think it's much like any other business operation; you have an expectation that the house will be built for a certain number of dollars, and you should be able to provide that notice to the individual. It's

then the responsibility, in this case, of SHC in the future to ensure that the unit is built for that price. If we can build it for a little less, perhaps we have a contingency built into that price so there maybe some surplus revenues. If you build it for a little less, you lose money, but that is the test of performance.

We have some difficulty with that concept with CMHC, but that is where we would like to go, largely because the consumer does expect to know how much at a very early stage, and certainly by the time they occupy and sign the mortgage.

Mr. Meagher: — Mr. Chairman, there were another couple of questions from yesterday that perhaps we should allow them to deal with regarding housing. One of them was the way of establishing the sweat equity, the credibility of a mortgage agreement, whether or not the sweat equity had been performed. Was there an inspection process?

Mr. Willox: — I'm not sure of the exact arrangements that were used in the North. I gather that there was an inspection process. Some of the files indicate specific work that was performed by the applicant by way of sweat equity. In the South, under this program, we have the advantage, now at least, of going into contracts, and the contract is for the full price where the sweat equity involved is an arrangement between the owner and the contractor. So that we have a better way of identifying the sweat equity in that it comes off the contract price because the work is not performed by the contractor but rather by the individual.

Mr. Meagher: — In the year under review you're not aware of any policy or process that was . . . a record kept.

Mr. Willox: — Other than what is indicated on the file, unless Gary here is familiar with it.

Mr. Lloyd: — As far as I know, in checking all the files and the sweat equity that was paid up to \$500, it was all carried out and inspected before they could get the house.

Mr. Meagher: — Also in regards to the declarations that were made by individuals about income in order to qualify for subsidies. How were they checked? We have information that they were simply not checked or were fraudulent.

Mr. Willox: — Well, what I have seen of the files and the indication that I have from people that have worked on the files is that there were checks done. There were credit reports; there were interviews with the individuals involved to determine the amount of income and try to verify it. I don't know if they got into previous tax statements and that kind of thing. That does seem to be a little weak in that area. But there were certain checks that were done. You can question whether the checks were sufficient.

Mr. Dutchak: — Did you review the verifications of income? When did you become involved with the department personally?

Mr. Willox: — Well, we had taken over the responsibility for the assets on November 1st. One month before that we were involved to some degree in the administration and a lead-up to the take-over of the assets.

Mr. Dutchak: — Do you find your records have verification of income statements on file for every house?

Mr. Willox: — Yes, as best as we're aware there are statements of income on the application and calculations made as to the payments that individuals are to make and the subsidies that they are to receive.

Mr. Dutchak: — Tell me . . . I'm stating this as a hypothetical question because I would like to know whether there was any safeguard or procedure to safeguard abuse of the process. If an individual was making \$800 a month, or whatever, and qualified for a subsidized home, and he would be getting subsidized for a three- or four-year period, and the next year he began to earn \$40,000 or \$50,000, would there be any built-in mechanism to detect this?

Mr. Willox: — There was supposed to be an annual review of income.

Mr. Dutchak: — There was supposed to be. According to your records and knowledge, was there ever an annual review of income?

Mr. Willox: — I gather not, and I'm just referring to the auditor's report.

Mr. Dutchak: — According to your records, you can determine that there wasn't, or do you not know?

Mr. Willox: — Maybe Gary could answer to the extent.

Mr. Lloyd: — I would say that probably, now, that there was other income verifications done, spot checks, and common knowledge would say that if somebody heard that somebody was making \$40,000 and our housing officer picked that up he would immediately check with that person and try to verify his income.

Mr. Dutchak: — So what you're saying to us in effect is that there wasn't a procedure where the anniversary date of every subsidy arrangement a verification was required or checked upon? There was no procedure like that?

Mr. Lloyd: — Not that I'm aware of. Basically, it would be impossible pretty well for the staff to check 1,600 units or 1,400 units every year. And basically being the part that the majority of the people up there are on welfare it's very easy to check a bulk amount as to what their income is.

Mr. Dutchak: — You're saying it's easy to check . . . (inaudible) . . . welfare?

Mr. Lloyd: — Well, with the bulk of them being on welfare. So we have a very good idea of what they would get.

Mr. Dutchak: — It would have also been easy to demand verification of income annually for those that weren't on welfare, in case they were earning \$50,000 and in fact were living on the taxpayers' money. Correct?

Mr. Lloyd: — Yes, it would be, you know, if you could pick this up and were . . .

Mr. Bailey: — Mr. Chairman, if I might just add a point there. The auditor may very well have the answer to the question that's being asked about general, because he does make an observation, that, as we understand his observation, this income review is being done, but it's not being done thoroughly enough. And I think that was the essence

of his observation. I think he was saying the department did not go far enough to verify the information it was collecting. But perhaps the auditor can comment on the general quality of that process.

