

Royal Commission
on
Financial Management
& Accountability



CANADA

FINAL
REPORT

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on
Financial Management
& Accountability



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FINAL
REPORT

MARCH 1979

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TO HIS EXCELLENCY
THE GOVERNOR GENERAL IN COUNCIL

MAY IT PLEASE YOUR EXCELLENCY

We, the Commissioners appointed by Order in Council dated 22nd November, 1976 as revised and amended on 24th December, 1976 and on 13th January, 1977, to inquire into and report upon the best means of providing for financial management in the federal administration of Canada and for the accountability of deputy ministers and heads of Crown agency for their administration: Beg to submit to Your Excellency the following Report.

Chairman

A large, flowing cursive signature in black ink, reading "Allan Lambert".

Commissioners

A cursive signature in black ink, reading "Robert Klepin".

A cursive signature in black ink, reading "J.E. Hodgetts".

A cursive signature in black ink, reading "O.G. Power".

March 1979

**TERMS OF REFERENCE OF
THE ROYAL COMMISSION ON
FINANCIAL MANAGEMENT
AND ACCOUNTABILITY**

Order in Council P.C. 1976-2884 approved by His Excellency the Governor General on November 22nd, 1976:*

The Committee of the Privy Council have had before them a report of the Right Honourable Pierre Elliott Trudeau submitting:

That the growth of government responsibilities and programmes to meet the needs of Canada in recent years has placed unprecedented demands upon the structure, organization and process of administrative management and control in the Government of Canada;

That the Public Service of the Government of Canada has long enjoyed an enviable reputation for efficiency and probity and the government wishes to ensure the maintenance, in the new circumstances, of the high standards of public service the Canadian people have received in the past and rightly expect;

That reports of the Auditor General have caused the government serious concern that the current state of financial administration in the Government of Canada is not now adequate to ensure full and certain control over and accountability for public funds required for the expanded responsibilities and programmes that now exist; and

* As amended by Orders in Council P.C. 1976-3322 (December 24th, 1976) and P.C. 1977-45 (January 13th, 1977).

That it is essential that the government have the capacity to ensure in the Public Service that authority and accountability together ensure the most efficient use of resources, and that all opportunities to make savings, avoid waste and increase productivity are vigorously pursued.

It is therefore in the national interest that a comprehensive inquiry be made into the best means of providing for financial management in the federal administration of Canada, including departments and Crown agencies, and for the accountability of deputy ministers and heads of Crown agencies for their administration, including evaluation of their performance in this regard; taking into account the constitutional roles and responsibilities of Parliament, Ministers and the Public Service, and more especially the principle of the collective and individual responsibilities of Ministers to Parliament.

The Committee, therefore, on the recommendation of the Prime Minister, advise that:

Robert Després
John Edwin Hodgetts
Allen Thomas Lambert
Oliver Gerald Stoner

be appointed Commissioners under Part I of the Inquiries Act to examine and report on the management system required in the inter-related areas of:

- (i) financial management and control,
- (ii) accountability of deputy ministers and heads of Crown agencies relative to the administration of their operations, and
- (iii) the evaluation of the administrative performance of deputy ministers and heads of Crown agencies,

and the interdepartmental structure, organization and process applicable thereto, including in particular:

- (a) the development, promulgation and application of financial management policy, regulations and guidelines by central agencies,
- (b) procedures to ensure that,

- (1) necessary changes in policy, regulations and guidelines are identified, and
- (2) policy regulations and guidelines are adhered to,
- (c) systems and procedures to ensure effective accountability to government and, where appropriate to Parliament, of the administration of government departments and agencies, and
- (d) the organization necessary in central agencies, government departments and Crown agencies to achieve the foregoing.

The Committee further advise:

1. That the Commissioners ensure that their recommendations form a mutually compatible management system appropriate to the requirements of government;

2. That the Commissioners be authorized to exercise all the powers conferred upon them by section 11 of the Inquiries Act and be assisted to the fullest extent by government departments and agencies;

3. That the Commissioners adopt such procedures and methods as they may from time to time deem expedient for the proper conduct of the inquiry and sit at such times and in such places in Canada as they may decide from time to time;

4. That the Commissioners be authorized to engage the services of such counsel, staff and technical advisers as they may require at rates of remuneration and reimbursement to be approved by the Treasury Board;

5. That the Commissioners report to the Governor in Council with all reasonable despatch, and file with the Dominion Archivist the papers and records of the Commission as soon as possible after the conclusion of the inquiry;

6. That the Commissioners review the reports of the Auditor General for the fiscal years ending March 31, 1975 and March 31, 1976 and the supporting material thereof; and other relevant Parliamentary reports;

7. That the Commissioners submit progress reports if possible, as they complete stages of their study, with an initial report not later than December 31, 1977; and

8. That Allen Thomas Lambert be designated Chairman of the Commission.

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PROCEEDINGS OF THE COMMISSION

The Royal Commission on Financial Management and Accountability was established under Part I of the *Inquiries Act* by Order in Council dated November 22, 1976, revised and amended December 24, 1976 and January 13, 1977.

The reasons for our appointment, as set out in the original Order in Council, were the unprecedented demands placed on government by the growth in its responsibilities and programs; a desire to ensure the efficiency and probity in the public service of Canada; a serious concern about the adequacy of financial administration in government for establishing effective control over, and accountability for, public funds; and the need to achieve the effective use of resources, the avoidance of waste, and increased productivity in government.

Our first task was to organize the essential activities of advisory support, research, and administration, and to plan the conduct of the inquiry. Following the staffing of the Commission's office, contact was made by letter with all ministers and other Members of Parliament, Senators, deputy ministers, heads of Crown agencies, and senior officials. We decided to proceed by means of informal interviews with these key participants in the management of the federal government, followed by interviews with officials of provincial and foreign governments and those with private sector experience in financial management, accountability, and general management practices. We sought the views of the public and indicated a willingness to hold public meetings through an advertisement in newspapers across the country and as a result received several thoughtful and useful submissions. We organized a small number of research projects chosen after study of our

terms of reference and an initial round of interviews. The major aspects of planning and launching the work of the Commission were completed by the end of March, 1977.

During April, May, and June of 1977, we held extensive discussions with a large number of those to whom we had written, as well as the Auditor General and his staff, and other senior officials. These discussions culminated in the publication of a Progress Report in November 1977, in accordance with our terms of reference. In this Report we described the issues, set out as a series of questions, that we would address in our recommendations to strengthen the efficiency and effectiveness of the management system throughout the federal government. We outlined three key areas in the accountability of the Government to Parliament: the role and responsibilities of the Cabinet and the four central agencies in establishing priorities, allocating resources, and monitoring the quality of management in departments and agencies; the role and responsibilities of the deputy heads of departments and their senior management teams; and, the system of direction, control, and accountability of Crown agencies.

Following the publication of the Progress Report, we received a number of public and confidential submissions. A series of meetings was held with assistant deputy ministers, directors-general, and senior managers both in the National Capital Region and throughout Canada. Individual members of the Commission or staff held a number of meetings with government officials in provincial capitals, Washington, London, and Paris. The conclusions and recommendations of the research teams were also examined during this period. The writing and preparation of the Final Report was begun in September 1978, and the report was completed, save for translation and printing, in January 1979.

The Commission is grateful to all those with whom we met and to those who took the trouble to send us submissions. We would also like to acknowledge the special contribution and support of the Special Advisers to the Commission:

Mr. Michel Bélanger, Chief Executive Officer of the Provincial Bank of Canada

Mr. Robert B. Dale-Harris, Partner, Coopers & Lybrand

Mr. Alfred Hales, former MP and Chairman of the Public Accounts Committee, 1966-74

Mr. Ian Macdonald, President of York University

Mr. Donald Yeomans, Commissioner, Canadian Penitentiary Service

The Commission is also indebted to Hiram Walker-Gooderham & Worts Ltd. who loaned us the services of Mr. J.D.N. Ford, Vice-President, who came for an initial period of eight weeks to assist the Commission in its review of financial management, but stayed on for over a year and was of great assistance in the preparation of this Report.

It would be impossible to name all those who came forward with advice and counsel. As the list of meetings shows, we met over 400 people, and to all of them we express our gratitude. We would be remiss, however, if we did not draw attention to the support and submissions we received from the staff and senior officials of the Treasury Board, the Public Service Commission, the Privy Council Office, the Department of Finance, and the Office of the Auditor General.

We acknowledge and thank all those who took part in and made a contribution to this inquiry. In particular, we acknowledge with grateful thanks the dedication and enthusiasm of the members of our staff who contributed so much to our deliberations and whose willingness to work long hours made it possible to bring out this Report in its present form and on time.

The Members of the Commission take full responsibility for the Report and for the recommendations.

PART I

**TOWARD A FRAMEWORK
FOR ACCOUNTABILITY**

INTRODUCTION

Since the Commission issued its Progress Report in November 1977, several developments have had a bearing on our work and on this Report. The Government has announced new initiatives related to the management of resources and has taken some potentially significant steps designed to reduce expenditures. There have also been the widely publicized reports from the Auditor General, the Public Accounts Committee of the House of Commons, and the Standing Senate Committee on National Finance.

From these initiatives and reports, it has become apparent that the management of government requires greater attention from Parliament, ministers, and public servants than it has been given in the recent past. Programs and activities must not be approved without more carefully defined goals and objectives, and a realistic forecast of costs. Parliament should pursue more vigorously its role of holding the Government to account. The Cabinet and individual ministers should provide more leadership and direction to officials to ensure that they administer their operations with economy, efficiency, and effectiveness, and should be more directly involved in holding them to account for carrying out their assigned tasks.

In addition, the unsustainable rate of growth of government and its complexity and size make it increasingly obvious that there needs to be greater care in the use of the resources that have been entrusted to government. Not only is waste to be avoided, but in the context of today's fiscal situation and the pervasiveness of government activity, managers in the public service are being challenged to rediscover a sense of frugality and a commitment to the careful husbanding of resources.

In framing our recommendations, we have been mindful of how governments and bureaucracies react to proposals for change. New requirements must not be so massive as to overwhelm or immobilize the public service; nor must they deter the public service from its fundamental role of serving people. We recognize that the circumstances in which we are working are not unlike those that led Dean Acheson, the former U.S. Secretary of State, to write that "carrying out administrative reform in the State Department is like operating for an appendectomy on a man carrying a piano upstairs". What we recommend, therefore, must not add new complications. We have been conscious throughout our work of the danger that processes and structures at the levels of Parliament, the Government, and the departments and agencies can become overloaded and thereby frustrate the best intentions for improvement. Similarly proposals to strengthen management should not foster a new growth industry in the bureaucracy.

As we stated in our Progress Report, the patient cannot be returned to good health by poultices alone. Any cure that will work must look to a fundamental diagnosis of the ailment, and take into account the economic cost of the cure and any adverse side effects of the treatment. There is a price for any reform which must be judged, like any other cost, in terms of foreseeable benefits. But it is surely not beyond our will and wit to prescribe for the disease without crippling the patient.

We have been struck by the great pressures facing those who now exercise leadership in the public service, and by the need to reinforce the self-image and the public image of those doing a good job. Great dedication and competence are often frustrated by the force of public demands and by weaknesses in the system of government itself. There is, in many public servants, a high degree of commitment to sound management. This commitment must be nurtured if we are to halt the decline in the image, morale, and effectiveness of the Canadian public service. Without a reinforcement of the values of integrity, competence, and dedication, it is not likely that esteem and confidence will be restored. Indeed, this is critical, because the regard in which the public servant is held by those he serves—both the Government and the people—is, in the final analysis, the standard by which he measures the value of his contribution to society. That the challenge is a great and continuing one was stated with force and eloquence almost a decade ago

in the memoirs of the late Arnold Heeney, one of the great architects of the Canadian public service.

In a complex society which makes ever-increasing demands on government, a large and complicated public service is inevitable. Great size and complexity carry with them terrible dangers, chiefly, of course, the dangers commonly associated with the word 'bureaucracy'. Individual civil servants may lose—or may never acquire—the sense of vocation which is so important to the quality of human achievement. They may well feel themselves to be without purpose in a massive government machine. Should this happen, able men and women will not be persuaded to enter the Public Service. To prevent this happening should be the continual care, not only of government, but of all Canadians.†

Public confidence will return with the assurance that public servants are managing soundly and being held accountable for performance and results.

Accountability, like electricity, is difficult to define, but possesses qualities that make its presence in a system immediately detectable. To touch a live wire in a circuit is enough to establish the presence of electricity without further need of definition. The shock of recognition that attends the presence of accountability in a system of government may not be quite as direct, but it is nonetheless detectable. We see accountability as the activating, but fragile, element permeating a complex network connecting the Government upward to Parliament and downward and outward to a geographically dispersed bureaucracy grouped in a bewildering array of departments, corporations, boards, and commissions. Accountability moves through this network like the current in a circuit but always in some sort of relation to the control centre, the Cabinet. The dispersal and structural complexity of the bureaucracy make the control centre vulnerable to stoppages and short-circuits or overloading. The control centre, the Government, although ultimately responsible for answering to the legislature, may find itself out of touch with what is happening, or failing to happen, at the other end of the network. Similarly, a signal from the centre may never reach the departmental unit or agency concerned or may reach it in so confused a state that judgements as to performance become impossible to make.

† Arnold Heeney. *The Things That are Caesar's*. (Toronto, 1972) p. 203.

In short, accountability relies on a system of connecting links - a two-way circuit involving a flow of information that is relevant and timely, not only for managers but for those who must scrutinize the decisions and deeds of managers. We gauge its presence when we observe that a certain *discipline* has been imposed upon those who are assigned roles and duties in the system. In simple terms, accountability is that quality of a system that obliges the participants *to pay attention* to their respective assigned and accepted responsibilities, to understand that it does matter. Thus, the likelihood that agreed goals and objectives will be attained is enhanced.

In our Progress Report we defined the functional criteria of such a system as follows:

It should be capable of planning and defining the government's priorities; converting priorities into programs with clearly defined and agreed objectives, allocating the requisite resources and setting centrally imposed standards and procedures; delegating to managers the authority to implement programs by developing the assigned human, physical and financial resources; and, providing monitoring and appraising procedures to ensure that all the actors are held fully and clearly accountable in a progressive and unbroken chain of linkages carrying through to the sovereign Parliament.

After two years of work, we are even more persuaded than we were at the beginning of the seriousness and importance of our mandate. The quality and effectiveness of government programs and services can only be maintained if greater economy and efficiency in their administration can be attained. The large and continuing increase in the public debt required to fund government programs and services and to stabilize the currency in international markets, the escalation of interest rates to record heights, and unacceptably high levels of unemployment and inflation have placed unprecedented pressures on the economy and also on the resources available to government. In Canada, as in almost every other democratic country, these problems, coupled with changes in public expectations, mores, and attitudes, threaten the confidence that the public needs to have in the processes of government and create an uneasiness about the seriousness with which its affairs are being conducted.

Our Report is written in the context of the problems and difficulties facing Canada today. We expect that our recommenda-

tions will be received and assessed in terms of their contribution to giving government a greater capacity to devise constructive solutions to these issues. While we have directed our attention to accountability and particular management problems such as efficiency and effectiveness and performance evaluation, as we were surely required to do, this does not mean that there was not an awareness on the part of those who set our terms of reference, or on our part, that there are considerations of social justice that may need to override all others. We are not unmindful of this, but believe that careful, responsible management will contribute to making it possible that the broader obligations of government to the people can be fulfilled.

It is for this reason that we begin our Report with a description of the fiscal dilemma facing government today, and the difficulties created by the growth of government expenditures and the deficit required to finance them. This is the environment within which managers in the public service will have to operate in the foreseeable future. Although it is not within our mandate to make recommendations in this area, we are convinced that without sound management and a greater measure of accountability for results, the Government will fail in its efforts to restore stability and order in the management of government and to renew public confidence that the public purse is under control.

We have been encouraged by the determination we have sensed in all of those with whom we have met - parliamentarians, and members of the Government, the public service and the private sector - to bring about change and improvement. We hope that our recommendations will be a worthwhile contribution to the restoration of health and vigour in the economy and to the rekindling of confidence and determination in the spirit of the nation. We wish to bolster the efforts of the many Canadians, both inside and outside government, who are working to achieve effective and responsible government.

1

THE FISCAL DILEMMA

In the terms of reference under which this Commission was appointed on November 22, 1976, it was acknowledged that the "growth of government responsibilities and programmes to meet the needs of Canada in recent years has placed unprecedented demands upon the structure, organization and process of administrative management and control in the Government of Canada." The Order in Council establishing this Commission underlined the need to maintain a high standard of public service, which in turn required that authority and accountability together ensure the most efficient use of resources.

The order makes it clear that one of the factors behind the decision to create the Commission was the Government's concern, arising out of reports by the Auditor General, that "the current state of financial administration in the Government of Canada is not now adequate to ensure full and certain control over and accountability for public funds required for the expanded responsibilities and programmes that now exist."[†]

In the Progress Report that we issued in December 1977, we pointed out that, "while our mandate does not extend to the study of the causes of the growth of government, we believe that the strains it imposes on the system of management and the consequent weakening of accountability constitute the heart of the matter." In the same report, we also sounded this caution:

Lacking the early warning system that well-structured accountability relations provide, governments run the risk of destroying their credibility. If this should occur, it would lead to the shattering of

[†] Canada, Office of the Auditor General. *Report, 1976*, p. 9.

public confidence in the probity and seriousness of governments' endeavours, and might well undermine the stability of our society.

The concerns of the Auditor General were particularly evident in his report for the fiscal year ended March 31, 1976, which was released coincidentally with the announcement of the appointment of this Commission. In that report, the Auditor General declared:

I am deeply concerned that Parliament—and indeed the Government—has lost, or is close to losing, effective control of the public purse . . . *Based on the study of the systems of departments, agencies and Crown corporations audited by the Auditor General, financial management and control in the Government of Canada is grossly inadequate. Furthermore, it is likely to remain so until the Government takes strong, appropriate and effective measures to rectify this critically serious situation.*[†]

Developments since the Auditor General made that statement reveal dimensions of a crisis that extend far beyond the problem of weakness in financial management and control—serious as that is. These dimensions provide the context in which our inquiry has taken place and against which our ensuing proposals must be viewed. We cannot turn our backs on the gathering troubles that gave urgency to the establishment of this inquiry and today give even greater force and urgency to the recommendations that flow from our work.

The apparently unexpected slide toward increasing deficits in both the internal accounts of the federal government and the external accounts of Canada's transactions with other countries is symptomatic of the deeply rooted problems confronting us as a nation. The single most important measure of those problems, however, is not the government's prospective cash deficit for the current fiscal year of \$12 billion or more, a sum that amounts to at least one-quarter of the government's total projected expenditures for the year, but rather that it was unplanned and unexpected in the sense that it would not have been part of the long-term plan, had there been one. Nevertheless, the deficit currently being incurred on a National Accounts basis is not only the largest ever experienced in our peacetime history, both absolutely and relative-

[†] *Ibid.*, p. 9. (his emphasis)

ly, but in relation to gross national product is almost twice as large as that of the U.S. federal government. In the United States, the level of the deficit is regarded as a matter of grave concern. Arthur Burns, the former Chairman of the Federal Reserve Board, recently addressed this issue in a lecture at Georgetown University, saying that "the persistence of substantial deficits in our federal finances is mainly responsible for the serious inflation that got under way in our country in the mid-Sixties."[†]

No early improvement in the fiscal imbalance, which is symptomatic of this malaise, is clearly in prospect. There is every indication that the federal government would continue to face a substantial deficit at existing spending levels and tax rates even with a resumption of normal economic growth and a consequentially normal increase in federal revenues. In its *Economic Review* of April 1978, the Department of Finance maintained that the mounting federal deficits since 1975 "have resulted, in substantial part, from the operation of the economy at below average levels of activity."^{††}

At the same time, however, the Department acknowledged that, even if the economy had been growing in line with its presumed long-term growth rate of around 4.5%, the 1977 federal deficit on a National Income Accounts basis would still have amounted to a substantial \$4.4 billion, as compared with the actual deficit of \$7.3 billion. Similarly, a 1978 staff study on taxation by the Ontario Ministry of Treasury, Economics and Intergovernmental Affairs, *Reassessing the Scope for Fiscal Policy in Canada*, estimated that, on a high employment basis (that is, a situation in which national unemployment did not exceed 5.6%) the federal government deficit on the same National Accounts basis in 1977 would have been somewhere between \$3.6 billion and \$5.3 billion.

A recently published report by the Organisation for Economic Co-operation and Development, *Public Expenditure Trends*, June 1978, indicated that during the period 1962 to 1975, spending by all governments in Canada in relation to Gross Domestic Product rose from 29.4% to 40.9%. While government expenditures in Canada in proportion to GDP remained below the comparable proportion in some of the other member nations of the Organisation for Economic Co-operation and Development, the rate of

[†] A. F. Burns. "Burns weighs the future of free enterprise." *Across the Board* Vol. XVI No. 1, January 1979, p. 21.

^{††} Canada, Department of Finance. *Economic Review*, April 1978, p. 85.

increase in this proportion of 11.5 percentage points was greater than that in any other major Western country, and nearly three times the rate of increase in the United States. This cannot be blamed solely on the federal government. Federal spending has grown at rates below that of other levels of government in Canada; nevertheless, it has sponsored a number of expensive cost-sharing programs.

It would appear, however, that regardless of the cause of the escalation of federal deficits over the past few years, there was no effective early warning mechanism. If this is so, then the system has been operating under inadequate and uncertain control. These deficits are not this Commission's particular concern, but, since they reflect more serious shortcomings in organization, structure, financial control, and the accountability process, we are forced to take them into account. We are also forced to ask whether Canadians know the course being steered—where it is leading—or whether we are just captives of events.

Large and rapid growth in the public sector puts a heavy strain on any system of government. In Canada, rapid growth has been compounded by a number of factors, including far-reaching changes in the structure of government made in response to the proposals of the Royal Commission on Government Organization (the Glassco Commission), the introduction of collective bargaining and bilingualism in the public service, and extensive realignment in the Cabinet system.

The strong and sustained economic upsurge throughout the 1960s and early 1970s, interrupted only by a brief pause around the turn of the decade, led to the mistaken belief in many quarters that economic growth would continue unabated and, as a consequence, that the high level of government spending could continue as well. Effective planning with respect to the use of total resources was wholly inadequate.

The interaction between rapidly inflating incomes and the progressive income tax rates, together with some significant rate increases, helped to swell government coffers. This massive upsurge in revenues coincided with growing pressures from Parliament and the public for new policies and expanded programs. Other new spending proposals were brought forward by governments on their own initiative in efforts to garner electoral support.

Despite the increasing bite of taxes, the take-home pay of the average Canadian continued to increase. Workers in this country

had become increasingly resistant to the growing proportion of their income being siphoned off in taxes, particularly because it was not apparent that services were being provided at the lowest cost and because there was no opportunity to measure the real value of the benefits being provided. Attempts by workers to offset the rising share of incomes being absorbed by governments by expanding their demands for wage and salary increases only served, in turn, to generate still greater inflationary pressures.

Early in the 1970s, the federal government moved to counteract the twofold impact of inflation in eroding the value of social payments, such as old age pensions and family allowances, and in promoting mushrooming growth of tax revenues. By indexing social programs, the Government tied benefit expenditures to the spiral of inflation; by indexing the personal income tax system, the Government, in effect, ensured that revenue from this major source of taxation would move in the opposite direction. Given the conflicting effects of these two forms of indexing in a period of continuing high inflation, greater deficits were inevitable.

Many costly measures aimed at improving our welfare system have been put in place during the last decade. These included larger payments to the unemployed and welfare recipients, expanded health care, and other measures to offset the adverse effects of inflation. These represent well-intentioned efforts to serve the goals of fairness and equal opportunity, particularly for those Canadians who are disadvantaged in one way or another. It must be recognized, however, that our well-meaning efforts as a people have contributed to the present critical financial straits of the federal government and the serious threat that poses to other levels of government and to the whole Canadian economy. As Pogo succinctly put it, "I have seen the enemy and he is us!"

Many of the costly measures put in place by Governments over the past decade and a half have been aimed at stimulating economic growth, reducing unemployment, and reducing or offsetting the impact of inflation. But at a time when the economy continues to be affected by sluggish growth, high unemployment, and high inflation, it is worth reflecting on the conclusion drawn by British Prime Minister James Callaghan in a speech to a Labour Party conference on September 28, 1976.

When we reject unemployment, as we all do . . . then we must ask ourselves unflinchingly—what is the cause of high unemployment?

Quite simply and unequivocally it is caused by paying ourselves more than the value of what we produce . . . It is an absolute fact of life which no government, be it left or right, can alter . . . We used to think that you could just spend your way out of a recession and increase employment by cutting taxes and boosting government spending. I tell you in all candour that that option no longer exists and that insofar as it ever did exist, it worked by injecting inflation into the economy. And each time that happened the average level of unemployment has risen . . . And each time we did this the twin evils of unemployment and inflation have hit hardest those least able to stand them—our own people, the poor, the old and the sick.

We fully recognize that neither the growth in, nor the level of, government expenditures at any given time are matters that fall directly within our terms of reference. Yet, we cannot divorce ourselves from these considerations because they bear heavily on those issues we were directed to study with respect to “the interdepartmental structure, organization, and processes” of the federal government. Of fundamental importance is the fact that this rapid expansion of revenues and expenditures engendered a state of mind, permeating the entire system, that seriously eroded old values of prudence, economy, and restraint.

Both federal and provincial governments have committed themselves to increasingly rigorous programs of expenditure restraint, in part to offset the strong upward pressure on spending resulting from built-in cost escalators in a number of their activities. Despite the efforts made to date, however, the fact remains that, as of the first half of 1978, total spending by all levels of government in relation to GDP was running close to the record peacetime level of 40.9% recorded in the third quarter of 1975. It is clear, therefore, that there must be a firm resolve to bring our revenues and expenditures into better balance. This, of course, gives even more meaning and purpose to measures that will contribute to greater efficiency and reduce waste, for restraint, as such, should not carry all the burden.

Approximately one-quarter of present federal spending must be met by substantially increased borrowing to cover the projected cash deficit for the current fiscal year of nearly \$12 billion. Nor can we overlook the fact that this soaring burden of debt will have to be serviced with respect to both principal and interest. Even if economic growth were restored to its long-term trend, the indica-

tions are that the federal government would continue to be confronted by deficits that would be substantial by any past measure. Eventually the government will have no choice but to restore a better fiscal balance, and to achieve that goal it will have either to increase taxes substantially (and many Canadians believe they are already too high) or to reduce expenditures substantially, or both. The enormous magnitude of the task becomes more evident when we consider that if expenditures remained at the level forecast for the current fiscal year, it would be necessary to almost double the revenue from personal income taxes or, to put it another way, to apply a tax increase equivalent to more than \$500 for every man, woman and child in Canada in order to eliminate the projected cash deficit.

The fact is that the larger the size of government and the higher the levels of expenditure, the more important it becomes to ensure that proposals for improving management and accountability systems are couched in terms of the broad fiscal conditions we have just outlined, and the more urgent it becomes to achieve greater economy and efficiency. There are no quick and easy remedies for overcoming the deeply rooted problems that confront our federal government. In attempting to fulfil the mandate entrusted to us in our terms of reference, we will be proposing far-reaching changes in the organization, structure, and processes of the system in the belief and expectation that they will result in tighter control and a more efficient and effective operation. Nevertheless, the multiplicity of changes we are recommending are only tools for restoring orderly management of the system by government and Parliament. Unless there is a concerted will on all sides to put these tools to work to achieve that objective, they will count for little.

2

FUNDAMENTAL FLAWS

After two years of careful study and consideration, we have reached the deeply held conviction that the serious malaise pervading the management of government stems fundamentally from a grave weakening, and in some cases an almost total breakdown, in the chain of accountability, first within government, and second in the accountability of government to Parliament and ultimately to the Canadian people.

Accountability is the essence of our democratic form of government. It is the liability assumed by all those who exercise authority to account for the manner in which they have fulfilled responsibilities entrusted to them, a liability ultimately to the Canadian people owed by Parliament, by the Government and, thus, every government department and agency.

Accountability is the fundamental prerequisite for preventing the abuse of delegated power and for ensuring, instead, that power is directed toward the achievement of broadly accepted national goals with the greatest possible degree of efficiency, effectiveness, probity, and prudence. Establishing the means of proper accountability is our fundamental concern. But we are concerned also with the institution of proper financial administration and controls, because they are essential both to maintaining sound overall management of government and to the rendering of a full account for the exercise of responsibility and authority.

At the very centre of our democratic system stands Parliament. Within the confines of the constitution, Parliament is supreme. It ultimately authorizes the levels of government revenue, spending, and debt. No laws proposed by the Government of the day to give expression to new policies or to establish new

programs can be put into force without its consent. By long established tradition, the Government is accountable to Parliament (in practice, the House of Commons) for the manner in which it exercises the responsibilities and authority delegated to it in trust. The Government may continue to exercise the responsibilities of office only so long as it continues to command the confidence of a majority of Members of Parliament. Parliament's ultimate sanction, therefore, is to withdraw its confidence and compel the Government either to seek a new mandate from the electorate or to resign in favour of another party that can command the confidence of a majority in Parliament.

Short of exercising that ultimate sanction, Parliament has not only the right but the duty to seek out and draw public attention to shortcomings in the Government's conduct of the nation's business. In cases in which supporters of the governing party represent a majority in Parliament, it is unrealistic to envisage that ultimate sanction being exercised except in the rarest of circumstances. But Members of Parliament, particularly those in opposition whose responsibility it is to criticize, can, and often do, compel Governments to remedy shortcomings by rallying to their side the almost irresistible force of public opinion.

Ultimately, the Government and all Members of Parliament are accountable to the citizens of Canada, who, through their votes, determine the political composition of the House of Commons and, indirectly, the party that will form the Government, either alone or in coalition or co-operation with another party or parties. This dual accountability of the Government to Parliament and to the people places a heavy onus on the Cabinet to exact an accounting from the more than 400 departments, Crown corporations, agencies, boards, commissions and councils that make up the federal administration for the manner in which they fulfil the responsibilities entrusted to them.

In our judgement, the breakdown in the accountability chain is primarily the result of a number of defects that have developed over a period of several years in the structure, organization, and processes of both Parliament and government. As well, the problems facing both Parliament and the Government in properly exacting accountability have been enormously compounded by the immense growth in the size and scope of governmental activities over the past decade and a half, and the adverse consequences have grown commensurately.

When the Glassco Commission submitted its report in 1962, the share of national income under the control of governments was only some 30%, the breadth and magnitude of government activities were considerably more limited than they are today, and at the federal level there were substantially fewer departments and agencies to carry out the existing tasks of government. Nevertheless, the Glassco Commission came to the conclusion that the size and extent of government had long since gone beyond the point where it could continue to be properly managed and directed by the highly centralized and inflexible management system that had been in place since World War I.

In a series of recommendations whose thrust was interpreted as a call to "let the managers manage", the Glassco Commission called for a drastic decentralization of the authority exercised by federal departments and agencies, subject to full accountability for the exercise of that authority in pursuit of clearly established responsibilities and objectives and subject to the central management framework established for the governmental system as a whole. The essence of the underlying philosophy guiding the Glassco Commission was distilled in the following words:

Above all, departments should, within clearly defined terms of reference, be fully accountable for the organization and execution of their programmes, and enjoy powers commensurate with their accountability. They must be subject to controls designed to protect those general interests of government which transcend departmental interests. But every department should be free of external controls which have no such broad purpose.[†]

In the years that followed, a number of steps were taken with the avowed purpose of reshaping administration in government in line with the plan for management developed by the Glassco Commission. A significant degree of decentralization was undertaken with the transfer of broad powers formerly exercised by central bodies to individual departments and agencies. The Treasury Board Secretariat was divorced from the Department of Finance and established as a separate department under its own minister. It was intended to provide the necessary central direction and guidance referred to by Glassco over the allocation of funds to individual departments and agencies and over their management

[†] Royal Commission on Government Organization. *Report*, 1962. Vol. I. p. 51.

of financial and human resources. The common services of government also underwent a major reorganization in an effort to achieve lower costs and increased efficiency. In addition to the changes within the administration that were made in response to the Glassco recommendations, an extensive restructuring of the Cabinet committee system was also undertaken in an effort to enable ministers to exercise firmer control over the Government's policies and programs and particularly over its priorities and planning.

The Glassco Report recognized the need for the increased delegation of authority to individual departments and agencies to be matched by a comparable degree of accountability. Unfortunately, the Commission provided no clear direction as to how such accountability should be rendered within government, perhaps because it considered itself barred by its terms of reference from recommending an accountability framework that would extend from government to Parliament. This resulted in a number of serious flaws, the gravity of which was enormously compounded by the rapid growth in the scope and scale of government itself.

While there was a substantial delegation of authority to departments and agencies, a remaining web of detailed restrictions imposed by such central bodies as Treasury Board and the Public Service Commission was considered in some quarters to impede the effective management of financial and human resources. Far more serious has been the tendency to substitute controls in place of establishing the broad direction and critical counterbalances required to obtain a full accounting from departments and agencies for the powers delegated to them, the resources allocated to them, and the efficient and effective achievement of the goals agreed upon.

Virtually no effort has been made to establish clearly defined objectives against which the performance of a department or agency can be measured either in total or in respect of particular programs or activities. Nor have the rewards and sanctions for individuals that should be such a vital part of accountability been incorporated into the system. The Treasury Board Secretariat has been heavily preoccupied with the allocation of new resources, rather than with the efficiency with which existing resources are employed. Of late it has also been increasingly concerned that compliance be ensured by issuing a plethora of new regulations that contribute little to the improvement of departmental management. Treasury Board has not seen itself, at least until recently, as

the central arm of government responsible for calling departments and agencies to account for the quality of their own management. No adequate process is in place by which an accounting can be exacted; little effort has been made to require the provision of financial and other information essential to measuring performance in relation to objectives, a prerequisite to making such an accounting meaningful.

The management of personnel in all its aspects is as important as, if not more important than, financial management in achieving effective overall management of government activities. While the Treasury Board does possess a number of broad powers with respect to personnel, its capacity to oversee this function has been impaired by the assignment of one important aspect, the actual staffing of positions, to the Public Service Commission, which has conflicting responsibilities with respect to government and to Parliament. Although this delegation of responsibility for overseeing the selection of individuals to fill particular positions was adopted as a means of ensuring the enforcement of the merit principle, it has reduced the freedom of the Government and individual departments and agencies to manage personnel effectively.

A further significant imbalance is also evident with respect to the roles and responsibilities of the Department of Finance and the Privy Council Office. The once pre-eminent position of the Department of Finance as the arbiter of all matters relating to the broad financial position of the federal government has, in recent years, been eroded. In part its authority may have been undermined by the removal from it of the Treasury Board Secretariat and the establishment of the latter as a separate department with primary responsibility for resource allocation. In part its authority may have been affected by the role undertaken by the Privy Council Office in co-ordinating and developing major new policy measures, many of which carried important financial implications for the longer term that were not always properly weighed in the balance.

The proliferation of non-departmental Crown agencies, now running into the hundreds, has become a growing issue of public concern. Crown corporations in particular have been the subject of a number of recent reports and studies by the Auditor General, the Public Accounts Committee of the House of Commons, and the Privy Council Office. These studies have been made as a result of actions that have cast doubts on the soundness of the corporations'

management and financial administration, on the morality of their commercial practices, on the degree to which they were serving their intended national purpose, and on the extent of their accountability to the Government and Parliament.

In the absence of a requirement to account adequately for the conduct of their affairs, departments and agencies have been under little compulsion to husband the resources available to them, particularly in the years when funds flowed freely, and to ensure that they were being employed with the greatest possible efficiency and effectiveness.

Problems of management within departments and agencies have been further magnified by confusion relating to the responsibility and accountability of deputy heads. While in practice responsible for the administration of their respective organizations, few have been given any clearly defined objectives and goals. Deputy ministers are appointed by Order in Council on the recommendation of the Prime Minister, with whom they have a responsibility link, but they are also accountable to the individual ministers they serve and to the Treasury Board and the Public Service Commission for responsibilities delegated to them under law. As well, their performance is subject to review by the Committee of Senior Officials on Executive Personnel (COSO) which submits evaluations of Order in Council appointees to the Cabinet. In law and in practice, deputy heads bear significant responsibility for the administration of their organizations, but Canada, much more than Britain, on whose constitution our own is based, continues to impose ultimate responsibility on ministers for the administration of departments. The full application of that concept serves only to cloud the real accountability of those who are in charge of day-to-day operations.

Apart from these structural and procedural flaws, management in the public sector has suffered traditionally from a narrow definition and indeed a narrow perception of what was really involved in it. This in turn led to abnormal stress being placed on the differences in the roles of policy adviser and manager. A good manager in the public sector should see his mandate as understanding policy objectives and priorities as established by the political process, working to help develop programs to implement these policies and priorities, and then seeking adequate resources to implement them effectively and with due regard to economy and efficiency.

The defects in financial administration and control among federal departments, which have been so starkly portrayed by the Auditor General, can be seen as a direct consequence of the absence of any requirement to provide a proper accounting for the carrying out of the management role. That the Government recognized the serious weaknesses in financial management underlined by the Auditor General is evident from the announcement by the President of the Treasury Board, in April 1977, that the Government had accepted the Auditor General's recommendation for the appointment of a Comptroller General, who would serve as the "chief financial administrator of the federal Public Service".[†] While it will take time to establish sound and effective financial administration throughout government, it is clear to us that the action taken was timely, and we judge that real progress is being made by the Comptroller General in carrying out his duties. We are confident that it is recognized by the Comptroller General, as it must be recognized also by the Auditor General, that care must be taken to ensure that the audit and evaluation functions do not create demands for substantial new resources or divert departments from fulfilling their mandates. But we are convinced that the benefits will far outweigh the costs if their audit and evaluation functions are properly integrated into the ongoing process of management.

Over the course of the past few years, several new financial measures for improving management efficiency have been developed and applied to a limited extent within government, including cost-benefit analysis, program planning and budgeting, operational performance measurement, and management by objectives. The contribution of each of these has been limited because, in the absence of any requirement for departments or agencies either to manage their affairs effectively or to demonstrate to the Government and Parliament that they were doing so, there has been little pressure to apply such techniques rigorously.

If waste and misdirection of resources are to be avoided, financial considerations must be at the core of every phase of departmental activity. These should form an essential part of the entire planning process, the budgeting of resources to implement those plans, the control of subsequent expenditures, and the evaluation of the efficiency and effectiveness with which any

[†] Canada. House of Commons. *Debates*, p. 4949, April 25, 1977.

activity has been undertaken. That financial considerations have instead been consigned to the periphery in many departments and agencies is a reflection of the lack of concern within government about the quality of management itself.

The weakness in financial administration and control exercised by most departments and agencies has been further aggravated by the requirement that they be integrated into the central accounting system of government. Based on a cash accounting approach that is primarily geared to meeting the reporting requirements of Parliament, the Bank of Canada, the Department of Finance, and Statistics Canada, this system fails to pay due regard to acceptable accounting principles, and it fails to generate the financial information best suited to proper management planning, budgeting, control, and evaluation of results. The inadequacy of internal audit systems, concerned primarily with maintenance of probity and very little with whether operations are carried out efficiently and effectively, only intensifies the problem.

The absence or short-circuiting of the accountability links within government is the result, in no small measure, of the serious weaknesses that have developed in the capacity and readiness of Parliament to call the Government to account for the management of the nation's affairs. Robert Stanfield, the former leader of the Progressive Conservative Party, has argued that "the current demands on our national Government and the consequential scope of its deliberations, decisions and activities are far greater than the ministers can competently cope with, and far beyond the supervision of our Parliament, to which the Government is supposedly responsible."[†] While fully appreciating the dimension of the problems outlined by Mr. Stanfield, we are convinced that a number of important steps can, and should, be taken to strengthen the ability of Parliament to exact an effective accounting from government.

We were asked to consider not only systems and procedures to ensure effective accountability within the government for the administration of departments and agencies, but also, where appropriate, their accountability to Parliament. In part the inadequacies stem from the nature of the information provided by government to Parliament, in part from shortcomings in the procedures, organization, and processes of the constituent parts of Parliament, in part from the lack of a concerted will to render the

[†] Robert Stanfield, in *George C. Nowlan Lectures*, Acadia University, February 7, 1977.

government accountable both for its overall fiscal stance and the priorities that dictate it, and for the management of resources by individual departments and agencies.

Parliament has long been regarded as the guardian of the public purse. Because of its failure to live up to that expectation over the past several years, Parliament must accept some share of the blame, along with the Canadian electorate, for the troubles that now beset us. Not infrequently Members of Parliament have been found in the vanguard of those pressing for major increases in public spending. Objective consideration of the efficiency and effectiveness of government management has usually been the first casualty of the thrust and parry of partisan debate, although recently, in both the House of Commons and the Senate, some useful examinations of particular government programs and activities have demonstrated that this situation need not always prevail.

Full disclosure of all relevant information is an essential requirement for full accountability by government to both Parliament and the people. Over the course of a year, Parliament receives a massive volume of information from the many different arms of government, but the mass of information it receives is so overwhelming, complex, and often irrelevant that it fails to provide any basis for measuring the performance of departments and agencies against objectives. The "Blue Book" of Estimates, which sets forth the government's expenditure proposals for the next fiscal year, and the Public Accounts, which in excruciating detail tell the story of past expenditures, are prime examples of these shortcomings, which are compounded by the lack of comparability between the two documents. Annual reports of federal departments and agencies should be another prime source of information on which to base judgements of their respective performances, but in fact, most fall woefully short of the standards of disclosure normally required in the private sector under Parliament's own corporation laws.

A medium-term financial plan, which is essential to the management of public business, is regularly prepared by the Government for its own internal use, but no similar information on the projected course of government revenues, spending, and the resulting fiscal balance as they relate to the projected course of the economy itself is made available to Parliament and the public. As a result, both are denied any knowledge of the future direction foreseen by the Government for each of these interrelated ele-

ments, information that is crucial to the proper planning of both public and private affairs.

Throughout the body of our Report, we will deal in greater depth with these and other flaws and weaknesses in the organization, structure, and processes of government and Parliament in order to lay the groundwork for our proposals to help to overcome them. Our purpose here has been only to outline in the broadest terms some of the major defects that, in our judgement, seriously impair the effective working of Parliament and of government, defects that make it imperative to develop a new framework for "a mutually compatible management system".

3

A FRAMEWORK FOR "A MUTUALLY COMPATIBLE MANAGEMENT SYSTEM"

In the two previous chapters, we described the background to our inquiry and the context in which our recommendations were formed and in which they must be implemented. Because the issues we deal with in this Report are complex and the recommendations relating to them unavoidably numerous, we consider it important first to outline the major elements of the changes we are proposing.

In our terms of reference, we were directed to bring forward a set of recommendations that "form a mutually compatible management system appropriate to the requirements of government". In our judgement, such a system must comprise several closely interrelated and interdependent elements which take full account of the particular dictates of responsible government operating within the framework of our parliamentary system.

Such a system of management must unequivocally reinforce the capacity of Parliament to fulfil its historic and crucial role of calling ministers collectively and individually to account for their conduct of the nation's affairs. This must be matched by an increased capacity on the part of ministers collectively and individually to hold departments and agencies fully accountable for the efficient and effective discharge of their responsibilities.

The institution of sound management must begin with the establishment of goals and the assignment of relative priorities to them through the allocation of resources. The size, diversity, and complexity of government has long since passed the point where any highly centralized organization could possibly implement the great number of policies and programs that have been developed to achieve the multiple objectives of our governmental system. It thus

becomes essential to assign to individual departments and agencies the responsibility for meeting clearly specified objectives, to delegate the authority necessary to implement their mandates, and to provide the financial and human resources they require.

A fundamental requirement of such a system is that the constituent components of government be granted all the powers essential to manage their affairs in such a way as to undertake the responsibilities assigned to them as economically and as effectively as possible. The achievement of that purpose, in turn, requires the efficient management of the personnel appointed to administer the policies and programs of individual departments and agencies, and the equally efficient management of the other resources allocated for that purpose.