Mr. Chairman: — Do you wish to comment?

Mr. Lutz: — I think beyond what I have stated on page 15, I wouldn't have much comment to make, Mr. Chairman.

Mr. Embury: — Could I ask Mr. Willox, how was the level of subsidy arrived at? What was the formula vis-a-vis income?

Mr. Willox: — Basically by the income scale set down in the federal-provincial agreement, where, in general terms, a person would pay 25 percent of their income on principal, interest, and tax payments. The subsidy formula was based on determining what the full payments would be for principal, interest, taxes, and also insurance on the property.

A Member: — Insurance?

Mr. Willox: — Yes, fire insurance. That's largely to protect our interest or investment in the properties. Those economic costs would be determined, the amount that the individual could pay based on the scale relating payments to income would be determined, and the difference would constitute the subsidy.

Mr. Embury: — Was there a maximum income over which you would not receive a subsidy?

Mr. Willox: — Yes, there was. I think the northern housing agreement — and that varies from time to time — but I believe it specified \$12,000; and that would now be \$22,000.

A Member: — It would now be what?

Mr. Willox: — \$ 22,000.

Mr. Embury: — So the maximum income that you could earn, even under today's rules, would be 22. If you earned over 22,000 you shouldn't get a subsidy?

Mr. Willox: — You would not be eligible for the program, although your income could change in subsequent years, in which case you would simply pay more rent until you reached that point in time where you were paying full economic rent.

Mr. Meagher: — Is it true that an applicant for a northern housing subsidy signed a declaration stating his income?

Mr. Willox: — There was an application required from the applicant which required specific information, and there was a declaration that they . . . (inaudible) . . . that application.

Mr. Meagher: — And then in subsequent years, is it true that it was routinely refilled in by members of the department?

Mr. Willox: — Yes, there was supposed to be an annual review, as I said. That is a difficult process on this because of the volume of accounts, but generally that would be the case.

Mr. Meagher: — Well, given the fact that, as you've already stated, that the bulk of the home-owners, and occupiers, and renters were welfare recipients, wouldn't an individual whose income was substantially greater than \$20,000 a year be relatively easy to check? Wouldn't he be an exception in a community in northern Saskatchewan?

Mr. Willox: — Yes, I would think so.

Mr. Embury: — Mr. Chairman, for the year under review was that income level 12,000 or 20?

Mr. Willox: — 12.

Mr. Embury: — For the year under review the maximum income would be 12.

Mr. Dutchak: — Have you determined any policy, for instance, if an individual is proven to have received a subsidy when he wasn't qualified to do so because of an incorrect verification of income submitted by him? What's your department's position? Do you initiate collection proceedings to collect the subsidy back?

Mr. Willox: — Probably. Our position would be we would certainly have the right to do that.

Mr. Dutchak: — You haven't determined what you're going to do?

Mr. Willox: — Not with respect to that.

Mr. Katzman: — You mean nothing has ever been done on one of those?

Mr. Willox: — Well, you have to appreciate that we've just taken over the accounts effectively November the 1st, and there's a lot of work going into reviewing all the files and restructuring the accounts to determine the payments and the arrears situation. And I think it will take some time to work through all those accounts. I would expect that it may take a year to a year and a half.

Mr. Young: — It would be false pretences in any event. In this statement of the individual's income, if subsidies were advanced on the basis of that statement, you're into the Criminal Code, as opposed to the mere civil action of subrogating back that amount to yourself.

Mr. Willox: — That would be correct. I gather that the application form was . . . There was an affidavit at the bottom of the application form and it was sworn under a commissioner of oaths or witnesses.

Mr. Embury: — Mr. Chairman, did the application form that that individual would sign, verifying income when he was applying for a subsidy, indicate that . . . I think we've reviewed the fact that on an annual basis there really wasn't any machinery set in place to reverify the income, but on the original application was it left up to the applicant to advise the department of an income change?

Mr. Willox: — I'm not sure of the situation in northern Saskatchewan precisely, but generally, under the federal-provincial agreements, the rent payment is struck for a one-year period and the individual does have the capacity, if there is a reduction in income, to apply for some relief from payments. But in the normal process we only look at it once a year. If the individual's income does increase, that would not jeopardize their payment for that one-year period. It would only be looked at on an annual basis.

I'm not sure if that was the situation in the North . . . (inaudible) . . .

Mr. Lloyd: — More or less, that's pretty well what they went with — the one year.

Mr. Embury: — How is the subsidy paid out? Monthly or lump sum or . . .

Mr. Willox: — The subsidy, as I understand it, in northern Saskatchewan is applied right at the beginning of the year. As the accounts are financed by the federal-provincial partnership, it's largely a bookkeeping exercise in that the subsidy constitutes an abatement of the principal and interest payments, so there's an ongoing non-cash transaction.