While the system we have described requires a substantial delegation of authority, it also demands the existence of central agencies equipped to assist ministers in the job of clearly defining the roles and objectives of operating departments and agencies, to provide strong leadership and direction to them as to the manner in which they should carry out their mandates, to establish common policies for administration within government, and to ensure that the operating bodies are soundly managed. By the same token, substantial delegation of authority demands a comparable degree of accountability for the use of that authority. Delegation of authority without accountability is an abdication of responsibility on the part of those conferring it, whether Government or Parliament. Such an accounting is a prerequisite for determining how effectively departments and agencies have employed the funds and manpower made available to them for carrying out their stewardship. In the rendering of such an account, the central agencies also have a critically important role to play.

Proper financial administration is a vital component of both management and accountability. As we pointed out in Chapter 2, financial considerations should be at the core of every phase of departmental activity. They should form an essential part of the planning process, the budgeting of resources to implement those plans, the control of subsequent expenditures, and the evaluation of the efficiency and effectiveness with which any activity has been undertaken. Sound financial administration is an essential instrument for the efficient management of the activities of departments and agencies. It is, however, equally important to the process of

accountability, providing senior departmental officers, the Government, and Parliament with a yardstick by which to judge results achieved in relation to the amount of financial and human resources devoted to the undertaking of any task.

The final element required to complete the establishment of a "mutually compatible management system" is the introduction of processes for exacting an accounting for performance, and applying the consequence of its outcome to individual processes that should extend throughout the ranks of every department, from those departments to the Government, and from the Government to Parliament and the Canadian people. There can be no proper accountability unless all information required to form a judgement about performance has been made available. An essential requirement of the accounting process, therefore, is the fullest possible disclosure of all relevant information both within government and by government to Parliament and the public.

The philosophy underlying our entire approach is not just that the managers of government should have the opportunity to manage the affairs that fall within their responsibility, but that they should be required to manage them in a way that will best serve the public interest. While the Glassco Commission insisted that managers be free to manage, it is evident to us that they have not been able to use this freedom effectively. It is for this reason that in our Report we have been at pains to develop with some precision the processes and procedures that we believe will enable them to manage and indeed, will require that they do so.

Management of Government

Our proposals for improving the management of government by the central agencies are directed to reshaping their roles, responsibilities, and structures. They have two objectives. The first is to forecast revenues, and determine appropriate expenditure limits and debt ceilings as they accord with present and prospective economic conditions and circumstances. The second is to ensure that full value is received for those public funds raised by government to carry out policies and programs for the public benefit. Central to the realization of both these objectives are two pivotal and interdependent proposals; the annual submission by the Government to Parliament of a five-year *Fiscal Plan*, and the

realignment of responsibilities between and within the major central agencies to bring responsibility for management to a focus. Our detailed recommendations in this area are developed in Part II, "Central Roles and Responsibilities."

A Five-Year Fiscal Plan Fundamental to the achievement of the sound management of government is the preparation of a Fiscal Plan designed to show where we are going, how we will get there, and what the financial consequences will be for Canadians. Such a Plan would also provide an early warning if the government's financial position began to deviate seriously from its charted course.

The Plan should be closely tied to medium-term economic projections and it should provide a prospective view over a five-year period—that is, the current year and the succeeding four years—of planned government expenditures by broad functional categories, a projection of revenues at existing tax rates, and the resulting implications of those two factors for the fiscal balance and the level of debt. To provide a yardstick for purposes of comparison, a similar breakdown of actual results for the previous five years should also be provided. It should also include ceilings on expenditures for individual departments and agencies for three years. The tabling of a Fiscal Plan would enable Parliament and the Canadian people to know the course the Government proposes to follow and the measures it intends to take to redress any gross imbalance in revenues and expenditures and to track the progress being made in the pursuit of those objectives.

The Fiscal Plan must be developed to reflect Government objectives and priorities in relation to anticipated economic developments and should form the basis for the allocation of financial resources to departments and agencies. It should be updated at least annually and revised as required to indicate the impact over a five-year period of budgetary measures or of changes in policies and programs that have major financial implications. No one, of course, would expect all the projections in the Plan to be met precisely, particularly those extending into the longer term. Nevertheless, it must be a carefully prepared view of the financial path the Government intends to follow, and deviations from it would require deliberate decisions by the Cabinet and be disclosed to Parliament. It must not be simply a collection of working assumptions or mechanical projections; this would not be a plan.

The Fiscal Plan would be presented to Parliament annually and referred to a new committee of the House of Commons, the *Standing Committee on Government Finance and the Economy*, in order to provide Parliament with the opportunity to focus on total government revenues, expenditures, the fiscal balance, and the public debt as they relate to present and projected economic conditions and the broad priorities of the Government. Committee consideration of the Fiscal Plan over a period of some weeks would enable both government and non-governmental organizations to contribute to the discussion of the economic and social implications of the Plan and the priorities associated with it. A subsequent report by the committee to the House would provide the basis for a short debate, during which it would be open to the Government to indicate any changes it was prepared to make in the Plan in light of previous discussions in committee or other public forums. The Plan should not be regarded as a matter of confidence, however, and should not be subject to a vote at the conclusion of the debate.

Essentially, our proposals are based on the related convictions that responsibility at the political level for the subject matter of the Fiscal Plan can only be vested in the most senior of Cabinet committees, that on Priorities and Planning under the chairmanship of the Prime Minister; second, that responsibility for establishing the government's fiscal position cannot be divorced from responsibility for setting expenditure limits for departments and agencies; third, that there must be a single focus for the Government's collective management responsibility; and, fourth, that the Fiscal Plan must be based on the best available information about the Government's priorities and objectives and the possibilities that exist for realizing them, both in terms of what the economy can support and of what can be done within government.

Because financial considerations must become a matter of paramount concern, the Department of Finance, as the central agency with primary responsibility for economic management, should be assigned the lead responsibility for the development of the Plan and for the fiscal position of the federal government. The Plan should be developed in concert with the secretariats of a reconstituted Treasury Board and the Privy Council Office, forming a closely knit team. The Plan should be submitted to the Cabinet Committee on Priorities and Planning with the full backing of the ministerial heads of these agencies. It should be

approved by Cabinet and become the stated Fiscal Plan of the Government.

The Plan should then become the basis for establishing the detailed spending proposals for the coming fiscal year that the Government submits for parliamentary approval in the form of the Estimates. To reinforce its authority as the agency primarily responsible for establishing the Government's fiscal framework, the Department of Finance should also be the lead agency, working in close co-operation with the other central agencies, in formulating recommendations to Cabinet on the overall limit to be imposed on government spending and the broad allocation of funds to functional categories of government expenditures and to individual departments and agencies in light of the Cabinet's established priorities.

In order to implement these changes, we are recommending that the Treasury Board be reconstituted to enable it to assume heavy new responsibilities for overseeing the management of government in all its aspects. Its role in the development of financial management in departments and agencies would be strengthened, and that involving personnel management would be expanded, to encompass the present responsibilities of the Public Service Commission for staffing and certain other personnel management functions. In recognition of its altered role, we propose that the Treasury Board be redesignated as the *Board of Management*. Its ministerial head would continue to carry the title of President, but we consider that he should be assisted by another minister who would serve full-time at the Board. This latter minister would be designated *Vice-President of the Board of Management* and would be involved primarily in assisting the President in the discharge of the Board's responsibilities with respect to personnel management. The Board would be served by two secretariats. The existing Treasury Board Secretariat would be renamed the *Personnel Management Secretariat* and its deputy head would be the *Secretary for Personnel Management*. The office of the Comptroller General would be renamed the *Financial Management Secretariat* and its deputy head would continue to carry the title of Comptroller General.

The Board of Management should be responsible for screening the detailed allocation of funds among various programs and other activities within individual departments and agencies. These detailed spending estimates should form the basis for the

implementation of departmental plans and the starting point for an accounting of their performance in achieving agreed objectives.

The new approach we are proposing, and the shift in the balance of responsibilities among the central agencies inherent in it, would significantly strengthen the ability of the Government to impose expenditure ceilings from the top, as opposed to the present system under which it is confronted by cumulative spending proposals derived from the incremental increase in the funds sought by virtually every unit of a department or agency.

The changes we are proposing with respect to the Treasury Board, including its renaming and the reorganization, are designed to clarify its role as the central agency responsible for effective management in government of both personnel and financial resources, and also as the primary instrument through which the Cabinet calls departments and agencies to account for how they have fulfilled their managerial responsibilities. While we think that the Board should assume a greatly enlarged role in providing leadership and direction to departments and agencies in an effort to improve substantially the quality of management throughout government, we are convinced that this cannot be brought about through ever-increasing control from the centre. The establishment of an effective accountability régime for departments and agencies will obviate the need for detailed controls. Put another way, the essential nature of the Board of Management's role is to *require managers to manage*.

Personnel Management If the Board of Management is to be able to carry out its total management role, one very major re-alignment is necessary among the central agencies. This involves the present responsibility for staffing the public service vested in the Public Service Commission.

The Treasury Board is responsible for establishing the terms and conditions of employment, classification, organization, staff training, and the allocation of manpower resources, and acts for the government in collective bargaining. At the same time, however, the ability of the Board to manage personnel is seriously impaired by the assignment of authority for staffing to the Public Service Commission, an agency that reports directly to Parliament and is, therefore, beyond the direct control of the Government.

We are recommending, therefore, that responsibility for staffing be transferred to the Board of Management. The new role we are recommending for the Public Service Commission is described

later. The Board will be supported in its personnel management responsibilities by the Personnel Management Secretariat headed by the Secretary for Personnel Management. Apart from supporting the Board in its personnel management responsibilities under the *Financial Administration Act* and now under the *Public Service Employment Act*, the Secretary for Personnel Management will share with the Comptroller General responsibility for departmental performance reviews.

Financial Management As head of the Financial Management Secretariat the Comptroller General's responsibilities should go well beyond those he was given when his office was established and the existing Financial Administration and Efficiency Evaluation Branches were put under his direction. The Comptroller General should oversee and supervise the continuing evaluation of the great bulk of government programs and other activities, which should be undertaken in order to assess their efficiency and effectiveness, and to determine ways and means of improving both where possible. He should also play an important role in assessing the overall performance of individual departments and agencies in fulfilling their management responsibilities.

The Comptroller General should screen the detailed allocation of resources by departments and monitor the carrying out by departments of particular program evaluations, according to standards set by him. In organizational terms this will mean that the Comptroller General will have to assume responsibility for the Program Branch and most of the Administrative Policy Branch or, generally, all non-personnel functions of the Treasury Board Secretariat. This will include responsibility for the format and content of the Estimates and the Public Accounts and standards of accounting and disclosure, and will require that the Comptroller General assume the accounting responsibilities now vested in the Receiver General. He should be assisted by an officer, to be called the *Chief Accountant of the Government of Canada*, who would also be responsible for directing the government accounting services now located in the Department of Supply and Services.

The Comptroller General should be empowered to oversee the conduct of internal audits by individual departments and agencies. The Audit Bureau of the Department of Supply and Services should be disbanded and most of its personnel assigned to departments or transferred to the Financial Management Secretariat, so

that the Comptroller General can carry out his audit responsibilities.

The Comptroller General should be charged with the responsibility for bringing about improvement in the type and nature of information made available through departmental annual reports. It will also be necessary, if he is to bring about substantial improvements in the quality of financial management throughout government, to give the Comptroller General a mandate to work closely with deputy heads in the development and training of their financial officers and to put him in a position to influence the selection of senior departmental financial officers.

Cash Management We are concerned that the development of the theory and practice of cash management that has taken place in the last decade in the private sector has not been paralleled in government. Given the Government's deficit position, and the interest rates it must pay for the money it borrows and that it can exact for the money it lends, we think that this is an area in which immediate action should be taken. To facilitate this we are proposing that the management of all of the government's finances, including the operation of the Consolidated Revenue Fund, be conducted by the Minister of Finance. Once this has been accomplished we would expect the Department of Finance to move to put the federal government's banking arrangements on a competitive basis and to ensure that accounting methods are improved so as to give recognition in departmental costing systems to the costs of borrowing.

Accountability for Performance One of the fundamental flaws in the present system is the almost total absence of any means by which departments and agencies are required to account for the efficiency and effectiveness with which they have employed the human and financial resources made available to them, or the attainment of goals set out in their departmental plans. To remedy this we are recommending that each year the Secretary for Personnel Management and the Comptroller General meet with each deputy head to review the performance of his department on the basis of his annual report, his own internal audits, and the program evaluations conducted under the supervision of the Comptroller General. On the basis of these documents and discussions, a report evaluating the performance of the department would be submitted to the President of the Board of Management and to the departmental minister after it had been shown to the deputy, who should

have an opportunity to append his own comments. A copy of the report should also be sent to the Privy Council Office and should figure in the evaluation of the performance of a deputy. At the end of this process, the President of the Board should submit a report to Cabinet providing an assessment of the state of management in the public service generally.

The Public Service Commission While we have considered it essential that all responsibility for personnel management be vested in a single agency, our recommendation divesting the Public Service Commission of its staffing authority was based on more than simply a desire for organizational purity. We were struck by the great potential for conflict between the two distinct roles which the Commission is now called upon to play. It is not doing justice to any notion of accountability to have the body which is supposed to be the independent watch-dog of the merit principle carrying a large measure of personnel management responsibility, the exercise of which could call that principle into question. We were also struck by the fact that parliamentary surveillance of management is weakest with respect to personnel matters. We attributed this to the absence of any office, similar to that of the Auditor General, to support the legislature in this area.

We believe that personnel management is too important for responsibility to be fragmented or for accountability to be incomplete. We believe that our proposals will correct both of these defects in the present system and will strengthen the protection afforded the individual public servant. Moreover, they will ensure better accountability for the protection of the merit principle and the preservation of an impartial public service.

Common Services are provided in government by the Department of Public Works, the Department of Supply and Services, the Bureau for Translations, the Government Telecommunications Agency, and the Crown Assets Disposal Corporation. There are some significant defects in the processes and organization of the system governing the provision of common services that detract from the possibilities for any meaningful accountability, go against the requirements of sound management, and lead to unnecessary conflicts between the common service organizations and other departments. The basic weakness in the system stems from the absence of a common understanding and acceptance both of policies respecting the responsibilities, objectives, and goals of the common service organizations and of common service policy itself.

The recommendations and proposals we have made to correct these defects are, in a number of cases, recommendations that have been made before. Their repetition in our Report will, we hope, spur their implementation.

Underlying our conclusions and recommendations with respect to the common service organizations is the belief that notwithstanding the role these organizations perform for the whole government—and the reason, therefore, why they are considered under the heading “Central Roles and Responsibilities”—the common service organizations are not central agencies. They are departments of government like all the others; they differ only with respect to their particular mandates. For this reason we reaffirm that the responsibility for common service policy should continue to be vested in the Board of Management and that client departments should continue to be responsible for defining their own requirements in accordance with policy set down by the Board.

We consider that accountability and sound management demand that common service organizations be made revenue dependent, that they base their rates on a full-cost approach, and that funds for all goods and services provided by them be part of the Estimates of client departments. Because of the exclusive mandates for the provision of goods and services which the common service organizations have to have, we believe that approval of their rate structures should only be given by the Board of Management after annual open hearings at which alternative suppliers from the private sector as well as program departments and the common service organizations themselves would be able to state their cases.

Lastly, we have made a number of recommendations for bringing most common service organizations, with the exception of the Department of Public Works, together in the Department of Supply and Services under a single deputy minister and for increasing the visibility of those few specialized services which we agree can be allowed to remain in their host departments.

Management in Government

One of the basic purposes of the changes we propose at the centre of government is to provide it with the means of substantial-

ly improving the efficiency with which the operating departments and agencies deliver goods and services for the benefit of the Canadian public. The embedding of accountability in the governmental system would by itself provide an effective spur to efficiency. To achieve the optimum results, however, it is essential that changes at the centre in the management of government be matched by equally far-reaching changes in management in government. Our detailed recommendations in this area are developed in Part III, "Departments."

We believe that the weaknesses in the management of a number of departments and agencies stem from a failure to delegate sufficient authority to enable these organizations to manage their affairs in the pursuit of clearly defined objectives. More important still, management is weak as the result of a failure to establish the means for calling departments to account fully for the manner in which they have used their authority and resources to achieve those objectives.

Our recommendations with respect to departments start from the premise that ministerial responsibility as a cornerstone of our constitution has to be reconciled with the fact that most ministers are now not only isolated from the day-to-day operations of their departments, but also have little involvement in overseeing the management of departmental affairs generally. We concluded that any defence of ministerial responsibility that did not take into account the real and independent role of the deputy in the administration of government would ultimately prove destructive to the doctrine itself. We have aimed, therefore, at bolstering the responsibility and authority of both the minister and the deputy, by emphasizing the complementary facets of their roles while, at the same time, increasing the accountability of each to Parliament.

We have proposed that the deputy be made formally responsible for the administration of departmental activities based on goals and objectives agreed with the minister. By the same token, the minister would also be expected to assume greater responsibility to the Ministry collectively, and to Parliament, for ensuring that plans of the department, including its spending plans, are soundly conceived and the management of its affairs effectively conducted. At the same time, the minister's capacity to fulfil that role would be strengthened by the information flowing to him as a consequence of the implementation of our various recommendations.

Although the system we propose would increase the accountability of the minister to Parliament for the broad conduct of departmental business, it is our judgement that the deputy head should be directly accountable before Parliament for matters of daily administration that fall under his responsibility. In recognition of his role and responsibilities, we are recommending that the deputy be designated *Chief Administrative Officer* of the department and be liable to be called before the Public Accounts Committee of the House of Commons to render an accounting for his administration.

Formal recognition of the administrative role of the deputy and the exacting of accountability for administrative performance must be accompanied by changes in the processes by which deputies are appointed and their personal performance appraised. Our first conclusion with regard to these inter-related processes was that managerial performance did not figure nearly largely enough in them. Second, the frequency with which deputies in the past were shifted from one position to another militated against good management. We have recommended, therefore, that the deputy heads of the Board of Management Secretariats be consulted on all deputy head appointments and that there be a minimum period for which deputies would normally be expected to serve in a given department.

While we found that significant improvements have been made in the appraisal process, we concluded that there was still some distance to go. That we are not alone in this conclusion is shown by the fact that the Privy Council Office is already planning further improvements. Our recommendations in this area are aimed at overcoming problems of lack of motivation among deputies, lack of understanding of performance objectives, and lack of confidence in the evaluation process. We think that this objective can be attained through a comprehensive and systematic approach to developing performance objectives and keeping them up to date. Further, it is necessary to open up the process to deputies and allow them to gain a good understanding of how it functions and what it produces. Moreover, the minister, the member of government with whom the deputy has the closest working relationship, must become a more active participant in the deputy's evaluation.

The deputy's performance will depend to a large extent on the manner in which he is able to adjust departmental planning to take account of the Fiscal Plan, expenditure limits, and changes in the

format and content of the Estimates. To ensure that departments benefit from these new processes that we have proposed at the centre, we are recommending that Program Forecasts be discontinued and be replaced by *Departmental Strategic Plans*. These would be medium-term projections at the departmental level analogous to the Fiscal Plan. Departments should also develop *Statements of Operational Goals*, short-term plans. Both would be internal, departmental documents which would be used in support of the Estimates submission to the Board of Management, but would not require central agency approval.

Our proposals for the structures and procedures required to produce these documents would necessitate an end to the present situation in which senior financial and personnel officers in departments are often not even part of the senior management team and have no voice in, or influence on, planning. It is essential that these officials become members of the departmental management committee and that this group be responsible for developing plans and structures that support and reflect a chain of accountability within the department.

Because of the very different nature of these plans from Program Forecasts and Estimates as now prepared, we are proposing that the screening of Estimates carried out by the Financial Management Secretariat be management oriented, rather than concerned, as is the case today, with totals. Expenditure totals will have been settled in the Fiscal Plan; therefore, the Comptroller General and the Secretary for Personnel Management will be able to focus on making the screening a review of how the department has responded to suggestions for change and of how it is being managed generally.

In order to relate the Estimates approval process to accountability, we are proposing an end to the present unsatisfactory situation in which ministers and their deputies attend the Treasury Board meeting at which their Estimates are discussed only when there is a contentious matter to be settled. We think that the distrust which prevails in so many cases today between departments and the Treasury Board can only be dispelled if there is complete openness on both sides. This has to start with ministers and their deputies displaying their complete commitment to what is submitted in their names to the Board and in the Board holding them accountable. This can begin through ministers and deputies themselves going through their Estimates submissions with the

Board in the presence of the heads of the Board's two Secretariats:

The extent to which a deputy can be held accountable must be a function of the extent to which he controls the factors affecting his performance. Chief among these is the organization and composition of the management team; yet, we have found that the deputy probably has less authority in this area than in any other. The thrust of our recommendations, therefore, is to give the deputy the authority to deploy and re-deploy his management team. This means authority to organize, to classify positions, and to staff. The deputy should have all the necessary authority with respect to positions up to, but excluding, those reporting directly to him. Action with respect to the most senior positions would require the approval of the Secretary for Personnel Management. Similarly, managers within departments should be able to approve personnel actions with respect to positions two levels below their own, but should have to get the approval of their immediate superiors for actions involving their immediate juniors.

Personnel operations are so critical to the success or failure of departmental operations that we believe that the senior personnel officer in a department should report directly to the deputy and should invariably be a member of the departmental management committee. This will reinforce the deputy's direct involvement in this area and will justify making the manner in which he has discharged his personnel management responsibilities a major factor in his evaluation.

When we looked at financial management in departments we found that the problem was not one of lack of authority, but rather of a fundamental failure to comprehend the nature, purpose, and techniques of financial management at the senior levels of government. It is not an exaggeration to say that, in most departments, financial management considerations do not enter into the senior management decision-making process. Apart from lack of knowledge about the significance of financial management on the part of managers, we also found that there were other problems related to the organization of financial management in departments and the qualifications of financial personnel.

Our recommendations are directed to these three areas. First, we believe that attitudes and knowledge of senior managers can be improved by laying emphasis on financial management in various career development programs. Part of the problem is that courses for senior managers have not dealt with the subject. Second, we

believe that the senior financial officer in the department must be recognized as a senior member of the management team, reporting directly to the deputy minister, and given clear functional authority over all financial staff. He will have to be backed up by the Comptroller General and given an explicit mandate to take part in various departmental activities, at least until attitudes become altered enough to accept his involvement without question. Third, the qualifications of financial personnel will have to be upgraded over time through changes in position classifications and the provision of special training.

To enable departments and agencies to establish the financial management systems best designed to meet their individual requirements, we propose that they be given greater latitude in developing their own management information systems, under the supervision of the Comptroller General. The systems are at present to a considerable extent locked into central systems designed essentially to meet the accounting requirements of Parliament and of various other government agencies. These central systems are ill suited to the development of the type of management information essential to planning, decision-making, budgeting, controlling, and evaluating performance. Individual departments and agencies should be empowered to develop their own financial information systems, subject to supervision by the Comptroller General, so that the dual requirements of relevant departmental management information and a compatible form for recording the accounts of government as a whole are met.

Auditing is an important element of financial management. At present, departments and agencies are subject to review by the Auditor General and by a number of central agencies. Internal audits by departments and agencies tend to be narrow in scope and confined largely to matters of probity. We propose that under the direction of the Comptroller General, the scope of the internal audit be expanded to cover financial, personnel, and administrative areas now audited by other agencies within government. The audit should be concerned not just with seeking out irregularities, but in probing for practices that lead to waste and inefficiency.

An important aspect of our proposal involves the establishment of an *Audit Committee* composed of four members, at least two of whom should come from outside the public service. The internal auditor, in addition to having direct access to the deputy head, would report to the Audit Committee, and those reports

should be submitted by the deputy head to the minister. We want to make it clear that we regard these proposals not as an addition, but as a rearrangement of the audit process by locating it within the departments.

Crown Agencies

While the major operations of government continue to be entrusted to departments, we were also charged with examining the numerous entities variously termed Crown corporations, regulatory and deciding boards, commissions, and tribunals, and collectively referred to as "Crown agencies". There are close to 400 separate and distinct Crown agencies, some of them founded on statutes of their own, many of them subsidiaries of parent bodies, and others so closely akin to private sector organizations that their governmental or public status is not at all clear. In examining the bewildering array of Crown agencies we have found that existing provisions for classifying them and for accountability for each category have been rendered obsolete. The resulting state of confusion, if left unattended, will seriously impair the value of these agencies as instruments of public purpose and do further damage to the tenuous and sometimes obscure accountability links that, in varying degrees, they now have with the Government and Parliament.

Accordingly, in Part IV of this Report, we have endeavoured first to bring order to the ranks of Crown agencies and then, for each of our proposed categories, developed a régime of accountability. We believe there are genuine advantages for governments having at their disposal such flexible instruments which, for many valid reasons, are better situated than departments to serve unique entrepreneurial, regulatory, adjudicative or advisory functions at one remove from government. However, it is their separation from the conventional hierarchical structure of direction, co-ordination, and control exercised by ministers and the central agencies that gives rise to the need for disentangling their confused accountability relationships and ensuring that, for all their separateness, they still remain a part of the Government of Canada.

In recent years, because of the growth in numbers and varieties of Crown agencies, there has been a mounting concern

with them, expressed most notably in the reports of the Auditor General, the Public Accounts Committee, and further elaborated with respect to one important category of Crown agencies by the Government in a Privy Council Office paper entitled *Crown Corporations: Direction, Control, Accountability* (hereafter referred to as the "Blue Paper"). While our report and recommendations address the same issues, our approach differs in a number of important respects which we will outline in Part IV. In addition, our approach is more comprehensive in that it seeks to provide a classification that will embrace *all* Crown agencies, distinguishing them from departments and making distinctions among them.

The re-ordering of departments and Crown agencies that we recommend, and which is set out in Appendix A, comprises four major categories. The first of these includes *Ministerial and Other Designated Departments*, and the remaining three separate Crown agencies into *Independent Deciding and Advisory Bodies* (e.g. the National Energy Board), *Crown Corporations* (e.g. Air Canada), and *Shared Enterprises* (e.g. the Canada Development Corporation). On the outer margins is a collection of entities we refer to as *Quasi-public Corporations* which we do not include in our categories but which, nevertheless, cannot be totally disregarded by the Government. Our proposed categorization will require extensive modification of the Schedules to the *Financial Administration Act*, which constitute the only classification scheme we now have. In our view these schedules are inadequate, not only because they fail to include a large number of Crown agencies and are not particularly consistent in the categorization of those agencies they do cover, but because the classification is directed almost entirely to financial matters and not to the broader elements of accountability that we believe should prevail.

Our proposed plan is presented not merely to impose logic and consistency on a badly disordered system—necessary and desirable as that may be. Such a plan is also a necessary prelude to arriving at a series of discrete accountability régimes that will establish clear, consistent, well-understood, and accepted roles and responsibilities for all of the major participants.

The starting point for such accountability régimes for Crown agencies is precisely that which we identify for departments: clear and unequivocal mandates that assign tasks, confer powers, and identify who is responsible for what. With respect to all Crown agencies, save for those in the *Shared Enterprises* category, we

take the position that as agencies or instruments of declared public policy, they must be ultimately subject to the direction of Government, for, in the end though less directly than for departments, Government must accept responsibility for the interpretation to be placed on public policy. We exclude *Shared Enterprises* from this general statement because, unless there is constituent legislation that states otherwise, the Government should not be given rights over and above those conferred on its partners in the enterprise.

The ultimate power and duty of the Government to guide its Crown agencies must be exercised in accordance with legislated mandates, for to argue otherwise would be in derogation of Parliament's will as declared in legislation. However, excessive intervention by the Government also runs the risk of depriving the Crown agency of the freedom to undertake its assigned tasks, thereby undermining the rationale for using the non-departmental form. Obviously, a delicate balance must be found, and in our analysis and recommendations concerning the use of the directive powers by Government for Crown agencies, we trust that we have struck a proper balance between the autonomy necessary to each type of agency to perform its assigned task, and the duty of the Government to ensure that in pursuing such tasks the agencies are acting in conformity with declared public purposes and policies.

With respect to that group of Crown agencies we have categorized as *Independent Deciding and Advisory Bodies*, their claim to autonomous status is predicated on the need to preserve an arm's length relationship with Government in order to fulfil deciding, regulatory, and adjudicative tasks objectively and without danger of direct partisan interference. For such agencies we are proposing that the Governor in Council have the right under law to issue directives on matters of broad policy only. Such directives, before being issued, should be the subject of a public hearing, should be published in the *Canada Gazette*, and tabled in Parliament. At the same time, the right of appeal to the Cabinet from specific decisions of deciding bodies, except those involving the rights of individuals, should be abolished because it is contrary to the purpose for which independent tribunals are established. With the closing of this avenue of appeal, it would be fully open to the Government or individual departments to appear before such tribunals to present their positions.

For our category of *Crown Corporations* we propose that the Government should have authority to issue directives, subject to

compensation when appropriate, and that these directives be tabled in Parliament. The power of ministerial direction should be viewed as an instrument of last resort. For on-going surveillance of the path or direction being taken by *Crown Corporations*, we attach greater importance to the introduction of *Corporate Strategic Plans*. After approval by the board of directors such plans would constitute the medium for communication between the corporation and the designated minister, thereby providing the opportunity that is now lacking for Government to be fully apprised of the directions being pursued or planned, with a corresponding opportunity to reconcile possible emerging differences between the corporation and the Government.

While mandate and direction are two important elements for an accountability régime, the third element, control, touches the most sensitive issues in the relationships that should exist between the Government and its Crown agencies. Excessive control by Government can rapidly undermine the *raison d'être* of a Crown agency and the intent behind all our recommendations in this area is to minimize such controls. In general, we have sought to de-emphasize those governmental controls that would apply to the activities of a Crown agency and to lay greater stress on controls that can be applied, as it were, before or after the fact.

In this respect, clear mandates and instruments for adjusting the direction taken by a Crown agency can be viewed as examples of *a priori* controls. However, the Government's power to appoint the members of Crown agencies is the most potent and immediate of these types of control. For this reason, we have focussed on the mode of selection, terms of appointment and removal, and evaluation of performance of the members of commissions and boards of directors.

We observe that one significant difference between a departmental organization and a Crown agency organization is that, in the case of the latter, the mandate is devolved on a collectivity—a commission or a board of directors. This collective responsibility underlines the importance of the appointment power vested in the Government.

For *Independent Deciding and Advisory Bodies*, we recommend the adoption for all such agencies of appointment for fixed term, subject to removal for cause—as opposed to tenure “at pleasure”—as a method of ensuring the independence of the members of such bodies. We further endorse, and propose as a

general practice, the conferring on the chairman or head the care and management of such bodies. In this respect, we believe that the autonomy of the board is not impaired by imposing on the head, as chief executive officer, the same accountability requirements as we are recommending for deputy ministers. For purely management purposes, in short, we do not see the need to vary the accountability régime that will apply to ministerial departments.

Crown Corporations also receive their mandates, powers and duties as a collectivity. However, the care and management of the enterprise constitutes the mandate of the corporation, and is not merely a "housekeeping" adjunct to its primary tasks as is the case with *Independent Deciding and Advisory Bodies*. As a consequence, the pertinent provisions of an accountability régime for *Crown Corporations* must be substantially different from those we are recommending for the other groups of Crown agencies. The primary thrust of our recommendations here is predicated on the conclusion that the Government is not obtaining full value from its Crown corporations as instruments of public purpose. While with one hand the Government has devolved important tasks and powers on them, with the other it has subjected them to controls that have left boards uncertain about their roles and confused about their responsibilities: a good recipe for lack of accountability all round.

We recognize that the position of a corporate board in a governmental setting is different from the position of its counterpart in the private sector with respect to its shareholders. Nevertheless, we believe that this difference can be accommodated and yet, at the same time provide a clearer focus for those matters over which any board of directors, whether operating in the private or public sectors, should have control. The most important of these relates to the directing and management functions assigned to the board, the recognition of which requires that the board have the primary responsibility for selecting and holding to account its chief executive officer. With some important exceptions, this power is not now exercised by the boards of Crown corporations. Accordingly, while we are recommending that the Governor in Council continue to appoint members of boards of directors and chairmen of boards for staggered terms, we are recommending that the appointment of the chief executive officer, subject to Governor in Council confirmation, be vested in the board of directors.

Further reinforcement of the prerogatives of the board of directors will also be found in our recommendations concerning the formulation of Corporate Strategic Plans, the format for presenting capital and operating budgets, corporate policies, and by-laws including codes of ethics, and the form of their annual reports. If indeed it is the Government's intention, as expressed in the Blue Paper, to impose on members of boards of directors the same duties and obligations that apply in all corporations founded on the *Canada Business Corporations Act*, then boards must be seen to have control over such matters. They must be particularly cognizant of the requirement that directs them to pay due regard to the interests of the corporation. Where governmental directives are imposed on them which they are obligated to implement in the name of serving the public interest, even though in their best judgement such directives run counter to the corporation interests, they should be held blameless.

Turning, finally, to the fourth element in a sound régime of accountability—evaluation and reporting—we are recommending a periodic review, statutorily imposed on the designated minister, of the performance of all Crown agencies in the *Independent Deciding and Advisory Bodies* and *Crown Corporations* categories. This review will constitute the basis for the appropriate standing committee of the House of Commons to render a verdict on the direction pursued, and will permit a measurement of accomplishment against declared mandates and corporate plans, with a view to approving, modifying, or even recommending the abolition of the organization. Such periodic reviews, which we suggest should occur for each agency not less than once every ten years, will not be a substitute for the continuous surveillance by Parliament, through its committees, of the annual performance of such agencies. Disclosure, particularly for *Crown Corporations*, should be as complete and comprehensive as that which is required by law from private sector corporations.

Parliament

Under our system, Parliament must be the beginning and the end of the governmental process. It must scrutinize and approve all legislation and all proposals for the raising of revenues and the

expenditure of funds, and must watch over the Government's implementation of the proposals to which it has assented. We think that Members of Parliament have not been adequately fulfilling their duty of forcing the Government to account for its administration. We are convinced, however, that changes can be made in the instruments and procedures of Parliament itself which would greatly improve its capacity to deal with its business in an orderly way.

The starting point is the five-year Fiscal Plan, which the Government should be required to submit annually to Parliament and to revise as necessary to reflect changing conditions and circumstances. The submission of such a Plan to the House of Commons would provide Members with an opportunity to focus on the Government's broad priorities and on its short and medium-range projections with respect to total expenditures, revenues, the fiscal balance, and debt levels in relation to projected economic developments. The reference of the Fiscal Plan to a new Standing Committee on Government Finance and the Economy would provide Members with a chance to question government spokesmen about the considerations that lie behind the Plan, and to seek the views of others inside and outside government. A subsequent two-day debate in the House of Commons based on the Committee's report would provide an important opportunity to focus on the proposed directions of the Government.

The Fiscal Plan should provide an important perspective against which the annual spending plans contained in the Estimates of departments and agencies will be considered by the various standing committees of the House. In addition to considering the Fiscal Plan, the proposed Standing Committee on Government Finance and the Economy should examine the Estimates for the Government as a whole and the Estimates of the Department of Finance. This committee should also consider all tax legislation and the implications for the Plan of all other legislative proposals.

In our judgement, a number of changes can be made that would substantially improve the effectiveness of Parliament in carrying out these tasks. We suggest that the Comptroller General be directed to develop a form of Estimates and Public Accounts that would provide far more relevant and meaningful information with respect to linking proposed goals and objectives with the financial and human resources that Parliament is being asked to approve, and with respect to accounting for the results that have

actually been achieved. This information should be complemented by the submission to Parliament by departments and agencies of annual reports that provide the fullest disclosure of their performance, particularly in relation to goals spelled out in the Estimates. These reports should be automatically and permanently referred to the appropriate standing committee of the House of Commons. By "automatically and permanently referred" we mean that as soon as they are tabled these documents would be deemed to have been referred to committee and could not, at a later date, be barred from the committee's consideration.

In addition, Parliament's capacity to judge the efficiency and effectiveness of the operations of government departments and agencies should be significantly reinforced as a result of legislation in 1977 expanding the role of the Auditor General.[†] Under this legislation, the Auditor General is required to report to Parliament instances where money has been spent "without due regard to economy and efficiency". He is also directed to report on cases where "satisfactory procedures have not been established to measure and report the effectiveness of programs, where such procedures could appropriately and reasonably be implemented". The Public Accounts Committee would be expected to focus both on management policies, guidelines, and practices extending throughout the government, and on the efficiency and effectiveness of the financial and personnel management of individual departments and agencies.

The capacity of Commons committees to deal with the business coming before them can also be increased. We suggest that the number of standing committees of the House be reduced in order to lessen demands on the time of Members for committee meetings and to provide a more coherent and systematic structure of committees to deal with the nation's business. In addition, we believe that the number of Members appointed to most standing committees could also be reduced to no more than 15 as a further means of decreasing demands on Members' time without impairing the effectiveness of committee operations. Indeed, we consider that a revision in the present mode of operation to allow for examination of issues in greater depth would considerably increase the effectiveness of Commons committees.

[†] Canada. Parliament. *Auditor General Act*. 1977.

Much of the work of standing committees now tends to be concentrated in a relatively short time. It should be possible to extend committee sessions over a longer period in order to enable them better to focus on the Government's management of public affairs. The effectiveness of committees in carrying out their work could also be significantly increased by the provision of adequate staff support to be paid for from a budget supplied to each committee and under the control of its chairman.

The chairmen of committees have an important role to play in guiding committee activities. The importance of their responsibilities should be recognized by providing them with additional compensation. To enable them to develop a thorough understanding of the complex issues coming before their committees, chairmen should normally be elected by the committee for the life of a parliament. The present rapidly shifting membership of standing committees works against the benefits to be gained from continuity and experience and we suggest that consideration be given to stabilizing committee membership.

It is not realistic to expect standing committees of the House to make major changes in departmental and agency Estimates for the fiscal year under consideration. However, it should be possible for them to exercise strong influence over a longer term, especially in cases where it can be demonstrated that value is not being obtained for the expenditure of public funds. Furthermore, we believe that Parliament's capacity to exercise that type of influence could be considerably enhanced through the conduct of periodic reviews of the operations of Crown agencies and the impact of major programs. We consider that a modified "sunset" approach should be adopted in the case of statutory programs to ensure that they are periodically re-examined and re-assessed by Parliament. We propose that the legislation establishing all new statutory programs, other than those relating to the public debt, provide for funding to lapse at the end of five years and that it be subject to renewal only after Parliament has examined the current costs and benefits of such programs. We advocate in the case of existing statutory programs, again excepting those involving the public debt, that the responsible minister be required to submit an evaluation of their effectiveness to Parliament within the next ten years and thereafter every five years. The minister's report should be automatically and permanently referred to the appropriate standing committee of the House.

Parliament's capacity to exercise an influence over the Estimates and, more particularly, to press its grievances before the granting of Supply, has undoubtedly been reduced by the changes in the rules and procedures of the House adopted in the latter part of the 1960s. Under the previous rules, the Estimates of all departments and agencies were subject to approval by Committee of the Whole. Because it was under no time constraints, this committee of Supply offered members of the opposition parties a powerful means of imposing pressure on the Government to answer their complaints. Under the revised system, 25 days were allotted to opposition parties for debate in the House on any issue of their choosing. Departmental Estimates are referred to standing committees of the House for consideration, but are deemed to have been approved by May 31 of each year whether or not they have in fact been adopted in committee.

While the previous system clearly absorbed more time of the House than it could properly afford to devote to matters of Supply, the present system creates a balance that unduly favours the Government. As a result of the automatic reporting of Estimates back to the House from committee by May 31, there is no obligation on the Government even to respond to grievances, let alone to take action to meet them. In our opinion, a somewhat better balance would be struck by restoring the practice instituted in 1975 by way of experiment under which an opposition party could choose to require a debate in Committee of the Whole on the Estimates of a given department or agency on one of its allotted days. In addition, standing committees should be permitted to recommend the partial reduction of an item of expenditure.

Earlier in this chapter, we outlined the proposals we intend to develop to strengthen the capacity of ministers collectively and individually to exact an accounting from departments and agencies on their management performance. As a corollary, we think that the liability of ministers collectively and individually to account to Parliament should increase commensurately. The Government must accept responsibility for its overall financial position and for the efficiency and effectiveness of management generally within the public service.

Individual ministers must immediately accept responsibility for the management, in broad terms, of the departments and agencies under their control. At the same time, however, we think

that the minister's responsibility must be shared with the deputy, who should be accountable to Parliament through the Public Accounts Committee as the chief administrative officer for the day-to-day operations which are, in practical terms, beyond the minister's control. This assignment of responsibility to the deputy does not impair the principle of ministerial responsibility, but reinforces it by replacing myth with reality.

PART II

**CENTRAL ROLES
AND RESPONSIBILITIES**

4

COLLECTIVE MANAGEMENT RESPONSIBILITY

The establishment of a “mutually compatible management system appropriate to the requirements of government” begins at the centre. It is the Ministry as a whole, the Government, that must establish and direct the processes, organization, and structure that govern the operations of the myriad departments, agencies, Crown corporations, and other bodies which carry out the day-to-day business of the Government of Canada. In subsequent sections of our Report, we deal with management within departments and agencies; with management *in* government. Before doing so, however, it is essential to establish the fundamental framework within which those constituent parts should operate. This requires a determination as to how the Ministry as a collectivity that forms the centre should be organized and how it should function in order to provide the most effective management *of* government.

The preamble to the *British North America Act* declares that Canada shall have “a Constitution similar in Principle to that of the United Kingdom” and, in line with the British constitution, the authority for the Government of Canada derives from the Crown. The BNA Act states that “the Executive Government and Authority of and over Canada is . . . vested in the Queen”. It further declares that “all Powers, Authorities, and Functions . . . shall . . . be vested in and exerciseable by the Governor General, with the Advice or with the Advice and Consent or in conjunction with the Queen’s Privy Council for Canada, . . . *subject nevertheless . . . to be abolished or altered by the Parliament of Canada*”.*

* our emphasis

In practice, of course, the authority of the Crown is exercised today, as it was in 1867, by those members of the Privy Council who, as ministers, collectively constitute the Cabinet. It is the Cabinet, then, that provides the vital link between the Crown and Parliament. But, while ministers are, with rare exception, Members of Parliament, the Cabinet cannot be viewed in any sense as a committee of Parliament. Ministers are officers of the Crown, from which they derive their authority to govern. This authority residing in the Cabinet, however, is counter-balanced by the ultimate supremacy of Parliament in all matters that come within federal jurisdiction.

The essence of our system is that, on all important issues, the Cabinet tenders its collective advice to the Crown through the Prime Minister. While the Cabinet's authority to act comes from the Crown, its continued ability to exercise power depends crucially on its continued maintenance of the confidence of Parliament. Ministers are accountable to Parliament for the exercise of their individual responsibilities. But ministers also share a collective responsibility to Parliament. Their continuation in office depends on Parliament's support.

Like the Cabinet, the role of the Prime Minister reflects the development of constitutional usage and practice rather than statute. But the Prime Minister has come to assume a special role in the Government. He has the prerogative of nominating the ministers who make up his Cabinet and recommending appointments by the Governor in Council, such as those of deputy ministers and officials of Crown agencies. He controls the agenda of Cabinet, the membership of Cabinet committees, and the organization of government and, in addition, he must sign draft bills on behalf of the Cabinet before they can be introduced into the House.

The holder of the office of Prime Minister, of course, is also bound by a number of constraints. In seeking to develop a balanced Ministry, he must take account of many different interests, not the least of which is regional representation. Generally, he must seek a consensus that will carry the support of the majority of his colleagues and of his own supporters in the House of Commons.

Nevertheless, the Prime Minister occupies a pre-eminent position that confers upon him general responsibility to Parliament and to the people for the policies and management of the Govern-

ment. Throughout our deliberations, we have been conscious of the need to maintain that pre-eminent position of the first minister. At the same time, however, it is also evident that the Prime Minister alone cannot exercise the collective responsibilities of the Cabinet for the governing of the nation.

The collective responsibility of ministers is most clearly reflected in financial matters. The authority to raise taxes and make expenditures is granted by Parliament only on the recommendation of the Governor General; in effect, the Cabinet recommends. Far more than money is involved, for such decisions are a reflection of the Government's underlying priorities and policies. The financial management of government is also a collective responsibility of the Cabinet, being entrusted under the *Financial Administration Act*, not to an individual minister, but to the Treasury Board which is a committee of Cabinet.