Mr. Embury: — So the amount would be applied to the account, so that the . . .

Mr. Willox: — That's my understanding and the reason why we feel the arrears were overstated: at the beginning of the year the account would show that it was in arrears for, say, \$4,000 if that was the amount of the subsidy, and then as the individual made payments the arrears would be reduced down to zero, and billings to CMHC . . . (inaudible) . . .

Mr. Embury: — Or you may have the occasion in the reverse that the subsidy was applied to the account and should not have been applied to the account, and increase your arrears. If in fact some of those were receiving a subsidy that they should not have received and yet the subsidy was applied to the account every year, taken off the principal and interest, but the subsidy should not have been applied because they didn't qualify for it, then your arrears in that situation actually could be larger.

Mr. Willox: — Yes, they would be potentially larger in that case, but where there was a change of ownership or the income was reviewed then the account should be adjusted accordingly to reflect the present state.

Mr. Young: — Mr. Willox, who in your department is attempting to police any irregularities such as the ones mentioned by Mr. Embury, of obtaining a subsidy when you were making \$35,000 or something like that? Who in your department is now the person in charge of tracking all that sort of stuff down?

Mr. Willox: — Well, Gary Lloyd is the director of the northern housing branch, and he has a staff complement of loans officers and program people who would have the specific responsibility for checking accounts.

Mr. Young: — But having inherited the whole mess, shall we say, from DNS, wouldn't you have a particular job description for that area alone, as opposed to just taking it over as if you were taking over some particular business that was well run and well documented and well recorded?

Mr. Willox: — Yes, there are job descriptions. What we had initially looked at was

corporation policies relative to DNS, and there were people put in to the northern housing branch to begin to develop those policies and procedures and that process is still going on at this time.

Mr. Young: — I guess, you know, the majority of my questions have been leaning towards not just forgetting about the past and then writing the whole issue off, but as now the masters of the ship trying to go back and recoup on behalf of the taxpayer of the province any moneys that are recoupable that were obtained under fraud or that were in any way taken under any false pretences. I would imagine that that would be a big portion of your duty, not just to, you know, deal with the realities, as you put it, from this time forward, but you also inherit the past problems when you take over the whole situation of DNS and with that the responsibility to make the best of the paper that you've received for the taxpayers.

Mr. Willox: — I can't disagree with that other than to say that there's a matter of priorities in terms of the application of our staff resources, and our first priorities obviously are to deal with the larger issues — the outstanding accounts with CMHC — the completion of the housing units and restructuring the accounts. From there, we will be able to get into more detail on these accounts, and follow up on the arrears. I should advise the committee that that is going to be a lengthy process. It will not happen overnight, and it will be a difficult process because of the length of time that is involved in some of the arrears situations. And I don't know whether you can go back four, five, six years and effectively carry out a collection procedure where you're dealing with very low-income people.

There is the other issue of cost benefit. It's an extremely costly process and some of the payments are very low. So that will have to be taken into account as well.

Mr. Chairman: — I'm going to recognize the member from Prince Albert. He has some questions with respect to the Stony Rapids School. I notice that Mr. Krip has kindly attended. He's here from Prince Albert. I thought we might deal with that now, and make sure we deal with it today so that gentleman can go home today and isn't required to return another day. So with that introduction, I'll recognize the member from Prince Albert.

Mr. Meagher: — Well, if we could, I would like to ask a couple of questions on the Pinehouse health clinic and fourplex project.

Mr. Chairman: — Wait a minute until we see how we shuffle the chairs here for the member from Prince Albert. My apologies to the witnesses. This is awfully awkward; there's not much we can do but make the best of it. The member from Prince Albert.

Mr. Meagher: — The first question I would like to ask is if that project was tendered?

Mr. Krip: — Yes, it was tendered, and I can get you the read-outs, if you permit me to go to the files here. I'll get you the names if you wish, sir.

Mr. Meagher: — Okay, was it a normal tendering process — normal for the department at the time?

Mr. Krip: — When the tenders come in, the low bidder submitted a conditional tender, and subsequently all tenders on the job were rejected, as a result of that discrepancy or conditions that were set with the low bidder.

Mr. Meagher: — Do you have those conditions? Can you tell us what the conditions were that caused you to reject the tenders?

Mr. Krip: — Yes. As I recollect, what happened there, there was a subtrade that made an amendment immediately after the bids had closed, the subtrade bids closed in the bid depository — made an amendment to the price. The general contractor submitting the low bid took and submitted three prices then with his bid, as a result of this change in the price that was submitted by the subtrade which . . . (inaudible) . . . through the bid depository. And consequently, a decision was made to reject all public tenders and go with a self-delivery process.

Mr. Meagher: — Can you tell us what the tender prices were — the second ones? If the lowest tender . . . As I understand it, You're suggesting to me that the lowest bidder had revised his tender on the basis of a subcontractor's revision. Is that correct?