Some have argued that the widening area of collective responsibility that has developed over the years has detracted from the individual responsibility of ministers to Parliament and, in the process, concentrated an undue amount of power in the Prime Minister. In our view, however, the breadth and depth of government today have become so far-reaching that they demand the exercise of collective responsibility at the top, not only for the formulation of broad priorities and policies of the Ministry, but also for overseeing the government-wide management systems whose purpose is to give effect to those priorities and policies. At the same time, it is evident that certain ministers at the centre must jointly or individually assume a lead role in the exercise of the collective responsibility of the Cabinet for the management of government—the Prime Minister, the Minister of Finance, and the President of our proposed Board of Management. It is important that the particular responsibilities of each should be clearly stated both to facilitate the internal processes of government and to establish who should be called on to render a full accounting to Parliament.

The sound management of government, like that of any other human endeavour, requires that certain basic operations be carried out. These are planning, budgeting, directing and co-ordinating, controlling, and evaluating. The essential first step involves the development of a forward plan which, within the framework of decisions about the amount of revenue to be available and total expenditures to be made, would determine how resources should be

allocated to implement policies and programs that reflect the Government's priorities. Budgeting involves decisions on the detailed allocation of funds that should be made in order to put those policies and programs into effect as efficiently and as effectively as possible. Controls are required to monitor the implementation process in order to check performance against objectives, to ensure the consistency of standards across government, and, if necessary, to apply appropriate correctives. Finally, the outcome of these activities must be subject to evaluation to determine whether they were conducted as economically and effectively as possible.

Having determined its priorities, established a fiscal plan, and allocated resources for carrying out the policies and programs formulated to give effect to its priorities, the Ministry must assign to departments and agencies responsibility for implementing its plans. While it may establish certain guidelines and controls and reserve certain rights as to direction, it should be up to the individual departments and agencies to manage their affairs in a way that will best achieve the objectives assigned to them with the resources available. What is crucial to this system of management is that the centre should hold the constituent parts to account fully for the manner in which they have discharged the responsibilities assigned to them. Parliament, in turn, should hold the Government equally accountable for the management of the nation's affairs.

Different organizations and individuals within the political structure now have particular roles to play with respect to the exercise of the collective responsibility for various aspects of the management of government. These include the Cabinet Committee on Priorities and Planning under the chairmanship of the Prime Minister, the Treasury Board, under the chairmanship of its President, and the Minister of Finance. Each of these entities at the political level is supported by a central agency within the public service; the Privy Council Office, the Treasury Board Secretariat and Office of the Comptroller General, and the Department of Finance. A fourth important central agency, the Public Service Commission, falls outside the structure we have just described because it is responsible only indirectly and only in part to the Government, but nevertheless exercises important responsibilities bearing on the management of personnel within the public service.

The Cabinet Committee on Priorities and Planning was established in 1968 to answer "a serious need (for) a systematic assessment of overall priorities of expenditure with a view to better long term planning".[†] Its

scope . . . is now more inclusive than the mainly financial aspects of policy. It gives special attention to the broad objectives of the government and to major questions of policy having long term implications. It is in that committee that the basic decisions on objectives and strategies are taken, for recommendation to the Cabinet. A very important aspect of these is, of course, deciding the general priorities of the government for the allocation of financial resources and, in the policy discussion of other Cabinet committees, the determination of such priorities is obviously related to and conditioned by the decisions as to policies and strategies. The priorities are set in broad terms: objectives to be achieved, the amount of effort and resource to be directed toward each, the increase or decrease in the emphasis to be accorded to general areas of government action. It is on the basis of such broad decisions that the Treasury Board determines in detail the funds to be made available for specific programs administered by the various departments and fixes the personnel establishment to be allocated to them.

The *Financial Administration Act* gives the Treasury Board a legal basis as a committee of the Privy Council, the only committee of the Cabinet that is not set up on the prerogative of the Prime Minister. Under Section 5(1) of the Act, the Treasury Board is given responsibility for administrative policy; the organization of the public service; financial management (including Estimates); program and expenditure plan review and priorities; and, personnel management in the public service.

The Minister of Finance, under Section 9 of the *Financial Administration Act*, is entrusted with "the management of the Consolidated Revenue Fund and the supervision, control and direction of all matters relating to the financial affairs of Canada not by law assigned to the Treasury Board or to any other Minister". In effect, he represents the collectivity in Parliament in the process of gaining legislative approval for budgetary proposals relating to the raising of funds through taxation or borrowing.

[†] Gordon Robertson, "The Changing Role of the Privy Council Office." A Paper presented to the 23rd Annual Meeting of the Institute of Public Administration of Canada, Regina, September 8th, 1971, reprinted by Information Canada under the imprint of the Privy Council Office, 1971, p. 10.

According to a statement from the Department of Finance, he "has traditionally taken the lead role in recommending the level of the total outlays target in relation to general economic considerations"[†] as part of the annual fiscal memorandum which he submits, along with the President of the Treasury Board, about one year in advance of the fiscal year to which it relates. Later, towards the start of that fiscal year, in the preparation of his budget, he takes "decisions as to tax changes or other revenue measures, and the decision as to the balance of outlays and receipts which appears appropriate."

"The Minister and Department also have a significant role in decision-making on individual programs. The Minister is a member of Cabinet committees which review proposals in economic areas, and is well placed to take a view as to how individual programs in particular areas relate to each other and to the government's general economic policy objectives." The paper also emphasizes, however, "that the Department's interests in the individual program expenditure area are largely confined to the analysis of new policy proposals together with the review of existing policy. The Department is generally not involved in the monitoring of the administrative efficiency with which existing programs are operated. This latter issue is, of course, the responsibility of the Treasury Board."

In its submission to the Commission, entitled "Responsibility in the Constitution", the Privy Council Office defined the function of the central agencies as playing "an essential role in the successful functioning of ministerial government. They enable the confederacy to work. They pull the system together, synthesizing and co-ordinating, occasionally leading."^{††} They do so by supporting and advising the three central political participants in a variety of roles and responsibilities.

In our Progress Report we described these roles and responsibilities of the central agencies with respect to central management functions and there is value in reiterating them. The Privy Council Office

assists the work of the Cabinet and its committees by coordinating the preparation of policy proposals and by facilitating interdepart-

[†] "Department of Finance Statement" to the Royal Commission on Financial Management and Accountability, October 19, 1978.

^{††} Canada. Privy Council Office. "Responsibility in the Constitution". August 1977, p. 31.

mental consultation. It provides advice to the Prime Minister on the development of government policies and programs. The Privy Council Office also plays a key part in the central management of government through its role as adviser to the Prime Minister on major organizational changes that modify the jurisdiction of departments and Crown agencies, through the provision of staff support to the Prime Minister and the Cabinet for the selection, appointment, evaluation and compensation of deputy ministers and heads of Crown agencies, and to the Advisory Committee on Executive Compensation for the administration and compensation of the senior executive group in the public service.

The Treasury Board Secretariat and the Office of the Comptroller General share the responsibility for providing support to the President and the Board. The Secretariat is responsible for examining

departmental spending plans, and makes recommendations on the appropriate allocation of resources between competing demands. In the personnel management area, it recommends policy on manpower utilization, compensation, pensions and insurance, and staff relations, as well as negotiating collective agreements with public service unions on behalf of departments, and has recently added an officer to co-ordinate all aspects of pay administration. The Secretariat's other responsibilities include the administration of the official languages policy.

The Office of the Comptroller General recommends policies and sets out directives and guidelines for financial and administrative management and supports the performance evaluation responsibility of the Board.

The role of the Department of Finance

is to advise the Minister of Finance and the government on economic and financial affairs, and to prepare the budget of the Government of Canada. In collaboration with the Treasury Board Secretariat, it recommends to the Minister of Finance and the President of the Treasury Board the fiscal framework that sets out the financial plan establishing the proposed levels of revenues and expenditures appropriate to the economic circumstances of the country. All departmental expenditures, loans to and appropriations for Crown agencies and grants to individuals and associations must be made within this plan. Finance takes an active interest in major spending programs and loans because of their impact on the fiscal framework, and exercises

a significant influence on the establishment of government priorities that involve large sums of money.

Unlike the other central agencies the Public Service Commission does not act in support of a specific part of the collectivity of ministers or of a particular minister. We shall be dealing at length elsewhere in this Report with the Public Service Commission and with the changes we believe should be made with respect to its roles and responsibilities. It is sufficient to state here that it now has three main roles: a responsibility for staffing the public service either directly or through delegation of authority to deputy heads and a concomitant responsibility to Parliament for the application of the merit principle in this area; the operation of training programs and assistance to deputy heads in operating such programs; and the provision of redress to public servants against staffing decisions. In addition, at the request of the Government, the Commission assumed responsibility in 1972 for investigating allegations of discrimination in public service employment practices, and in 1973 for the provision of second-language training for public servants. The Commission manages manpower planning for senior executives, and is involved in their career planning and development.

As we will explain more fully in succeeding chapters, it is our view that the organization, structures, and processes of the components of the Ministry primarily responsible for the management of government, and those of the central agencies which support them, are not adequately achieving that goal.

The deficiencies in the central management of government today relate in no small measure to a failure to plan thoroughly at the top. Accepted, instead, is a planning process too often dependent on trying to marry unco-ordinated proposals coming up from the bottom. There is a consequent failure to budget rationally, and a confusion of responsibility for control and evaluation. The follow-up by central management to see if commitments have been met or indicated levels of performance attained has been lacking. The shortcomings of the existing system stem as well from a failure to define precisely and distinctly the tasks and responsibilities of the central agencies. Accountability of the central agencies themselves for the way in which they have performed their own roles is incomplete.

Our recommendations regarding management and accountability underline the need to clarify, re-arrange and, in some cases,

strengthen the respective roles of these central agencies. Paramount in our thinking is the role that the Financial Management Secretariat of the Board of Management, the Privy Council Office and the Department of Finance must share in the process of allocating resources and in preparing a Fiscal Plan for presentation through their ministers to the Cabinet Committee on Priorities and Planning and eventual submission to Parliament. The Plan, which we outline later, would require disclosure by the Government of its medium-term priorities as indicated by its spending and financing intentions. It is intended to provide a public focus that will impose a new element of discipline over spending and, at the same time, provide important information for private planners about the Government's financial intentions.

Equally important is a new perspective for the Treasury Board. The Privy Council Office paper asserts that historically the Board has served the collectivity by its political function of reconciling the Estimates. We agree that this is a fundamental role for a committee of the Cabinet to play on behalf of the collectivity; however, in our judgement this political function of reconciling Estimates and setting limits for expenditures would be better carried out in the Cabinet Committee on Priorities and Planning, chaired by the Prime Minister. As for the Treasury Board and its Secretariat, we contend that they should play a fundamental role in the management of government and that the nature of this role should be reflected in a change of name. Indeed, we believe this is the role that was envisaged by the Glassco Commission.

We accept that in the political arena objectives and goals are not susceptible to the same precision of definition as in the private sector. Nevertheless, we believe that the centre has not done as much in this area as is possible. We think that it is incumbent upon ministers collectively and individually to define objectives and set goals and to do this with sufficient precision to permit the public servants entrusted with meeting them to understand and accept them. Once this occurs, performance evaluation can be meaningful and departmental officials can be held to account. When accountability is focussed in this manner, it will be clear who should reap the rewards of accomplishment or suffer the consequences of failure. Similarly, we cannot accept that priorities and objectives can continue to be set without a full awareness of the financial implications of attempting to achieve them. If the situation is to improve, the organization and operation of the

centre—as they affect both ministers and officials—will have to ensure that there is clear identification of goals and accountability for results.

5

SETTING LIMITS: THE FISCAL PLAN

Our review of the existing financial planning process revealed several fundamental weaknesses. None of the participants is held effectively accountable. Expenditures are proposed by departments in ignorance of projected revenues and without their being related to priorities. There is no public commitment to an expenditure plan and consequently no basis for effective parliamentary review. Finally, there is little public participation in expenditure planning. In short, co-ordination and discipline are absent. This has led to incremental budgeting, crisis planning, poorly conceived ad hoc solutions to problems, and excessive flexibility in program management. This chapter is devoted to establishing co-ordination and discipline in expenditure planning and showing how they are necessary to accountability in government.

Fundamental to sound management of government is the development of a medium-term Fiscal Plan for the achievement of priorities and objectives. Such a plan would constitute a political and managerial commitment to the achievement of goals. Its publication would display clearly the effects on expenditures of changes in priorities, and its existence would provide assurance to the different levels of government, the business and international communities, and the Canadian people that the financial consequences of the federal government's intentions had been fully recognized and assessed. The concept is not new. Indeed, the components have, for the most part, been readily available for a number of years.

There are three steps in the existing process. The establishment of the Fiscal Framework within which the Government will introduce its various economic measures in the near term is the

first. The second is the compilation by departments and agencies of preliminary or Program Forecasts, showing how much money they will require to fund existing and new programs over the next three years. The third is the preparation of Estimates, detailing planned expenditures, and the Budget, showing anticipated revenues for the next fiscal year. These last two documents are submitted to Parliament.

The Fiscal Framework In mid-March each year, the Department of Finance and the Treasury Board Secretariat begin preparation of fiscal framework memoranda, the purpose of which is to recommend to Cabinet a level of resources for allocation which on the one hand will be adequate to finance government programs, and on the other will be consistent with probable financial constraints and macro-economic goals. The memorandum prepared by the Department of Finance recommends the total level of outlays consistent with projected revenues and general economic considerations. Within this aggregate expenditure ceiling, the Treasury Board Secretariat, in the Expenditure Budget Projections document, forecasts the cost of maintaining existing government programs at current levels and recommends the level of resources to be committed to new or expanded programs and those to be allocated as contingency reserves.

The nature and timing of the fiscal framework documents vary depending upon circumstances, but they are usually submitted in April in the form of memoranda to the Cabinet Committee on Priorities and Planning, which reviews them and then passes them on to the Cabinet. The Cabinet then issues broad expenditure guidelines to be followed by the Treasury Board Secretariat in the review of departmental and agency Program Forecasts. In 1978, these guidelines specified only the total level of expenditures and, within this, the amounts to be allocated to new programs and to contingency reserves.

This first link in the planning chain, the establishment of the fiscal framework, has turned out to be the weakest. It has three major flaws: its purpose and content, its timing, and its communication. Its purpose has been to inform the Cabinet of the likely levels of revenue to be generated within the current and next two fiscal years, to estimate the expenditures required to keep existing programs going and those that might be required for new programs, and to state the probable effects on debt levels if these

revenues are generated and expenditures incurred. This provides the Cabinet with a basis on which to decide whether taxes or expenditures should be increased or decreased, but in practice its main impact has been on the determination of the total expenditure levels that seem appropriate for the next fiscal year. These are then communicated to the Treasury Board Secretariat in the form of guidelines. These guidelines are not, and do not purport to be, a plan. Typically, they take the form of a series of statements dealing with global expenditure levels and constraints rather than a full explanation of priorities and overall plans. Priorities are stated, but there is no indication of the level of resources to be allocated to them.

As for timing, the guidelines are agreed upon and promulgated only as departments and agencies are in the final stages of preparing their Program Forecasts for submission to the Treasury Board Secretariat. This is long after they should have been made aware and been able to take account, in the development of their Forecasts, of any stated priorities, expenditure levels, and constraints.

Lastly, the fiscal framework guidelines are not communicated directly and formally to the departments and agencies responsible for carrying out programs. Instead, they are sent to the Treasury Board Secretariat, which interprets them and incorporates them in its requests to the departments and agencies for Program Forecasts.

What are the consequences of these flaws? First, since departments and agencies have no externally imposed expenditure and policy guidelines to work with, they prepare their Program Forecasts without an upper limit to the expenditures they are proposing. They cannot plan realistically, and do not have to make hard choices among the options facing them. Second, the Treasury Board Secretariat's review of Program Forecasts has become a wasteful and time-consuming exercise leading to acrimony and loss of respect among the participants. The problem is that the reviewing agency interprets vague guidelines both according to its own perceptions of Government priorities and expenditure needs and in the light of the forecast by the Department of Finance of revenue limitations, while the submitting departments and agencies have no access to this significant information.

Program Forecasts Without guidance from the central agencies with respect to available resources, government departments and

agencies are expected to start preparing their Program Forecasts in October or November for consideration by the Treasury Board in April of the following year. This is three or four months before the fiscal framework is prepared. When it was instituted in 1967, the Program Forecast exercise was intended to produce a medium-term planning document in which departments and agencies would set out, for the five years following that in which the forecast was established, the objectives of their existing and possible programs, the approximate resources needed to implement them, and the benefits likely to be obtained. It was intended to be a statement of plans, subject to modification only if discussion with the Treasury Board Secretariat revealed that resources were not allocated according to Government priorities, that programs overlapped, or that resources were unavailable. The outcome has been very different. The absence of guidelines has led departments and agencies to the view that justifying resource requirements is of more consequence than establishing the validity of program objectives and their expected effectiveness in terms of their cost. The Treasury Board Secretariat has reinforced the consequent approach to the forecast by departments by requiring extensive supporting detail. This has turned the forecasts into a bookkeeper's dream, and it is as such that they are seen in many departments, where senior management, let alone ministerial, participation in their preparation is often minimal. At its inception, the Program Forecast was expected to become a presentation of plans generated within departments. Instead, it has come to be directed toward fulfilling external requirements; it is a detail-laden agglomeration of expenditure budgets. Because of the emphasis on detailed expenditure justification, the Program Forecast is usually developed at the most junior levels in departments and agencies, often without external or internal guidelines as to expenditure limits or policy priorities. It has, therefore, become a composite of the requirements of many small pockets of authority.

A further flaw is that planning under the assumption of unlimited resources is very different from planning within fixed limits. In fact, planning is a misnomer for a process that focusses principally on new initiatives and how they might be realized. It is not planning if it does not require choices among new initiatives, and encourage the review and evaluation of on-going activities and the identification of cost reduction potential.

Furthermore, because proposals must be submitted so far in advance of the execution of plans, the Program Forecasts frequently contain ill-founded predictions of costs, particularly of capital expenditures. These predictions, which are reflected in the Estimates, often fall far short of real costs. Further, the time available to departmental management to review the forecasts prior to submission to the Treasury Board Secretariat is so limited that thorough examination of them is rare.

Program Forecasts have become medium-term detailed budgets rather than plans showing objectives and their financial implications. They are viewed by departments and agencies as trial runs at the Estimates, with the purpose of determining what additional resources can be obtained from Treasury Board for the forthcoming fiscal year. Moreover, because they are regarded within departments as medium-term detailed budgets, subsequent changes in them are viewed internally as both arbitrary and disruptive. In addition, ministers, acting on this view of Program Forecasts as budgets implying a degree of commitment, have from time to time publicly announced new programs, using the incomplete information contained in the forecasts. As a result of such publicity, it becomes politically difficult for the Treasury Board later to turn down or modify such proposals even when more accurate costing indicates that the actual costs will far exceed those given in the Program Forecasts.

The review of Program Forecasts by the Treasury Board Secretariat culminates in recommendations to the Board for acceptable expenditure limits and required man-years. These are usually accepted and form the basis of the expenditure budget, tentative departmental expenditure ceilings, and an expenditure contingency provision for the next fiscal year. Since the Treasury Board concerns itself with the Estimates for the coming year, much of the detailed financial information set out in the Program Forecasts for subsequent years is not put to any useful purpose. Indeed, this appears to have been recognized, since the period covered in the forecast has been reduced from five years to three.

Estimates and the Budget The third step in the planning process begins with the translation of departmental expenditure ceilings for the coming fiscal year into the votes and subcategories in which they will be presented to Parliament in the Main Estimates of expenditures. These ceilings are usually communicated to departments in July following Cabinet consideration and approval of the

Treasury Board expenditure forecast document and its analysis of program forecast submissions. Then comes the assembling of the Budget.

The Main Estimates present the Government's expenditure proposals for the coming fiscal year to Parliament for its approval. The wording of these proposals and the stipulated expenditures, when included in the appropriation acts, set out the governing conditions under which the expenditures may be made. The Estimates for each department display budgetary and non-budgetary (i.e. loans and advances) expenditures by program, activity, and object of expenditure, and also show manpower by occupational category. For information purposes, the Estimates also include expenditures described as statutory items, for which the required funds have already been approved through existing legislation. Main Estimates are tabled by the President of the Treasury Board in the House of Commons each February for the fiscal year commencing on April 1. Estimated expenditures appear beside the forecast expenditures for the fiscal year ending on March 31 and the actual expenditures for the previous fiscal year. Since 1975, the President of Treasury Board, in his statement on tabling the Main Estimates, has also committed the Government to a fixed ceiling on total expenditures. The difference between the total for Main Estimates and the ceiling represents the amount of expenditures set aside for supplementary expenditures. The Estimates for the latter are tabled as required, normally beginning the following November, and cover such items as overruns on statutory expenditures, increases in public debt financing charges, new programs, and increases due to wage and salary adjustments during the year.

The major inputs to departmental Main Estimates are the operational budgets of the various units responsible for program implementation. Main Estimates do not, however, detail resource requests down to the level of the responsibility centres that make up these units. This is done internally by the departments and agencies once Cabinet approval has been given to the Main Estimates. Although initial drafts of these operational budgets form the basis of the requests made in the Program Forecast, the final operational budgets are more up to date than the drafts and thus reflect better the departments' current priorities as well as current cost levels. In consequence, when departments prepare their Main Estimates submissions in October, it is not unusual for the total to exceed the expenditure ceiling established in July. In

order to bring the totals within the ceiling, further negotiations with Treasury Board Secretariat program analysts are necessary before the Estimates can be put in their final form for Cabinet approval in December prior to printing in January and tabling in February. Thus, Estimates preparation, as a short-term planning exercise, has developed the same defects as the process for preparing Program Forecasts: form-filling and compliance with detailed procedures, and middle-management negotiation over adherence to tentative expenditure ceilings.

Following the tabling of the Estimates the next phase is usually the presentation of a Budget. The Budget proposes changes in Government fiscal policy with respect to taxation, borrowing, expenditure, and lending. It provides the only public forecasts by the Government of total revenues and cash requirements. The financial data presented in the Budget are not detailed, but relate to government as a whole. Although there is no formal requirement to do so, the Minister of Finance generally presents a Budget to Parliament in the spring, a month or two after the introduction of the Estimates. This establishes the level of taxation required to produce revenues to meet expenditures projected in the Estimates and the level of deficit or surplus that, in the view of the Minister of Finance, is the most appropriate to the current economic situation and outlook. It also shows how the Minister believes that these revenues can best be raised in the light of the Government's policy priorities.

These three steps form the basis of a planning process that could, if organized and co-ordinated, contribute greatly to improving accountability in government, and to increasing Parliament's control over the purse. At present, however, they fail to meet these goals. Program Forecasts are prepared in ignorance of the fiscal framework and are not action plans; the fiscal framework carries no Government commitment and no stamp of public approval; and until Parliament finally approves the Estimates, there is no firm upper limit on expenditures.

The Fiscal Plan

Sound management must be based on a planning process that establishes goals, sets out the best ways of attaining these goals, identifies the human and financial resources required to achieve

them, and measures the benefits arising from their attainment. If Parliament is to gain more effective control of the public purse immediate steps must be taken to introduce into the management of the Government of Canada a planning process that carries out these four activities. The starting point in the process must be the development of a plan encompassing the total spectrum of government revenues and expenditures. Such a plan would benefit not only the federal government but also other levels of government which depend on the federal government for fiscal transfers. It would enable individual citizens to appreciate the consequences of their rising expectations and to know what portion of their incomes might be taken from them by taxation. It would enable business to plan effectively in the light of the financial intentions of the Government.

If a plan is to be effective, it must be visible and credible and, while responsive to changing conditions, it must also carry full commitment and be resistant to unwarranted change. Planning must underlie accountability, the primary object of this Commission's scrutiny, so as to give meaning to goals, to the measurement of benefits, and to expenditure levels, and to make possible the commending or blaming of those held accountable. We have concluded that Parliament must annually require from the Government a Fiscal Plan that addresses itself to these various needs. This plan should become the basis of the medium and short-term planning processes of all government departments and agencies.

Because the Fiscal Plan is the framework for financial management, we propose that it be presented to the House of Commons in late October, well before the submission of the annual Estimates and the tabling on the Budget. Debate could then be focussed on the broad aspects of fiscal planning, and questions such as the following could be raised:

- What are the Government's priorities and how is it proposing to fund them?
- Was the Government successful in meeting the objectives of last year's Plan?
- Has the appropriate balance been struck between expenditures and revenues?
- What are the major implications of the proposals for future government spending?

In committee and House debate, Parliament would be able to examine the totality of government spending, its past results, present impact, and future direction. Such discussion, and the perspective it would provide, would be a valuable prelude to the subsequent consideration of the Estimates and the Budget.

In determining what the content of such a medium-term plan should be, we reviewed the methods used by governments in a number of other western industrialized countries to advise their legislatures and people of financial plans. No two were alike. Some governments, such as those of Sweden and the United States, concentrate on the immediate future, and simply set out projections of revenues and expenditures for the medium term based on current trends and economic assumptions. In the United Kingdom, each year the government presents to Parliament a review of the expected amount of total public expenditures for the five years to come. These are broken down by functions such as "Roads and Transport", "Housing", "Social Security", and "Debt Interest". Although it is intended to do so in the near future, to date revenue forecasts have not been provided. In France, the emphasis is on identifying major priorities. The government presents legislative proposals covering national defence and 25 other programs in which planned expenditures for five or six years are clearly set out. In this way it establishes limits for about 30% of its expenditures for a considerable period. These limits are refined each year as ministers are advised by the Prime Minister of total funds allotted to their departments for the forthcoming year. In the Netherlands and the Federal Republic of Germany, fiscal planning covers both revenues and expenditures for periods of four and five years respectively. In Germany, the revenue forecasts and economic assumptions are made first. Then expenditure plans are established for the year that will be in progress at the time the plan is published and for the four succeeding years. Expenditure ceilings for the first two years are considered firm, whereas the other three remain open to adjustment as subsequent plans are introduced.

The need to determine the availability of resources before expenditures are proposed, the financial interdependence of the three levels of government in Canada, the size and extent of shared-cost programs, and the ever-increasing influence of economic factors beyond Canada's direct control have led us to conclude that a Fiscal Plan for Canada, based on clearly stated

economic assumptions, should include both revenue expectations, based on existing taxation legislation, and all planned expenditures. It should cover a period of five years. This is the minimum commitment required to make it useful to planners and to provide sufficient time for testing new initiatives. It should also be the maximum time needed to wind down in an economical and coordinated fashion any programs judged obsolete or redundant, or to transfer responsibility to other levels of government where appropriate. Of these five years, the first would be that in progress when the plan was submitted to Parliament, the second that for which detailed Estimates would be presented four or five months later, and the other three those following.

The introduction of this disciplined form of planning at the centre, along with a vastly improved process of departmental and agency planning, should go a long way toward restoring to Parliament its rights with respect to the public purse, creating an atmosphere of accountability in the federal government, and improving relations with other levels of government. Finally, it should contribute greatly to restoring public confidence in the management of government. Therefore, we recommend that

5.1 each year the Minister of Finance present to Parliament, on behalf of the Government, a five year *Fiscal Plan* which provides estimates of revenues, sets expenditure ceilings, and reflects the expected surplus or deficit. The Plan would be based on the existing tax structure and clearly stated economic assumptions.

The five essential components of the Fiscal Plan are as follows: (1) the Government's assumptions about the future performance of the Canadian economy; (2) the level of revenues expected under the current tax structure; (3) the projected cost of current and planned programs and activities; (4) the surplus or deficit resulting from these projections and the levels of debt that these surpluses or deficits will require; and (5) an explanation of any variations in the projected levels of revenue, expenditure, and debt from those in the previous year's Plan.

These components are the product of a variety of political decisions about the management of Canada's economy taken in the context of international economic trends and the expressed desires of the electorate. For example, in the absence of tax changes,

changes in revenues depend on the rate of economic growth and inflation. Expenditures are contingent on program priorities, on revenues, and on the effect of government borrowing on capital markets. Together, revenues and expenditures constitute the basis for the preparation of a Fiscal Plan which would set out the framework within which policies are developed and operational plans set, and would establish discipline in management and a basis for accountability in government.

The Fiscal Plan should provide a clear picture of the planned role of government in the economy and of the expenditure ceilings that will control the course of future spending. It should also contain a summary of government performance over the last five years so that trends can be perceived and the magnitude of change recognized. Our inquiries have revealed that much of the basic information needed to support the assumptions on which such a Plan would be based is already available to the Government. The relationship between this existing data base and the five essential components of a Fiscal Plan follows.

The background to any financial plan must be clearly described before any projections of revenue, expenditures, surplus, or deficit can be accurately assessed. Among the more important elements in such a background are trends in employment, capital investment, the extent of government involvement in the economy, national and regional growth patterns, inflation, international trade, productivity, and consumer demand. The first part of the Fiscal Plan should describe the effects of these various trends on the economy since the last Fiscal Plan was laid before Parliament and should predict their likely effects over the next five years. More important, this introduction should give the Government's view of the effects on the economy of its Fiscal Plan if the revenue and expenditure levels it contains are in fact attained. Information on these trends already appears in varying degrees of detail in publications such as the annual *Economic Review* and other papers published by the Department of Finance about the economic outlook, and the notes on economic conditions that usually accompany Budget statements.

With respect to revenues, the Fiscal Plan should set out estimated tax and all other revenue by major category, together with totals of planned repayments to the government of loans, investments, and advances, but without any allowance for foreign exchange transactions. We are aware that strong arguments can

be made against publishing expected revenues on the grounds that the variables affecting revenues make accurate forecasting difficult and politically risky. Governments are also understandably reluctant to forecast specifically with respect to such sensitive subjects as interest rates, exchange rates, and employment. Notwithstanding this risk, without the discipline of preparing revenue forecasts the planning process will never be taken seriously. Without a statement of expected revenues, the Fiscal Plan would be cast in a vacuum. Reporting planned expenditures alone, in other words, setting limits on spending without similarly setting targets for revenue, would ignore the necessity of planning within the limits of available resources and relegate the Fiscal Plan to the status of a mere discussion paper about future expenditures.

The benefits to the Government and ultimately to Parliament of making revenue projections public will be greater than the risks. An integrated presentation of revenues, expenditures, and debt levels should force a thoughtful and informed review of the total financial operations of government. Parliament, the public, and the Government would be able to see the relationship between new programs or priorities and increased taxes, larger deficits, or reductions in current programs. Canadians have the right to know the consequences of policies being followed and the extent to which they may lead to borrowing. They have an equal right to know to what extent the Government is living within revenues and if it is not, how and when it plans to balance the Budget.

Expenditures reflected in the Fiscal Plan, which would exclude any allowance for foreign exchange transactions, should be displayed in a much more detailed fashion than revenues since it is at this point that commitment must be exacted. Accountability is derived from commitment.

The Plan would correlate the Government's priorities with proposed budgetary and non-budgetary expenditures for each of the five years of the Plan. All expenditures should be displayed by the following broad functions:

- 1) Economic Development
- 2) Social Programs
- 3) Transportation and Communications
- 4) External Policy and Defence
- 5) Government Operations
- 6) Fiscal Transfer Payments
- 7) Interest on the Public Debt

In addition, so that the Fiscal Plan could indeed become an effective catalyst in the total government planning process, the global expenditure forecast should also be subdivided by department and agency for the first three years of the Plan.

The Fiscal Plan is so important that debate on its contents should become a significant event on the parliamentary calendar and the public should be given an opportunity to present observations on it. In Chapter 22, we set out how this could be accomplished. The balance of this chapter is devoted to the methods and means whereby the levels of expenditures in the Plan should be determined.

Expenditure Ceilings Just as a Fiscal Plan without a statement of expected revenues would be incomplete and lack full meaning, we have concluded that an expenditure planning process that is not subject to the discipline of a firm ceiling on both statutory and voted expenditures would be similarly deficient. Four observations contribute to this conclusion. First, federal government expenditure has grown to a sum that is equal to more than 20% of the country's gross national product, and statutory payments constitute over half of these expenditures. Second, over the past decade, the impact of public expenditure on the economy has become as important as, if not more important than, the effect of taxation. Third, federal government programs become more and more complex each year and often involve significant future expenditure commitments whose implications are not always recognized. Finally, reliance cannot necessarily or always be placed on public opinion as a means of controlling public expenditure. Changing expectations and the influence of pressure groups have in fact combined to encourage expenditures.

Planning is effective only if it is undertaken in an environment in which there are real and finite limits to resources. Planning will never be successful if it is conducted on the assumption that resources are inexhaustible. We note that the Government has in recent years, in conjunction with the presentation of the Main Estimates, announced an expenditure ceiling covering both these and the Supplementary Estimates. While this is an encouraging development, it does not go far enough because there are no limits for either broad functions or individual departments.

The establishment of limits for each of the functions demands a general commitment from the Government, but functional limits do not impose the corresponding commitment, and the accounta-

bility this implies, from individual departments and agencies or from program managers. If effective program management and sound financial control are to be achieved, departments and agencies must also work within firm expenditure ceilings. Unless this occurs, departments and agencies will continue to request resources without providing clear definitions of the objectives for which they are required, without stating precisely how resources will be used to achieve objectives, and without determining their likely benefits. They will have no incentive to seek out value for money and to achieve maximum operating efficiency, and to make hard choices about which programs are most worthy of support and where to eliminate duplication and waste. We recommend that

5.2 the Fiscal Plan contain ceilings on expenditures for specified functions of government within the ceiling set on expenditures for each of the five years covered by the Plan; and that

5.3 for the first three years covered by it, the Fiscal Plan contain departmental and agency expenditure ceilings, within the total expenditure limit for each of those years.

In advancing these recommendations we recognize that commitment too far into the future could be counter-productive in that actual costs would be difficult to predict accurately. Thus we have recommended the inclusion in the Fiscal Plan of departmental and agency expenditure ceilings for only three years. While this is the practical maximum, it is also the minimum necessary to meet the objectives of having a Fiscal Plan. Since the first year is already in progress and Estimates for the second will be submitted to Parliament within a few months of the presentation of the Plan, Parliament and the public can have little influence on them. On the other hand, public commitment to medium-term expenditure ceilings for departments and agencies should be made by the Government to indicate that the total expenditure limits by function are sound and realistic. In addition, such a public statement would impose on departments and agencies the obligation to relate their expenditure plans to objectives and priorities. Expenditure limits for the fourth and fifth years of the Fiscal Plan should be given by function only. It would be up to departments to determine just how such limits would be likely to affect them.

In determining total expenditure limits and departmental and agency ceilings, allowance must be made for all new initiatives, for genuine emergencies, and for changes in the economic climate which might, for example, increase the cost of servicing the national debt. Thus a contingency allowance should be included in the Fiscal Plan. Such an allowance would reflect past experience. It would not be allocated to any function, department, or agency. Beyond this allowance, expenditure limits would be just that; they would have to be viewed as the maximum available for all purposes.

Establishing and publishing departmental expenditure limits for a three-year period will contribute to the development of a sense of fiscal commitment and accountability. It is only in such an environment that good management practices can take root and flourish.

Developing the Fiscal Plan The problems posed by the existing planning process are traceable to the fact that there are so many participants in the various steps in the process, to the tendency to assign resources without due regard for their availability, and to the absence of a central focus of responsibility and accountability for the co-ordination of the process. We concluded that the likelihood of the country gaining lasting benefit from the introduction of a Fiscal Plan would be reduced unless the roles of the participants were clearly defined and reinforced with the necessary authority.

At the political level, responsibility for the Plan should be vested in the Cabinet Committee on Priorities and Planning, whose role does not require further definition and whose authority is more than adequate. At the bureaucratic level, however, changes will be required. The three central agencies now involved in the various tasks which must be integrated into a single planning process, the Privy Council Office, the Department of Finance, and the Treasury Board Secretariat, approach these tasks according to their own perceptions and without sufficient co-ordination.

The Department of Finance determines how to raise the necessary funds, handle the debt, and, most importantly, respond to the changing needs of the economy. The Privy Council Office, as the central agency serving the Cabinet, interprets the Government's priorities, considers implications for the Government's policies of program proposals before they are presented to Cabinet committees, and deals with the organization of government. The

Treasury Board has responsibility for ensuring that resources are allocated to programs in an effective manner and that funds are expended in accordance with Parliament's intentions. Effective leadership and co-ordination in these tasks, however, have been deficient. To illustrate, we note that government introduced three planning and accountability concepts, the Planning Programming Budgeting System, Operational Performance Measurement System, and Management by Objectives, in a ten-year period. None of them proved an effective means of gaining control of the planning and expenditure processes. It has been clear from our meetings that departments and agencies would welcome a re-affirmation of leadership. They will accept rigorous decisions as long as they are equitably made within the acknowledged mandate of the central agency concerned, and with the grounds for decisions clearly understood, and any deviations from ground rules fully explained.

To ensure that the Fiscal Plan provides such an impetus, it must be, and be seen to be, a product of the close collaboration of these three central agencies and a reflection of the political judgements and aspirations of the Government itself. It must be clear that those preparing the Plan have taken proper account of the nation's economic and financial situation, have carefully considered the Government's priorities, and have determined the most judicious use for limited resources.

Though it cannot do so with complete independence, the Department of Finance should take the lead role in developing the basis of the Fiscal Plan. The basic knowledge of the country's economic situation and of the likely economic effects of proposals in the Plan reside in the Finance department, as do the expertise on revenue generation and the knowledge of the impact of revenue and cost-sharing arrangements with provincial governments. Its continuing reviews also provide insight into the economic effectiveness of major programs. Nevertheless, the Department of Finance cannot take the lead in fiscal planning without relying on the Privy Council Office to ensure awareness of, and sensitivity to, the Government's total policy orientation, and on the Board of Management to develop an appreciation of the ability of managers to deliver programs economically, efficiently, and effectively. Each agency should, therefore, have clearly defined and mutually supportive responsibilities with respect to the development of the Plan.

A small secretariat within the Department of Finance should initiate the process by gathering the components of the Plan from the appropriate sources in order to develop the general outline and contents of the Plan. The department's concern should be with the macro-economic aspects of planning, and with specifying the economic and revenue assumptions on which the Plan is founded. The department's apportionment of total expenditures to the broad functions of government would result in recommendations for functional ceilings. These should meet the Government's priorities for the management of the economy.

To fulfil the responsibility of the Board of Management with respect to the Plan, the Financial Management Secretariat under the Comptroller General should propose the division of each of the functional ceilings into limits for each department and agency under that function, whether financed partially or completely from the Consolidated Revenue Fund. The implementation of other recommendations in this Report will help to ensure that the Comptroller General and his staff are in a position to perform this task objectively and with a view to obtaining value of money and avoiding waste. The Financial Management Secretariat will have reviewed strategic plans which departments will be required to prepare, the translation of these into operational plans, and the evaluation of the economy, efficiency, and effectiveness with which government programs are conducted. Each of these activities would support the role of the Board of Management in the development of the Fiscal Plan.

The responsibility of the third participant, the Privy Council Office, lies in ensuring that the Plan's interpretation of the Cabinet's priorities is current, accurate, and realistic. The Privy Council Office should also provide early-warning signals to departments and agencies likely to be affected by changes in the functional ceilings.

In summary, we recommend that

5.4 an annual update of the Fiscal Plan be developed jointly by the Department of Finance, the Privy Council Office, and the Financial Management Secretariat of the Board of Management, and that the Minister of Finance, supported by the President of the Board of Management, submit it to the Cabinet Committee on Priorities and Planning.

When the Plan is presented to the Cabinet Committee on Priorities and Planning, over the signatures of the Minister of Finance and the President of the Board of Management, it should also be clear that it reflects the judgement and has the support of the Prime Minister. While this should not preclude vigorous discussion and the possibility of significant change based on the collective view of the committee, and ultimately of the full Cabinet, the Prime Minister's role as the focus of collective responsibility and as leader of the Government makes it essential that he be involved, and be seen to be involved, in the Government's global planning from the beginning.

In addition to their individual responsibilities, the central agencies should jointly perform a number of important tasks. Foremost among these is communicating the Plan to deputy heads of departments and agencies and explaining to them the relation between the Government's priorities and the broad functional and specific departmental and agency expenditure limits set out in it. While the departments and agencies will have contributed to the development of the Fiscal Plan through their own planning processes and through briefing their ministers in the various stages of cabinet approval, senior officials from all the central agencies should meet with groups of deputies according to the different functions in the Plan. This could take place after the Plan has been approved by Cabinet but before it is tabled in Parliament. The support and co-operation of deputy ministers is of the utmost importance if the central agencies are to be able to fulfil their responsibility for ensuring that the integrity of the Plan is preserved. Preserving the integrity of the Plan will also require that legislative, Budget, or Estimates proposals are accompanied by information scrupulously setting out their effects on the Plan, and that the Plan is kept carefully up to date.

Ministers may occasionally feel that some spending limits are unreasonably harsh or inequitable. In such cases, appeals will be possible, as they have always been with respect to political decisions, to the Cabinet Committee on Priorities and Planning, or the full Cabinet. The setting of particular expenditure limits is essentially political and it is in the political environment that it must be debated. In short, there is no call for an appeal process at the bureaucratic level.

Updating the Fiscal Plan We have recommended that the Fiscal Plan be tabled in October of each year. Subsequent debate on the

Plan and the financial picture it reveals, and changes in the nation's economic situation, may well cause the Government to modify its proposed functional expenditure limits prior to tabling the Main Estimates. It is more likely, however, that necessary changes would be made by modifying fiscal policy, which is reflected in the Budget. Thus, modifications to the Fiscal Plan would more likely relate to changes in the amount of revenues to be raised or to changing the means of achieving an objective, for example, by using tax incentives instead of expenditures. In either case, the Fiscal Plan must be the foundation on which any changes are made and consequently the framework within which the Budget, and all Estimates, should be presented. If provisions in the Estimates, Supplementary Estimates, or the Budget differ from those in the Fiscal Plan, Parliament should receive a concurrent explanation of the necessary changes in the Plan. Though deviations from the Plan are inevitable, they must be fully explained and justified.

The introduction of expenditure limits should improve planning and reduce the need for the Government to request supplementary appropriations from Parliament. A responsive Government should always be able to introduce programs to meet changing conditions, but supplementary appropriations should be necessary only to meet real emergencies, such as natural disasters or international economic upheavals. The Government should retain the commendable practice, adopted in 1975, and continued in subsequent years, of disclosing the total amounts reserved for such Supplementary Estimates when the Main Estimates are tabled. In this way, total expected expenditures for the year can be compared with those reflected in the Fiscal Plan. There would thus be no need to expand the amount of the existing Treasury Board contingency vote which, in any case, does not relate to emergencies as we define them, but to increases in pay rates arising from collective bargaining.

If policies or changes in existing programs involve the expenditure or receipt of funds, Parliament should consider them within the context of the Fiscal Plan. The Government should also provide Parliament with a five-year analysis of the financial implications of any legislative proposals. In this way, Members of Parliament would be able to judge the continuing validity of the Fiscal plan by posing questions such as the following:

- Does the cumulative cost of the proposal fit within the expenditure ceilings set out in the Plan?
- If it appears that expenditure ceilings will be exceeded, what effort is the Government making to ensure that they will not?
- Does the proposals affect the tax structure and in turn the projections of revenue and debt levels?

We recommend that

5.5 the Government set out clearly the effects on the Fiscal Plan of the Estimates, Supplementary Estimates, and the Budget when it tables these documents; and that

5.6 legislative proposals be accompanied by five-year projections of their financial implications and a statement of any consequent adjustments necessary in the Fiscal Plan.

The implementation of these recommendations will lay the groundwork for responsible financial planning. In time, the effects of such an approach to planning would permeate all levels in central management, departments, and agencies of government. The Fiscal Plan would set out the Government's economic assumptions, give an indication of the level of revenues it expects to collect, and show how it believes these revenues can best be deployed if its economic and other objectives are to be attained. A Plan would introduce fiscal commitment and provide a basis for accountability. Parliamentary debate of the Plan and public involvement through committee hearings would provide informed and focussed discussion of vital issues. The Plan and its supporting processes would contribute to a sense of stability beneficial to departments and agencies of the federal government, to provincial and municipal governments, to international money managers, to business, and to the Canadian people.