Mr. Krip: — He submitted, at the time of closing, to the department he submitted three prices in there. He submitted three prices. It was a conditional prices. Tenders were called simultaneously on the fourplex and on the Pinehouse health centre. So there was three prices to look at.

Mr. Meagher: — Why was the decision taken to build with your own forces as opposed to accepting the next highest tender?

Mr. Krip: — Well, one of the reasons was because of, which bid do you accept? The prices were all exposed at the time. There was second and third bidders that were in there too. Prices were all exposed. You could perhaps try and force the low price that was submitted, by virtue of the bid deposit or the bid bond that was supplied or, alternately, you could ask and entertain the other two prices that were submitted in that conditional bidder's low price. There was the three prices again.

Mr. Meagher: — But I'm asking you: what was the rationale for taking the decision to build it with DNS forces as opposed to accepting the lowest acceptable tender that complied with the specifications, or the highest for that matter?

Mr. Krip: — Well, I suppose, the controversy was the number one reason I would say, from reviewing the files on there. There was a controversy on which was an acceptable bid — which bid could you entertain?

Secondly, the other factors. When the decision was made to go with self-delivery, there was a high unemployment rate in Pinehouse, and this would eliminate the controversy as far as helping to alleviate some of that unemployment. And a decision was made by higher management at the time to take and go the self-delivery route.

Mr. Meagher: — Is it not a fact though that contractors are obligated as part of their tendering requirements to employ local people, or was that not the case in this tender?

Mr. Krip: — No, there would have been the standard clauses in them contract documents, a northern labour clause.

Mr. Meagher: — Then in fact the argument that DNS would alleviate the local employment problem more effectively than a private contractor, that isn't true?

Mr. Krip: — It becomes, I suppose, a matter of opinion whereby, if the department puts . . . if you put your own camp in there and employ perhaps several additional ones in the normal construction process that a general contractor would also likely employ too.

Mr. Meagher: — Could you, for the committee, give us the three tenders — I understand there were three general contractors bid then — give us the tender prices, their bids?

Mr. Krip: — Okay. Are you asking the question? Do you want the bid prices separately? Or the combined price?

Mr. Meagher: — No. For the fourplex and the health clinic.

Mr. Krip: — The fourplex and the health clinic, okay.

Mr. Meagher: — Unless you're prepared to accept the figures. I have a copy of your . . . (inaudible) . . . here.

Mr. Chairman: — It's not generally wise of a member to ask the question and answer it at the same time. It's not a normal procedure.

Mr. Katzman: — The first rule of opposition is to know the answer before you ask the question.

Mr. Chairman: — Never ask a question if you don't know the answer.

Mr. Krip: — Okay. Here were the bids that closed on February 8, 1979: Byrnes and Hall Construction (1971) Ltd., — \$751,045, that's combined prices: Bomac Construction of Saskatoon — \$873,248; and McNevin's Management Ltd. of Saskatoon — \$977,640.

Mr. Young: — What was the first Byrnes and Hall figure?

Mr. Krip: — \$751,045.

Mr. Meagher: — Now, can you tell the committee what was the total project cost by self-delivery?

Mr. Krip: — Do you want the combined prices of the health clinic? Okay. I'll have to do some adding here.

The final cost on the health clinic was \$970,362.59 plus the fourplex costs which I'll have to dig up.

Mr. Meagher: — Could you get that for us please?

Mr. Krip: — Could you give me a few minutes to look up what the health . . . I did have the figure. Or what the fourplex . . .

Mr. Dutchak: — . . . (inaudible) . . .

Mr. Krip: — Mr. Chairman, because they were separate budgets. One was capital budget; the other one was staff housing budget and was not . . .

Mr. Meagher: — What is involved for you to get that figure to us? Is it that you have to . . .

Mr. Krip: — I believe I have it here in the files.

Mr. Meagher: — Okay. Do you have an approximate, or are you not prepared to do that?

Mr. Krip: — No. I wouldn't want to . . .

Mr. Chairman: — Well, while he's having them over to look . . . (inaudible) . . . maybe I could raise a different item, and that is our agenda for tomorrow. Is the proper assumption, shared by all members that is, that we will finish with the Sask Housing portion of DNS, we will then finish with DNS, and recall Sask Housing to deal with their own business proper? Or do you want to deal with Sask Housing when they're here?

Mr. Katzman: — I would not want to mix Sask Housing and DNS.

Mr. Chairman: — Okay. That's the assumption I was making, was that we'll recall them to deal with their own annual report, and their own accounts.

Mr. Katzman: — I think they're fourth on the list.

Mr. Chairman: — And leave it at that. Okay. Then we'll see how we're doing by five to eleven. The way we're going now, it looks as if you may be back, with SaskComp sort of on hold in case this runs down early tomorrow.