The introduction of departmental expenditure limits will require that deputy heads and their senior executives manage their resources in the manner best suited to attaining stated objectives. This in turn should foster a tendency to measure and compare program results. Uneconomic, inefficient, or ineffective expenditure will have to be sought out and eliminated. Furthermore, and perhaps most important, deputies and other senior managers will be forced to examine the long-term implications of program

proposals and compare them with a pre-determined Plan. While the later years of the Plan would not be carved in stone, all changes due to new or modified programs would have to be fully explained and justified.

Placing responsibility for taking the lead in the development of the Plan in the Department of Finance would unite the tasks of revenue-raising, establishing functional expenditure limits, and debt management under one roof. This would provide the means to ensure that the medium-term consequences of program proposals are given adequate consideration and that revenue-raising and economic management programs are co-ordinated and coherent. Assigning the Comptroller General responsibility for proposing departmental and agency expenditure limits within established functional limits would help to ensure that managerial competence becomes an important consideration in determining to whom the taxpayers' resources should be entrusted. The participation of the Privy Council Office from the beginning of the planning process would ensure that the plans developed meet the test of being "mutually compatible" with and "appropriate to the requirements of government". While we appreciate that it is not always easy for separate central agencies to co-ordinate their activities, the essence of this proposal is that they must, and that the deputy heads of the central agencies must be held accountable to Cabinet for its achievement.

6

PLANNING EXPENDITURES AND ACCOUNTING FOR RESULTS

The Fiscal Plan we have proposed would set guidelines for the medium-term use of resources so that departments and agencies can develop policies and programs responsive to Government priorities and within financial limits that the nation can afford. It should enhance Parliament's ability to understand, evaluate, and influence the purpose and scale of proposed expenditures. It would be supported by a continuing requirement to consider carefully the financial implications of all government actions, both at the centre and in individual departments and agencies. While Parliament would debate the assumptions and intended course of action detailed in the Fiscal Plan, it would not be called upon to vote approval of the Plan. Parliament would continue to exercise its control over the public purse by approving the Government's plans for raising revenues, set out in the Budget, and for spending money, detailed in the Estimates, as it does today. It should also be entitled to an accounting in the Public Accounts and in other reports for the manner in which resources have been raised and used. This chapter deals with the processes for the approval and monitoring of expenditures, and the accounting for results.

In our examination of the present processes, we were struck by two major deficiencies that detract significantly from Parliament's ability to exert appropriate control over the public purse. First, the information provided to Parliament to justify and explain expenditure proposals, that is, the Estimates, is difficult to understand and is not easily compared with the Public Accounts, which show how resources were actually used. Second, expenditure proposals are examined by the various standing committees of the House of Commons but performance is reported to a different

group, the Public Accounts Committee. As we demonstrate in Part V, we attach great importance to the review conducted by the Public Accounts Committee, which we consider plays a pivotal role in accountability for the administration of government. Nevertheless, we submit that the standing committees charged with reviewing departmental and agency Estimates should also focus attention on the extent to which commitments made in the Estimates have been fulfilled. We believe that the appropriate vehicle for this review is the department or agency annual report, a document that should be reconstituted to permit comparison with the Estimates.

The Estimates

In their present form the Estimates fall short of establishing a suitable base for accountability. They fail to disclose clearly why the Government wants to spend money, how it will spend it, and what the benefits of spending will be. The form and content of the Estimates were criticized by many of those coming before the Commission and were dealt with most recently in the latest report of the Auditor General. We believe that the suggestions he has made for their improvement are sound. At this point it is important to emphasize the improvements we think should be made without further delay.

While the Fiscal Plan would provide a medium-term indication of intended expenditures, the Estimates should provide a short-term forecast of expenditures in much more specific terms, and indeed must be completely consistent with the detailed operational plans of departments. They also have a constitutional role, that of forming the basis of Government requests to Parliament for authority to spend money. Generally, the Estimates are not used as part of the operational planning process in departments. They do not provide Parliament with adequate and clearly presented information stating why the money should be spent, how it should be spent, and what the benefits of so doing would be. Our recommendations are intended to ensure that the Estimates become a more useful document for both departmental planning and parliamentary scrutiny.

If the number of votes submitted to Parliament in the Estimates is to remain of manageable proportions, each must be

expressed in fairly general terms. Nevertheless, the description of individual programs, activities, and sub-activities, and of the objectives and sub-objectives they are intended to meet, should be unequivocal. Further, the expected results of the programs, activities, and sub-activities should be clearly stated. The Estimates in their present form fail to meet these requirements. The narrative is so vague and the degree of its materiality, or pertinence and importance, so variable that parliamentarians cannot know precisely for what they are voting. Nor can members be aware of the likely effects of the expenditure of funds they have approved.

We do not believe that the present vote structure should be changed, provided that the information supporting each vote is made clear and comprehensive. The way in which votes are now organized reflects the diverse nature of departments and agencies, and the fact that government is not organized along only functional or sectoral lines. More than one department may be involved in a single function, such as economic development, transportation, or social welfare. Conversely, some departments carry out programs that relate to more than one function. When the present vote structure was set up in the late 1960s, a general rule was established that individual departmental programs and the votes relating to them should not fall within more than one function. This was in order to highlight the functional nature of expenditures. Thus, the large number of votes in some departments, such as that of the Secretary of State, simply reflects the diverse nature of their pursuits.

Our proposal that the Fiscal Plan set expenditure limits by function for all five years of the Plan, and by department and agency for the first three years, would benefit from the continued existence of the present vote structure. Though the idea of establishing a single vote for each department is appealing to managers, the implementation of such a system would permit departments conducting programs related to more than one function to move resources from one to another, and, in so doing, change the intended use of funds and the functional limits established in the Fiscal Plan without prior notice and parliamentary approval.

The fact that we find the existing vote structure generally satisfactory should not be interpreted to mean that the presentation of program and activity proposals is adequate. Because there is a standardized method of assembling Estimates, they contain activity breakdowns for all programs, regardless of their size in

terms of human and monetary resources or their impact on society. For example, the State Protocol and Special Events activity in the Department of the Secretary of State, with a total budget of \$4.8 million and 11 man-years, and the Land and Tactical Air Forces activity in the Department of National Defence, with a budget of \$1.073 billion and 29,408 man-years, receive equal attention in the presentation of the Estimates. This wide variation in the amount of expenditures and significance of activities covered by a vote to some degree reflects an inability in government to associate activities and their components with measurable results.

An adequate presentation of a program's expenditures should comprise the aggregated costs of a series of meaningful activities and sub-activities, each linked, where possible, with a measurable result, so that efficiency and effectiveness can be assessed by comparing actual performance, reflected in the Public Accounts, with undertakings given in the Estimates. But costs of a program should reflect all those expenditures that can be identified with activities contributing to program output. These would include, for example, the costs of accommodation and government contributions to pension and other fringe benefit plans for public servants employed in each activity. Expenditures that cannot be specifically related to any one program activity, such as financial services, should be grouped under appropriate subheadings in general departmental administration. These costs should be displayed separately in the Estimates, and then charged on an equitable basis to each of the program activities.

The degree to which activities and their related costs should be subdivided in the Estimates depends on the size of the expenditures. In some departments, such as National Defence, other factors might dictate less detailed disclosure, although careful wording of sub-objectives and imaginative presentation of activity information could help to eliminate the need for exceptions.

The Estimates should convey program and activity objectives in quantitative terms, avoiding such vague descriptions as "continued improvement" or "sustained level of service". Specific objectives should be identified at the program level if the program is a small one, or at the activity or sub-activity level if the program itself is large. In this case, a general program description indicating broad objectives and strategies for achieving them is more appropriate, but these would then have to be related to specific objectives and strategies for activities and sub-activities. Estimates

for recent years have failed to provide adequate descriptions of the relationship between objectives and programs. One such example is the 1978/79 Estimates of the Department of Indian Affairs and Northern Development, which conducts four programs, general administration, Indian and Eskimo Affairs, Northern Affairs, and Parks Canada, at a cost of about \$1.2 billion, most of which is appropriated through nine budgetary and six non-budgetary votes. While expenditures under each program can be related to the program's general and vaguely worded objective, they can in no way be related directly to any of the 13 sub-objectives. Compounding this, while the Estimates do show clearly the operating and capital costs relating to the 22 activities, there is no link between the nature of these various activities and the sub-objectives.

If meaningful links are forged between the purposes, the methods, and the effects of expenditure, and if the size of the expenditure is considered in determining the appropriate level of detail to be provided, there is no reason to tamper with the present appropriation structure. We recommend that

6.1 each program, activity, and sub-activity displaying resource requirements in the Estimates have a specific stated purpose and, in so far as possible, a measurable result.

While the implementation of this recommendation would make parliamentary votes more meaningful, it would also bring about a substantial increase in the amount of narrative necessary in the Estimates. We doubt that this could be done within the constraints of the present Estimates format.

The Estimates are presented to Parliament in a "Blue Book" containing over 1,200 monotonous pages of spending proposals from a confusing array of departments and agencies. The first 100 pages display information relating to the government as a whole, showing proposed expenditures by function, department, object of expenditure, and type of program, and manpower levels by program. Other information relates to particulars of salary scales, and explains how the Estimates should be used. The remaining 1,100 pages are devoted to 29 sections, each section comprising data on both the department and the agencies that report to or through a minister and that draw on the Consolidated Revenue Fund for all or part of their funding. These 29 sections are then divided into as many as 11 subsections relating to the individual programs of each

department and agency. The program subsections show activities in terms of their dollar and man-year requirements, each of which is further detailed by "standard object" of expenditure and manpower category respectively. Details of proposed major capital projects, grants, and contributions are also supplied at this level. Nearly all the departmental and agency information is in standardized tabular form, and the relationships among the various tables are unclear, even to accountants, let alone parliamentarians.

In its present form, the Blue Book can be a useful reference tool but the format provides no means of conveying the individual flavour of a department's activities. Moreover, it fails to provide information in a manner conducive to effective parliamentary review. Only with difficulty can the information be related to the people, places, and things that are of interest to parliamentarians. Nor can Blue Book information be easily related to subsequent disclosures in departmental annual reports and the Public Accounts of what actually transpired. The format and the contents of all three documents should permit straightforward comparisons of objectives, planned activities, and results achieved if they are to become useful tools in accountability.

Much would be gained by permitting departments and agencies to submit their Estimates in a format individually tailored to their own activities, but expanded as we have recommended earlier in this chapter, and subject to minimum standards established by the Comptroller General. They could contain, for example, graphic presentations illustrating trends in performance relative to costs, or personnel costs compared with total costs. They might also contain organization charts showing how responsibility for carrying out the various aspects of programs, activities, and sub-activities is distributed among responsibility centres, how these are centrally or regionally directed, and how resources are allocated to each. This would encourage the clear delineation of authority and identification of responsibility essential to accountability.

Measures we propose later would ensure that even with the adoption of this highly flexible concept, Parliament could still have satisfactory assurance that its disclosure requirements have been met, that acceptable accounting practices have been employed, and that supplementary information contained in the Estimates is factually accurate. These Estimates would have the merit of concentrating the attention of parliamentarians and other readers

in areas about which they are knowledgeable and on issues in which they are interested. They would lead to more careful consideration of expenditure plans at senior management levels in departments than at present, since the revised format would provide a document more appropriate to the needs of senior management than the present Estimates. Departmental managers would have to ensure that objectives were clearly stated, that programs were related to objectives, that activities were clearly identified with specific programs, that where possible activities were related to performance indicators, and that trends in the use of resources and the reasons for year-to-year changes were explicitly set out. With these improvements, the Estimates could later be used as a basis for the appraisal of program and activity managers and employees, and the evaluation of departments, programs, and activities. Estimates could become both a basis for accountability and an effective management tool.

With the adoption of our proposals for departmental Estimates, the requirement for *Consolidated Estimates*, a document bringing together information on the government as a whole, would remain. In addition to the tables contained in the first section of the existing Blue Book, this document should reflect only the highlights of department and agency Estimates. These would include statutory expenditures, and non-statutory expenditures displayed by department and agency, by program, and by major classification (operating, capital, grants and contributions, and non-budgetary). Comparisons of the coming year's Estimates with the current year's forecast expenditures, and the actual expenditures of the last completed fiscal year should be included.

In addition to the departmental and general government information, these Consolidated Estimates should set out other information such as details of changes in the organization of government that might have resulted in the transfer of programs from one department or agency to another. They should also explain changes in standards of disclosure and accounting practices from year to year. Both the Consolidated Estimates and the departmental Estimates should show increases or decreases in expenditure levels in both percentage terms and dollar amounts, and provide complete and intelligible explanations of such changes. Most important, the Consolidated Estimates should contain a condensed version of the Fiscal Plan for that Estimates year together with an explanation and justification of any change in

departmental expenditure ceilings that has occurred between the time the Plan was introduced and the presentation of the Estimates. Similarly, changes in revenue sources likely to arise as a result of modifications in expenditure plans should be fully explained. In summary, we recommend that

6.2 Consolidated Estimates presenting government-wide information and the important features of departmental and agency Estimates be submitted annually to Parliament; that

6.3 the Consolidated Estimates contain a comprehensive comparison of the total expenditures proposed in them with expenditure limits set out for the Estimates year in the most recent Fiscal Plan; and that

6.4 separate Estimates of expenditure for each department and agency be tabled at the same time as the Consolidated Estimates, and that such separate submissions be drawn up in accordance with centrally-determined standards of disclosure and accounting practices, with decisions pertaining to detail left to each department and agency.

Parliamentary Review Not only has Parliament been provided with inadequate and confusing information on proposed expenditures, but its ability to exert a degree of influence over expenditures has been limited by measures that have permitted a dramatic increase in statutory expenditures, and have allowed certain government revenues to be netted against expenditures.

In the 1977/78 fiscal year, \$24 billion, or 56% of total government budgetary expenditures contained in the Public Accounts, did not require parliamentary approval in that year. Indeed, there was no legal obligation for details of them to be included in the Estimates for that year. These expenditures are classified as "statutory"; that is, payments from the Consolidated Revenue Fund can be made for certain purposes on the authority of substantive legislation rather than an annual appropriation act. Once parliamentary approval has been given to the related substantive legislation, payments will continue, and may escalate, unless Parliament amends or repeals the legislation in question. There is thus no legal obligation for statutory expenditures to be

approved annually and, compounding this flaw, no regular forum for reviewing the purpose and amount of statutory expenditures. There are some 60 different types of statutory expenditures, most of which relate to health, welfare, or education (Table 6.1). The legislation authorizing these expenditures may establish an all-encompassing approval, as in the case of debt-servicing. On the other hand, transfer payments to the provinces are authorized by complex legislated formulae. Specific amounts and inflation-related formulae controlling payments to individuals are also contained in legislation.

TABLE 6.1
STATUTORY EXPENDITURES
GOVERNMENT OF CANADA, 1977/78[†]
 (Millions of Dollars)

<i>Purpose of Expenditure</i>	
Payment of interest on the public debt	5,550
Payments to provinces	
Fiscal transfers.....	3,126
Contracting-out payments	340
Hospital insurance.....	1,662
Medicare	598
Canada Assistance Plan	973
Post-secondary education	1,098
Payments to or on behalf of individuals	
Unemployment Insurance Fund Contributions	1,377
Family Allowances	2,122
Old-Age Security.....	3,669
Guaranteed Income Supplement	1,078
All others	2,337
TOTAL	23,930

[†] Figures taken from *Public Accounts of Canada*

Legislation establishing statutory expenditures provides assurances to provinces, individuals, and investors that the Government will honour its commitments. Nevertheless, responsible financial planning requires that the continuing merit of these commitments and their related costs be subject to regular examination. If this does not occur, the ability of Parliament and the Government to control expenditures is diminished and a Fiscal Plan is of limited

value. Parliament's review of statutory expenditures has been less than adequate, and the review conducted by both departments and central agencies has been even less demanding than those made for expenditures subject to an annual vote. This is understandable in instances where rates or formulae are established by legislation, but much less so in others, such as the Canada Assistance Plan where the statute is silent on this point. Transfer payments to the provinces are also to some degree open-ended. While the appropriateness of the amounts may be verified against the legislated formulae, few programs include a means of ascertaining whether provincial governments are in fact spending federal funds on the activities for which they were intended.

We are perturbed by the absence of any legal requirement for Government to report in the Estimates the likely levels of expenditures to be incurred under statutory programs and to update these levels in the Supplementary Estimates. Even though such information is now reported in the Estimates, we think that Parliament should be provided with a safeguard to prevent any erosion of its ability to scrutinize these expenditures. We recommend that

6.5 legislation be amended or enacted to require that details of expenditures to be incurred under statutory programs be fully identified and quantified in the Consolidated Estimates and updated in the Supplementary Estimates, and that the same level of detail as is provided for non-statutory expenditures be provided for statutory expenditures.

Though changes in the levels of statutory expenditure can be legislated at any time, there is no general requirement for the Government to review the effectiveness and continuing desirability of programs under which these expenditures are made. Changes in public attitudes and expectations, as well as in economic factors, private sector capability, and technology can render programs redundant or obsolete. Furthermore, duplication of legislation and services at federal and provincial levels can more than double the cost of achieving an objective and multiply the cost to the private sector of fulfilling legislative requirements. These observations have led us to the view that a process should be developed to ensure that statutory programs are periodically reviewed in depth by Parliament as a prerequisite for continued funding. While there would be some merit in recommending the "sunset" approach for

all statutory programs, whereby they would automatically lapse every five years unless continuing legislation were enacted, we concluded that this was too sweeping a concept and one whose introduction would have created too heavy a workload for Parliament. Instead, we think a *modified* sunset approach should be adopted for future new statutory programs, as it has been for parts of the *Federal-Provincial Fiscal Arrangements Act*. This would require that funding for statutory programs introduced in the future lapse five years after their introduction unless Parliament authorizes its continuation. In addition, all existing statutory programs should be reviewed at least once by the appropriate House of Commons standing committees within the next ten years and thereafter every five years. We recommend that

6.6 legislation for all new statutory programs, except those relative to interest on the public debt, require that funding lapse automatically at the end of the fifth year following introduction, and that renewal of such funding be authorized only after parliamentary review of the current and projected costs and benefits of such programs; and that

6.7 with respect to existing statutory programs, legislation be enacted to require the responsible minister to evaluate once in the next ten years and thereafter every five years the current and projected costs and benefits of all these programs, except those relative to interest on the public debt, and that a report thereon be tabled in Parliament and be automatically and permanently referred to the appropriate standing committee for its consideration and recommendations.

Vote-Netting and Revolving Funds Parliament has yielded control over some sources of non-tax revenue and expenditures through a procedure known as vote-netting. Some departments and agencies are permitted to reduce their gross expenditures by applying to them revenue obtained through charges they make to users of a service or facility, be they another department or the public. Since Parliament votes only net expenditures, the vote-netting practice allows departments to make expenditures beyond the amount approved by Parliament. This can occur as long as these

additional expenditures do not exceed the additional revenues generated during the year by the imposition of, or increases in, levies and fees. Not all departments use vote-netting; some receipts, such as those for patent and trademark registration fees, are credited, not to the vote, but directly to the Consolidated Revenue Fund.

Closely related to the vote-netting arrangement is the use of revolving funds. These are set up to finance a particular service with a determined class of user. Through the imposition of charges by the department or agency involved, such services can be self-supporting; the need for an appropriation from Parliament arises only when the fund is initially established or if there is a significant deficit to be financed. Again, once the creation of the fund has been authorized, Parliament retains no control over the fees charged, which include those for passports and aircraft landing. Nor does Parliament approve the expenditures incurred in operating the service, so long as they are at least equalled by the revenues generated.

The use of vote-netting and revolving funds was encouraged because it was believed that they would be incentives to departments to review on a regular basis their charges for services and would facilitate comparison between the cost of a government-operated program and private sector provision of the same service. These arrangements have not, however, worked as they were meant to. First, reviews of rates charged for services have not had the expected impact because these rates are often highly visible and politically contentious. Second, in those cases of vote-netting where attempts have been made to relate charges for services to the cost of providing them, calculation of these costs has not generally included the cost of services such as accommodations, or indirect personnel costs. Hence the revenues generated cannot be accurately matched with related expenditures. A third difficulty relates to the exercise of man-year controls. Where a department has increased charges to users, thus reducing the net amount of its vote, the practice has been that the number of man-years allocated to the department is not allowed to increase, even if the level of the services provided has increased dramatically. Further, the government holds a monopoly on many of the services for which users are charged. Hence there is no similar service with which to make efficiency comparisons.

While we support the concept that users should pay for the services they obtain, we are concerned about the accounting methods being used. Where vote-netting occurs but all costs of providing the service are not included, the results of such accounting obscure the extent to which the services are being subsidized from funds allocated to other activities. We believe that this practice should stop. All revenues arising from charges to users of services should appear in the Estimates as revenue, and the full cost of raising those revenues should be identified. Then, sensible proposals either to reduce costs or increase revenues can be developed. We recommend that

6.8 the practice of vote-netting be discontinued.

Our concern about revolving funds is somewhat different. On one hand, we have been assured that managers operating activities covered by such funds are fully aware that these activities generate revenues and are thus highly cost-conscious in their day-to-day management. If we believed that no improvement in the quality of the government's financial management could be made, we would encourage the use of revolving funds in other programs and activities. However, we are troubled by the inclusion of these quasi-autonomous funds in departments, when the accounting and reporting methods for them are more akin to those of independent agencies than to those of departments. In fact, we believe that a case could be made for locating some of the activities financed by revolving funds in separate agencies. Nevertheless, we are concerned that their existence and the accounting rules under which they operate exacerbate the already confused state of both the Estimates and the Public Accounts, especially in cases where revenues cannot be fully and comprehensively related to costs. On balance, however, we have concluded that revolving funds should continue in their present form, being credited with the appropriate revenues. Comprehensive financial particulars, however, must be clearly disclosed in departmental Estimates and Annual Reports. We do not believe that any new revolving funds should be introduced until improved public accounting standards, to which we refer in Chapter 16, have been recommended and implemented by Government.

Subsequent Accounting to Parliament The relationship between what Parliament approved in the Estimates and what has subsequently been accomplished must be clearly discernible if proper

accountability is to be exacted from the Government. Having recommended the manner in which expenditure proposals should be made to Parliament, we now turn to the way in which the subsequent accounting is given, the Public Accounts of Canada.