Mr. Katzman: — If I can ask the question, while . . . I don't know how long it's going to be for him to tally his numbers. Just about ready, or . . .

Mr. Krip: — Yes, I have the notes here. The cost on the fourplex was \$703,574.04, so if you add that to the previous figure that'll give.

Mr. Embury: — 703,000 for a fourplex?

Mr. Krip: — That is correct. That's the figure that I obtained from the files yesterday.

Mr. Dutchak: — So, Mr. Chairman, what you're saying is that you had nearly a \$1 million overrun on that project? 900-and-some thousand?

A Member: — 935,000.

Mr. Krip: — The bid price that you heard was not the total project cost. That reflected direct construction costs by the general contractor only. It did not include design fees, property, or things. What I've quoted . . . You're comparing two different things.

Mr. Dutchak: — Was the property cost approximately \$30,000 in this case?

Mr. Krip: — I couldn't venture to say because I don't know offhand. I'd have to go back.

Mr. Dutchak: — You'd be fair in saying that your property and design costs would be under \$100,000 for that project?

Mr. Krip: — I wouldn't, you know, wish to say yes or no. I'd wish to research that to see what the design costs were.

Mr. Dutchak: — Right. You can get that information for us.

Mr. Chairman: — . . . (inaudible) . . . or will you have it by tomorrow?

Mr. Krip: — To ask specifically what the design costs, and the property costs?

Mr. Meagher: — Mr. Chairman, we may not have this individual here tomorrow.

A Member: — That's true.

Mr. Krip: — I don't have access to that information here.

Mr. Chairman: — I guess we'll ask you to submit it through the acting deputy minister, in writing, 15 copies, to the Clerk.

Mr. Dutchak: — If I can just ask one more question. You would agree that you experienced a vast overrun in this case, to say the least.

Mr. Krip: — Yes, and there was an overrun over the initial estimates.

Mr. Dutchak: — You hinted on one of the reasons being that there was a high unemployment in the area and that may be part of the reason for the heavy overrun. Is that correct?

Mr. Krip: — Well, you were utilizing unskilled workers; that was part of the reason. I think another factor is that hindsight tells me that the estimates that were prepared, the reliability in the estimates wasn't very accurate either.

Mr. Dutchak: — I see. Well, Mr. Krip, the reason I take some credibility in the estimates — I'm familiar with at least one of the contractors, and you have three individual contractors that still are nearly a million dollars under what your cost was in producing. And the reason we're a little concerned is that we've reviewed the budget, the financial information for the Government of Saskatchewan for the year under review, and we don't find your project listed under the Department of Social Services. We find that it's a capital expenditure and, with that, it's our position that whether there's a million people unemployed there is no consideration, you know, because it wasn't a social service program. To your knowledge . . . I gather you were there when this decision was made for self-delivery. Is that correct?

Mr. Krip: — Well, the decision would be made beyond myself.

Mr. Dutchak: — Yes. Do you know if there was any limitation as to projected cost? Was there any budget . . . (inaudible) . . . nothing was being built?

Mr. Krip: — Mr. Chairman, if I could clarify here that what we are comparing here is the bid prices by the general contractor. There was also project estimates on the projects,

and perhaps I could bring out the costs that were done, the estimates done by the architects, for example, or an independent quantity surveyor on the Pinehouse health clinic. And some of the things . . . if you would take this information down: the June 1979 estimate on the Pinehouse health clinic was \$650,000. This is reflected in the 1980-81 capital budget — \$650,000. That was an estimate as submitted by budget process.

Mr. Dutchak: — I'm sorry I missed the point; what are you getting at?

Mr. Krip: — Well, what I am pointing out is estimates as prepared, you know, by DNS people, some estimates prepared by DNS people, some done by our consultants . . . There was also an estimate done by Rink Project Controls of Regina here, I believe, in December of 1979, which estimated the Pinehouse health clinic at \$776,434.

Mr. Dutchak: — Including the fourplex?

Mr. Krip: — No, that's on the health clinic only.

Mr. Dutchak: — So what is your department saying — that the three independent bids that you got could not have been supplied, could not have been delivered?

Mr. Krip: — Well, there was certainly a question there whether . . . You're not comparing quite the same thing. Like when you said you would have to add in design fees and other costs — design fees, staff that would be involved in the administration of the project that were also charged to the project, and other things, insurance on the project. You're not quite evaluating the same thing.

I'm saying here, there was also independent estimates done in December of 1979. That's when the project was under construction at \$776,434. That's on the Pinehouse health clinic.

Mr. Dutchak: — Well, these bids that you received though were turnkey operation bids. You wouldn't have a percentage charged for management fees over and above

Mr. Krip: — It would be in processing the accounts. Going through the advance accounts there would be, I believe . . . It was at that time a 3 per cent fee for simply going through the advance accounts, plus any staff time.

Mr. Dutchak: — You're talking about government staff time?

Mr. Krip: — Yes, and government staff time, and design fees on top of that.

Mr. Dutchak: — Yes, I've dealt with the design fee. Now, your 3 per cent and so on, is that included in your final costs that you gave us for your delivery?

Mr. Krip: — Yes, yes, that includes all preplanning and design right back from 1975 — '75-76, fiscal year.

Mr. Dutchak: — But your administrative costs would not be more than 5 per cent, isn't that correct?

Mr. Krip: — Our own?

Mr. Dutchak: — Yes.

Mr. Krip: — Possibly . . . likely not, depending if you include travel in there too.

Mr. Dutchak: — The reason I asked that is, opposed to a project management situation where you would hire a project manager from the private sector and hire him, he would charge you approximately 10 per cent for delivering the project. But he wouldn't have a guaranteed ceiling on costs. Is that correct?

Mr. Krip: — Yes.

Mr. Dutchak: — But in this case you received three turnkey operation bids.

Mr. Krip: — Yes, well I can't . . . Like I said before, the decision on why it went to self-delivery was beyond my . . . (inaudible) . . .

Mr. Dutchak: — Yes, I'm not accusing you personally; sorry if I gave you that impression. I wasn't.

Mr. Meagher: — You made reference to bid deficiencies a moment ago. Are you suggesting then that the specifications were incomplete that the tender documents are drawn up on and the bids were submitted?

Mr. Krip: — No.

Mr. Meagher: — Then what deficiency are you referring to?

Mr. Krip: — A matter of a subtrades . . . a subtrades taking and revising his bids after the closing time at the bid depository.

Mr. Meagher: — Well, you know that a subtrade is obligated to stick to the terms of the specifications.

Mr. Krip: — Yes.

Mr. Meagher: — Why was that not exercised?

Mr. Krip: — Well, we could not get a ruling from the Prince Albert bid depository, or a position on that.

Mr. Young: — Mr. Krip, I have to take some challenge with a remark. You are suggesting, by implication, that the three bidders — Byrnes and Hall was one and McNevin Construction was the last one — although they bid \$751,000, roughly, and McNevin 977, you're suggesting they wouldn't have delivered. I'm familiar with both of those companies. They're big companies and my knowledge of them is that they'll bite the bullet. If they bid under they grin and bear it and build it and try to make some money on the next project.

What is there in what you're saying that would be suggesting that if Byrnes and Hall would have been successful at 751 and it in fact cost them 800 that they wouldn't have bit the bullet and built it and charged you 751 ? I don't understand where you're coming from.

Mr. Krip: — Well, that was one of the options the department bunch had, that they can enforce the price of 751 or the two alternate prices. In fact, the 751 — Byrnes and Hall withdrew that bid and said it was no longer valid and asked that it be not entertained.

Mr. Katzman: — Was it prior to or after the . . .

Mr. Krip: — That was after the tenders were submitted.

Mr. Dutchak: — What we're really saying is that we have a case here . . . Whichever way you look at it we've got 100 per cent overrun of that project. Would that be fair to say?

Mr. Krip: — Well, I'd have to add the figures again and see if it comes to that — the two figures that we quoted.

Mr. Bailey: — Mr. Krip didn't work out the percentage overrun, but obviously there's been an overrun. The figures have been put on the table.

Mr. Krip: — I acknowledge that fact and certainly why I introduced some of the independent estimates that were done on, you know, the job, too, during the course of the project to bring out, you know, where was the low bidder. Could the low bidder in fact deliver for that?

Mr. Dutchak: — Okay, the reason we made our statement is that this is the beauty of free enterprise. If they bid and say they're going to deliver — two of the companies that I am aware of are big companies — if they can deliver for that price and don't, that's their problem. The Government of Saskatchewan and the people of Saskatchewan don't lose a million dollars. That's what I'm getting at and that was the whole reason for my questions to you. And I realize that you weren't the one to make the decisions on self-delivery.

Mr. Meagher: — That raises a question. You made the suggestion that you don't make the decision. What was the policy of the department at that time? At what level or who did in fact make the decision to self-deliver that project, as opposed to accepting bids through the normal process?

Mr. Krip: — The decision would be made jointly by my immediate superior who was assistant deputy minister, Don Murphy, and Don Murphy's superior, J.D. Stobbs.

Mr. Glauser: — Well, I'm having difficulty with this thing. I have to proclaim ignorance of the project, but what I can't come to grips with — are we talking about the same building in 1975, in 1979, and what was actually built? Are we coming from the same base and coming up with the same project — the final project — as compared to what was being designed in the first place?

Mr. Krip: — Yes. When I quoted project costs back to 1975, this would have been in the initial planning, perhaps in soils investigation, things like that. And when I said the total costs on the health clinic was \$970,000, I included costs back that far even though the project was not commenced, physically commenced, until 1979. So there were some costs — they're minor — in there. The heavy expenditures were in the years of '79-80 when the project was started, and 1980-81. But there was some, you know,

the design costs and preplanning costs included in there, in the vicinity of . . . oh, under \$25,000 in the years prior to the project being physically started.

A Member: — Thank you.

Mr. Glauser: — Well, there was some dramatic price changes that came into play in those four years.

Mr. Krip: — Yes. There was very high cost escalation in the years in question.

Mr. Young: — I believe that the particular year it was built, that you were involved with it, wasn't lumber very low at that time? Lumber hit an all-time low at about that time, in my recollection of the world. Do you recall lumber being give-away prices at those times?

Mr. Krip: — It was probably depressed, but there was a dramatic increase in the price of labour and in your trades, like in the mechanical and electrical trades.

Mr. Young: — Have you been to the fourplex after its completion? Have you been there and looked at the finished product?

Mr. Krip: — Yes.

Mr. Young: — Myself and the member from Regina Lakeview, prior to learning about the \$703,000 figure to build a fourplex, were guessing amongst ourselves what a fourplex would cost, and we came to a figure, well, about \$150,000 would be big and high. Now, you come out with five times that much for the cost of the fourplex. Does it have four-inch pile rugs in it, or some sort of exotic fireplace, or what does the fourplex that costs \$703,000 look like as you viewed it afterwards? What's on the roof? Is there slate on the roof or is there asphalt shingles or how does it look, the building?

Mr. Krip: — Well, it's basically a wood frame construction. Perhaps the hardware is a little more elaborate than a standard fourplex.

Mr. Young: — Hardware? By that, what do you mean?

Mr. Krip: — Like the doors, and things like the doors . . .

Mr. Young: — Are they wooden doors or metal doors?

Mr. Krip: — They're wooden doors.

Mr. Young: — Is it rugged throughout?

Mr. Krip: — There's some rug in it. I don't, you know, specifically recall all the details. I haven't been in there for about three years, I guess, since the project was finished. But that's what it cost.

Mr. Chairman: — Is the member for Saskatoon Eastview finished?

Mr. Young: — I'm all done.

Mr. Chairman: — All done. P.A.?

Mr. Meagher: — I just would like to ask one more question. Regarding the hiring of consultants after the project is under way, or during the course of the project, are they asked . . . or are the terms of reference for their job that they deliver a report reflecting the increased costs that have actually been foreseen because of the self-delivery of that project? Are they hired to deliver a justification?

Mr. Krip: — Okay, you're asking about the consultant that did the design?

Mr. Meagher: — No, the consultant that's employed during the construction to give a new figure. You suggested that a consultant was hired during the construction process to deliver to you a new estimate to reflect the increased costs. Is that part of their terms of reference — they are employed for the purpose of delivering you a justification of these costs?

Mr. Krip: — They were asked to do a . . . (inaudible) . . . material take-off on the project and estimate what it would cost in Pinehouse to deliver that project.

Mr. Meagher: — Why would you want a new estimate during the construction period if none of the specifications have been altered, that you had firm tenders from contractors to deliver that?

Mr. Krip: — Because we felt we did not feel confident on the initial estimates that were prepared on the projects.

Mr. Meagher: — Then would it be correct to say then that it was obvious that the overruns were going to be apparent, and that it would be easier to defend if you had an independent consultant reflect those costs — increased costs? Give you an opinion?

Mr. Bailey: — Mr. Chairman, I don't think it was a question of defending. It was a question of during construction there was an indication that the costs were exceeding the estimates, and they wanted some verification that that was a realistic happening, so they engaged this appraiser, or whatever he's called, and he gave an opinion. It wasn't in defence or to justify; it was to verify the costs that were being incurred were accurate and appropriate.

Mr. Chairman: — I want to interrupt the proceedings at this point in time, if I might. The committee always attempts to convenience witnesses where that's possible, but that's not the primary consideration. The primary consideration is that members of the committee have an opportunity to complete their responsibilities. So I ask the members, if you're close to being finished, all well and good; we'll finish with Mr. Krip. If you're not, I think we should adjourn the proceedings and complete it another day. So I'm kind of looking at government members for some indication of how close you are to being finished.

Mr. Dutchak: — Well, with Mr. Krip, we probably can finish him up. For instance, I have one short question, which was asked yesterday, which I believe he is aware of: we have some \$70,000 roughly of material on the Stony Rapids School which was left over: we want to know where that went to.

Mr. Krip: — Okay. A portion of that material went to the Stony Rapids fire hall. It was surplus material left from the school and incorporated into the design of the Stony Rapids fire hall which also has the post office in there and municipal offices. And the

balance of it was put into the compound and then, consequently, turned over to sales and salvage.

Mr. Dutchak: — Was your department involved in missing materials? Were you aware of this?

Mr. Krip: — I am aware of one specific incident in the transportation process, of some material that didn't show up on the job site.

Mr. Dutchak: — Was that plumbing material?

Mr. Krip: — No, this was lumber that I'm aware of.

Mr. Dutchak: — You're only aware of that one incident, then?

Mr. Krip: — Yeah.

Mr. Dutchak: — Okay.

Mr. Krip: — One that I recollect on that job, some place between the barge, or some place between where it was purchased and arrival at Stony Rapids, we had to reorder materials.

Mr. Dutchak: — Were you also involved with the house that started leaving Prince Albert going north, and then disappeared? Were you involved in that investigation?

Mr. Krip: — I'm not aware of a house, a prebuilt. No, I'm not aware of that.

Mr. Meagher: — This material on the Stony Rapids School, if we can get back to that for a moment, this was another self-delivery project, was it not?

Mr. Krip: — No, that was a project delivered by construction management. There were proposals advertised in the paper for that, and McNevin Management Ltd. of Saskatoon was the successful construction manager on that project, so he acted as the agent for our branch.

Mr. Meagher: — And as project manager, then, he was responsible for the oversupply of material for the tune of seventy . . . (inaudible) . . . thousand, whatever. They would be responsible for ordering materials?

Mr. Krip: — Yes, the materials I suppose would be done jointly by the architects, by the project manager on there, and time was of essence in getting the material on the barge at the time the barge sails. In fact some of the materials were ordered prior to engaging the construction manager.

A Member: — So he may not be responsible.

Mr. Krip: — He may not be totally responsible, but materials that come after he was commissioned the job, which he would be involved in — the balance of materials. But I'm aware that materials were shipped there prior . . . or ordered prior to the commission with McNevin Management, because of the barge sailings. That would have been done between our staff and the consultant that designed the project.

Mr. Meagher: — My information is that some of the materials, the building materials, was like 1,600 bags of cement for an example. Can you tell me, or tell this committee, if that, at a value of in excess of \$25,000, was that salvaged? Do you know?

Mr. Krip: — Well, on the numbers, I believe the inventory list said 1,200 bags of cement were left over from the project — 1,200 bags. I am aware that 300 bags were used on the fire hall project, transferred over there.

Mr. Meagher: — The balance?

Mr. Krip: — And the balance were left in the compound and turned over to materials management, and consequently sales and salvage.

Mr. Dutchak: — Excuse me, I just wanted to ask this short one, so I don't have to bring him back tomorrow morning. The other project, which he can provide a letter to us indicating the numbers, there is an 18- or 24-plex on the shore of La Ronge which was built by self-delivery as well. Are you familiar with the project?

Mr. Krip: — I'm not aware of an 18 there or 24.

Mr. Dutchak: — What size is it? There's one that was built with the concrete walls.

Mr. Krip: — Concrete walls?

Mr. Dutchak: — Yes.

Mr. Krip: — A 40-unit apartment?

Mr. Dutchak: — Yes. Is that on the shore of Lac La Ronge?

Mr. Krip: — That's on the shore of Lac La Ronge.

Mr. Dutchak: — Was that a self-delivery?

Mr. Krip: — That was by construction management.

Mr. Dutchak: — I see. I understand that on that one we also have a million dollar overrun over initial projected costs. Is that roughly correct?

Mr. Krip: — I wouldn't specifically say it's a million dollars. I'm aware it's over the initial estimates.

Mr. Chairman: — Could you provide us with the written details?

Mr. Dutchak: — Provide us the amount that it's gone over your original written estimates.

Mr. Chairman: — Okay, the member from Rosthern wants to forewarn the committee of a couple of items . . . forewarn the witnesses of a couple of items he's going to raise tomorrow, so you can be prepared for it.

Mr. Katzman: — I guess it's to the Sask Housing people or the DNS officials. We started this one on people receiving grants and verifications. Can you draw, if there is

any information to indicate when this happens, what you have done in the past, it there's been anything done in the past? I gather you say it wasn't done regular, but I'm wondering if there was anything done in the past.

Say I was an employee making \$12,000 or over somewhere. I get my house . . . Sorry, I'm under \$12,000. I get the house, and I'm in there for a year or so, then I'm over the \$ 12,000 as was indicated earlier; therefore, I shouldn't get a subsidy. Is there any system that you've used to check or have you gone back to anybody to say, 'Look, you shouldn't have got the grant, would you pay it back'? You may have something, either DNS may have or you may have, something in the files over the period of time.

Mr. Chairman: — We don't want your response right now, just warning you to be ready for it tomorrow.

Okay, with that, I will declare the committee meeting adjourned.

The committee adjourned at 11:05 a.m.