The Public Accounts are submitted to Parliament in three volumes. The first reports the financial transactions of the government as a whole, the second those of departments, and the third those of Crown corporations. In presentation, they suffer from the same drawbacks as the Blue Book; they are dreary, bulky, and confusing. Moreover, they have no direct correlation with the Estimates. The Public Accounts are not a report on performance, and thus not a useful document for accountability. In fact, the Public Accounts Committee rarely uses this document as the basis for its work. It relies instead on the comments and observations made on the details in the accounts submitted in the annual report of the Auditor General.

It is toward Volume II that most criticism must be directed and where there is the greatest need for improvement. This volume of departmental financial statements contains close to 1000 pages, of which half are devoted to the statements themselves, including those of the various funds, boards, commissions and other agencies (but not Crown corporations) reporting through ministers. The format of these financial statements does not correspond to that of the Estimates, and, like the Estimates, the degree of standardization imposed by the Receiver General is such that the statements cannot reflect the varied nature of the activities of different departments. Within these statements are found notes relating to funds, boards, commissions, and other agencies and the Auditor General's reports on them, but there are no such notes or reports relating to the departments where the major portion of expenditures takes place. Senior officers, usually including the senior financial officer, will certify as correct, or simply approve, the financial statements of the subsidiary operations but not those of the departments themselves.

The second part of Volume II consists of seven sections devoted to detail about departments. This includes information on the status of accounts receivable by the different departments, including amounts deleted from accounts receivable during the year, the names of recipients of amounts over \$2,000 for professional and special services rendered to the various departments, and particulars of construction and acquisition of land, buildings,

and equipment. In addition there are lists of damage claims, ex gratia payments, federal court awards and nugatory payments, and information about federal-provincial cost sharing programs. Finally, there is some information about salaries, travel expenses, and the like.

Nowhere in this massive volume is there any narrative statement of why expenditures on a given activity, or for a given object of expenditure, have changed significantly in comparison with either the Estimates or the preceding year's expenditures. Indeed, increases or decreases are not reflected in the financial statements in terms of either dollars or percentages. There are no statements of the assets over which individual departments have control or of their liabilities. Nor are there any indicators of performance related to expenditures. Thus, the Public Accounts are unsuited to use by parliamentarians as an accountability document.

The various acts creating government departments, agencies, and Crown corporations require that these organizations submit annual reports on their activities. The departmental acts are silent, however, on the nature and scope of the information to be disclosed in annual reports. As a consequence, there is little consistency among departments in the content of their reports, many of which do not contain any financial data. If they do, it is seldom linked with performance indicators. Some bear dates, others do not. Some, produced in glossy and colourful formats, appear to be marketing devices, while others are printed by a duplicating process and appear to pay no more than lip-service to the requirement for a report on departmental activities.

In summary, on one hand we have the Public Accounts, massive and confusing but containing a good deal, though not all, of the financial information needed to assess departmental performance. On the other hand we have annual reports which provide little information beyond that which departments wish to publicize. We believe that much could be gained by prescribing standards of disclosure for annual reports, standards that would transform them into documents containing a complete account of the way in which departments and agencies had fulfilled the commitments made in their Estimates. In particular, these documents should show the degree to which departments had achieved their objectives, using quantitative indicators wherever possible. Thus transformed, annual reports could serve the function now only partly fulfilled by Volume II of the Public Accounts. They

would become the primary account of departmental and agency performance and would provide Parliament and its standing committees with manageable, complete, and relevant information on which to base performance reviews of the standard that Canadian taxpayers have a right to expect.

These annual reports should be published and tabled in the House of Commons by September 30 following the end of the fiscal year to which they relate so that they can be reviewed by standing committees before they begin their examination of departmental Estimates for the next fiscal year. In this way, the validity of departmental commitments for the future could be realistically assessed against past performance in a logical, and timely way. In chapter 22 we describe more fully the uses to which committees could put these reports. We recommend that

6.9 all departments and agencies be required to prepare complete annual reports by September 30 following the end of the fiscal year to which they relate, that these reports be immediately tabled in the House of Commons or, if the House is not sitting on that date, within 10 days of the time the House next meets, and, that they be automatically and permanently referred to the standing committee that reviews the Estimates of the department or agency concerned; and that

6.10 Volume II of the Public Accounts contain departmental financial statements and other financial data required by the Financial Administration Act, signed by the deputy minister as chief administrative officer and by the senior financial officer, and that it continue to be referred to the Public Accounts Committee.

Additional clarity could be brought to the Estimates and Public Accounts of the various units of government if all were to adopt March 31 as the end of their fiscal year. Some agencies and Crown corporations use other dates, either for reasons of competition or because another date corresponds more closely to the end of a natural business cycle. We believe, however, that these considerations are outweighed by the disadvantages. In particular, the use of a different fiscal year-end tends to disregard the extent to which the different operations of government interlock, especially with

respect to resource requirements. We believe that the government should encourage these few agencies and Crown corporations to change their fiscal year-end to March 31.

It is beyond the scope of this Report to draw up an all-inclusive list of items to be disclosed in Estimates, annual reports, and Public Accounts, or to recommend formats and standards of disclosure. In general terms, we believe that departmental annual reports should contain subject matter comparable to that which major public companies are required by law to disclose. In addition, they should present a clear comparison of what was approved in the Estimates with what actually was spent. The precise nature of such information, however, should be considered by the Public Accounts Committee of the House of Commons in the light of advice and recommendations to the Board of Management by the Comptroller General. The role of the President of the Board of Management in providing this advice to Parliament is among the subjects treated in the next chapter.

7

CONSOLIDATING THE MANAGEMENT FUNCTION OF GOVERNMENT

Implementation of our recommendations for the development and application of a Fiscal Plan, for improved presentation of annual expenditure plans, and for complete reporting of results to Parliament will go a long way toward ensuring accountability for financial management in government. It must be recognized, however, that financial management alone cannot ensure full accountability. The interdependence of financial and human resources must be understood, and managers must be called to account for the management of both finances and personnel by the central agencies of government.

The role of the central agencies is comprehensive. Together, they have the authority and responsibility to watch over the management of government in its broadest sense: to oversee the allocation and use of funds and the deployment of personnel, and to ensure economy, efficiency, effectiveness, competence, and integrity in the public service of Canada. The central agencies must ensure that sound management practices are coherently and consistently applied, that these practices are regularly appraised, and that appropriate action is taken to remedy any weaknesses. It is with the roles and structures of the agencies that carry these central management responsibilities that this chapter is concerned.

Four departments and agencies are responsible for central management: the Treasury Board and its twin secretariats, under the leadership of the Secretary of the Treasury Board and the Comptroller General; the Department of Finance; the Privy Council Office; and, the Public Service Commission. Each is expected to give general direction to managers in government by providing central guidance and services to individual departments and agen-

cies involved in the operation of programs and activities. At the same time, central agencies must take care not to usurp the individual responsibilities of departments and agencies for the management of their affairs. While the responsibilities for the central management of government can thus be identified, the individual responsibilities of the four entities that make up the centre are often hazy; jurisdiction is fragmented and roles are confused.

The *Financial Administration Act*, for example, vests in the Treasury Board responsibility for general administrative policy, the organization of the public service, and, among other duties, the important personnel management responsibilities of classification, rates of pay, collective bargaining, and conditions of employment. The vital role of staffing the public service—selecting, promoting, transferring, and dismissing employees—has, however, been assigned to the Public Service Commission under provisions in the *Public Service Employment Act*. Further, while the *Financial Administration Act* gives the Minister of Finance the management of the Consolidated Revenue Fund, it is to the Minister of Supply and Services that responsibility for the day-to-day management of cash, and for other duties of the Receiver General, is assigned. More recently, within the jurisdiction of the Treasury Board, duties have been split between the Comptroller General and the Secretary of the Treasury Board in such a way that responsibility for the preparation and screening of Estimates is separated from the financial information systems required to monitor departmental and agency performance against these plans. These split responsibilities have confused and blurred the accountability of the central agencies themselves and of the departments and agencies to them.

The present arrangement of central responsibilities is the result of a long process of change and development in government organization and management. We recognize from our research that there are sound historical reasons for the fragmentation of many of the responsibilities at the centre. The Public Service Commission was given exclusive authority to make appointments to and within the public service in order to preserve the merit principle as the basis for appointment and to avoid political patronage. The role of the Receiver General and responsibility for the central accounting system were assigned to the Minister of Supply and Services at a time when few in either government or

the private sector fully appreciated the importance of cash management. Notwithstanding these considerations, we believe that sound management within government will not be secured until responsibility for its achievement is clearly assigned to an identifiable unit. Moreover, this assignment of responsibility must be accompanied by adequate review and monitoring procedures to hold to account those public servants who manage the financial and personnel resources of government. Resources must be used economically and efficiently to accomplish clearly assigned tasks, and a forum must be established where administrative performance can be fairly but rigorously evaluated.

We believe that these objectives can only be met if central responsibility for ensuring the economical, efficient, and effective implementation of programs as well as responsibility for maintaining a public service with the highest standards of competence, integrity, and motivation are vested in a single agency. Several interrelated steps will be required to accomplish this goal. We recommend that

7.1 the Financial Administration Act be amended to rename the Treasury Board the *Board of Management*, that the new Board be chaired by a senior minister with the title *President of the Board of Management*, and that one of the other five ministers be appointed *Vice-President of the Board of Management*; that

7.2 the Board of Management have the responsibilities set out in Sections 5 and 7 of the Financial Administration Act for general administrative policy, organization of the public service, financial management, and personnel management; that

7.3 with regard to financial management, the Board of Management have responsibility to review annual and longer term expenditure plans and programs of departments and Crown agencies requiring appropriations from the Consolidated Revenue Fund, and that these plans and programs be reviewed to ensure that they are in accordance with the priorities and expenditure ceilings approved by the Cabinet in the Fiscal Plan, and that they have been prepared with due regard to the economical and efficient use of personnel and money; that

7.4 the Public Service Employment Act be amended so as to transfer the authority of the Public Service Commission for staffing the public service to the Board of Management, while leaving with the Public Service Commission continuing responsibility for the preservation and monitoring of the merit principle; and that

7.5 the Board of Management have responsibility for reviewing the effectiveness with which departments and agencies administer the programs and activities set out in their annual expenditure plans.

The Board of Management would provide a single focus for the central management of government, consolidating the responsibilities for personnel and financial management. This consolidation would enable the establishment of clear lines of accountability for all facets of management from departments and agencies, through the Board of Management, to Parliament. The activities of the Board of Management, as its name implies, should be directed toward monitoring departments and agencies in the administration of their programs and activities, ensuring the development and application of government-wide policies, practices, and standards for consistency and fairness in the management of people and money, and acting as employer for the purpose of collective bargaining. While the Board would continue to have a role in resource allocation, less time would have to be devoted to this activity, since the critical decisions regarding the establishment of expenditure ceilings for departments and agencies would have been made during the preparation of the Fiscal Plan. The role of the Board would be to ensure that Government priorities were being respected and that value for money was being achieved within expenditure ceilings. In addition, the Board would provide an appropriate forum for the review and evaluation of departmental performance.

To assist the Board of Management in carrying out these responsibilities, significant changes in staff support will be necessary. We recognize the danger of overburdening the Board and its staff; the transfer of the staffing activity, for example, entails an entirely new operational role for the Board of Management. It is in this respect that the Vice-President of the Board of Management would play a critical role. The Vice-President could help to relieve

the burden on the President of the Board, for example, in personnel matters, particularly where the Board's responsibility as employer involves activities such as collective bargaining, which is extremely time consuming. The Vice-President could also assist in the review of departmental expenditure plans and programs. Although the appointment of a Vice-President would help to ensure that the Board's responsibilities were fulfilled, the effectiveness of the Board also depends on the establishment of clear responsibilities and duties for the staff supporting the Board.

Staff Support By bringing personnel and financial management responsibilities together under the Board of Management, the Cabinet would acquire a means of exercising the leadership needed to improve management systems across government. The Board of Management would be the only source of delegated authority and the single forum within government for calling managers to account. The consolidation of responsibility for management policy would permit more consistent and coherent delegation of authority to deputy heads, thereby allowing them greater freedom and flexibility to manage, while at the same time providing a clear basis for accountability. It also has important implications for the staff support required to carry out the Board's responsibilities.

One of the reasons for establishing the position of Comptroller General was to relieve the burden on the Secretary of the Treasury Board. Two years ago the Secretary was expected to co-ordinate and manage, on behalf of ministers, the allocation of resources to programs and activities and the development and promulgation of government-wide financial management policies, standards, and practices. In addition, he was required to administer policies, standards, and practices concerning, among other matters, contracts, accommodation, and travel, and personnel management policies in the areas of classification, compensation, training, and career development. Further, it was the Secretary's responsibility to act on behalf of the employer in collective bargaining and to oversee the implementation of official languages policy in the public service.

With the appointment of a Comptroller General, the burden is now shared by two independent deputy ministers of equal status. The current division of responsibilities might well lead, however, to jurisdictional disputes between the two because both carry out closely-related responsibilities in the financial area. While the Secretary of the Treasury Board recommends approval of the

content of the Estimates, including statements of program objectives, the Comptroller General advises on the *format* of the Estimates and recommends the accounting and reporting policies and practices used to record the achievement of results. Thus, two organizations are now effectively responsible for the reports on the Government's expenditure plans and results that reach Parliament. Furthermore, both require a detailed knowledge of how resources are being managed in departments and agencies.

This situation is bound to lead to duplication, despite the best efforts of both organizations to co-ordinate their work. Employing staff to perform duplicate functions leads to the further danger that expertise, which could be fully used in a single agency, will be under-used. Moreover, accountability for the central management of the financial activity is blurred by the existence of overlapping responsibilities.

The transfer of responsibility for staffing to the Board of Management would bring with it new operational responsibilities, particularly in the areas of recruitment, training, and career planning for the senior managers of government. When these are combined with existing responsibilities for collective bargaining, classification, pay, and the terms and conditions of employment, it becomes apparent that the scope and importance of the job justify the existence of a separate organization within the Board of Management to oversee personnel matters.

The review of departmental administrative performance would also add to the work of the staff of the Board. Still, this review is vital to the achievement of an improved accountability régime. Not only would departmental management performance be under examination; the adequacy of central agency policies and directives would also be tested. Given these extensive responsibilities, a realignment of duties and responsibilities among the staff supporting the Board is necessary. In addition, the problems of duplication and overlap that we described would be overcome by the creation of two distinct secretariats under the direction and management of the President of the Board of Management. We recommend that

7.6 the Board of Management be supported by two secretaries of the Board, one, the *Secretary for Personnel Management*, and the other, the *Comptroller General*; that

7.7 under the direction of the President of the Board of Management, the Secretary for Personnel Management have the central management responsibilities for government-wide policies on manpower planning; appraisal of personnel at the senior management level, and career development of the senior management cadre; collective bargaining; administrative policies relating to personnel, official languages, and training; and, that the Secretary for Personnel Management ensure that positions are correctly classified, departments are staffed in accordance with the Public Service Employment Act, and that departmental organization is monitored and reviewed; that

7.8 under the direction of the President of the Board of Management, the Comptroller General have the central management responsibilities for the screening of departmental plans and Estimates; advice on departmental expenditure ceilings and man-year ceilings in the Fiscal Plan; program evaluation policies and procedures, including performance measurement standards; the preparation of the Consolidated Estimates and the Public Accounts; accounting principles and practices, including standards of disclosure required in annual reports and financial statements; the organization of financial services and internal audit in departments; the training and development of financial officers; and, administrative policies concerning contracts and the procurement of matériel and services; that

7.9 the Secretary for Personnel Management and the Comptroller General together be responsible, on behalf of the Board of Management, for reviewing the economy, efficiency, and effectiveness with which departments and agencies administer the financial and human resources authorized by Parliament; that

7.10 two secretariats for the Board of Management be established, the *Personnel Management Secretariat* to be headed by the Secretary for Personnel Management and the *Financial Management Secretariat* to be headed by the Comptroller General; and that

7.11 the Secretary for Personnel Management and the Comptroller General draw from their respective secretariats a common staff support group for co-ordinating the preparation of agendas, the recording of minutes and decisions of the Board of Management, and for communicating to departments and agencies the action required of them.

Personnel Management

The maintenance of high standards of economy, efficiency, and effectiveness in the delivery of government programs requires a well-motivated, competent, and industrious public service. Changes in financial management practices will not improve management within government unless they are accompanied by changes in central responsibilities for personnel management policies and procedures. In order to clarify central personnel management roles and structures, we have recommended that responsibility for staffing be transferred to the Board of Management and placed under the direction of the Secretary for Personnel Management. If this does not occur, a vital part of management will remain outside the control of the body responsible for the quality of management of and in government.

Personnel management is currently governed by three acts, the *Financial Administration Act*, the *Public Service Employment Act*, and the *Public Service Staff Relations Act*. Administration of these acts has been entrusted to three organizations, the present Treasury Board Secretariat, the Public Service Commission, and the Public Service Staff Relations Board. In addition, the Privy Council Office plays an important role in personnel management by advising the Prime Minister with respect to the appointments of deputy heads.

The *Public Service Employment Act* gives the Public Service Commission the exclusive right and authority to make appointments to and within the public service, and requires that appointments be based on selections made according to merit and in accordance with procedures and standards prescribed by the Public Service Commission. The Act also sets out the requirements for holding competitions and conducting appeals, and specifies some of the conditions of employment. These include probation

periods, procedures for laying off employees, the rules for dismissal on the grounds of incompetence or incapacity, and constraints on political participation.

The staffing responsibility of the PSC, includes the recruitment, selection, appointment, transfer, promotion, demotion, and release of public servants. In recent years, the Public Service Commission has delegated to deputy ministers a substantial measure of this authority for appointments to positions below the senior management level. This authority is delegated under a formal agreement and is circumscribed by procedures established by the PSC. The Public Service Commission retains authority for appointments to senior management positions and is an active participant in selection and career development at this level. In addition, the PSC has accepted operational responsibilities for training and staff development, tasks that are assigned to the Treasury Board under the *Financial Administration Act*.

The Public Service Commission has two distinct roles. While the conduct of operational responsibilities make it part of central management, the PSC must be set apart from Government direction and control in the conduct of its appointment role in order to ensure the selection of public servants on the basis of merit. In carrying out staffing, however, the Public Service Commission must work closely with the Personnel Policy Branch of the Treasury Board Secretariat and with departments. In this way, responsibility for the conduct of personnel management must be shared. Because all other central management responsibilities for personnel are assigned to the Treasury Board, constant collaboration between the Treasury Board Secretariat and the Public Service Commission is required to ensure a consistent and comprehensive personnel management policy.

Finally, the *Public Service Staff Relations Act* governs collective bargaining in the public service and brings a third organization into the picture, the Public Service Staff Relations Board (PSSRB). Of particular interest to us is the role assigned to the PSSRB for the adjudication of grievances arising out of collective agreements. The Board's jurisdiction includes any grievance or complaint specifically related to discipline. Thus, both the Public Service Staff Relations Board and the Public Service Commission operate systems for recourse and redress, the PSSRB with respect to discipline, and the PSC with respect to allegations of incompetence and incapacity, and improper selection.

Confusion can, therefore, arise between the respective roles of the Public Service Commission and the Public Service Staff Relations Board regarding appeals. Under the *Public Service Employment Act*, an employee can be dismissed for incompetence or incapacity, or rejected on probation. Dismissal for incompetence or incapacity is appealable under the PSEA, but rejection on probation is not. Nevertheless, all three actions might be appealable under the *Public Service Staff Relations Act* if the employee can persuade the PSSRB that the action was disciplinary. For the employee who is appealing, the confusion can lead to injustice; once an employee has chosen to seek redress under one act, the second avenue of appeal is closed to him. For the employer, the time involved in dealing with appeals can seriously impair administrative performance. Half of all staffing appeals are launched, not because the wrong person was awarded the job, but because incorrect selection procedures were followed.

The Government has recognized this confusion and has taken steps to improve the situation. The Special Committee on Personnel Management and the Merit Principle in the Public Service was established in February 1977 to examine all matters relating to the *Public Service Employment Act*, particularly with respect to the merit principle and its application to appointment and promotion within the public service, procedures available to employees for appeal or redress relating to appointment, promotion, and demotion, and access of employees to training. The Committee has issued an initial report outlining the problems and key issues under consideration.

We have described in some detail the responsibilities involved in the central management of personnel to illustrate the fragmentation that now exists. Adequate accountability for personnel management cannot be achieved until roles and responsibilities at the centre are clarified. Consolidation of personnel management responsibilities in the Board of Management would remedy the inadequacies we have described. We recognize that the transfer of staffing authority to the Board of Management will place this important responsibility with a committee of ministers, and that our recommendation could be questioned on the grounds that it will undermine the principle of an impartial and non-partisan public service. We do not agree with this analysis. Protection against political or bureaucratic patronage is to be found in the provisions of the *Public Service Employment Act*. These provisions

will continue to apply to appointments made by the Board of Management with the same rigour that now applies to Public Service Commission appointments. Moreover, any delegation of staffing authority by the Board would not be to an individual minister, but to public servants, namely the Secretary for Personnel Management or deputy ministers and their counterparts in Crown agencies coming under the authority of the PSEA.

We will also be strengthening the safeguards against the abuse of the merit principle with our recommendations for an independent watchdog for Parliament in the form of a reconstituted Public Service Commission which would have an unencumbered mandate to report any instance of political or bureaucratic patronage. This important servant of Parliament would see to it that the Board of Management administers staffing in the public service in strict accordance with the provisions and regulations of the PSEA. The transfer of authority would also remove the paradox that now exists within the Public Service Commission. While the Public Service Commission is charged with an essential central management task—staffing the public service—it is also charged with ensuring, on behalf of Parliament, that this task is carried out in accordance with rules laid down by Parliament. Accountability for this task suffers when the Public Service Commission, in effect, monitors itself through its review systems. Consolidation of personnel management responsibilities in the Board of Management would clarify the lines of accountability for staffing on the one hand and monitoring staffing procedures on the other. We recommend, therefore, that

7.12 the Public Service Employment Act be amended to give the Board of Management the authority to make appointments to and within the public service, and to specify that the Board of Management delegate this authority only to the Secretary for Personnel Management or to deputy ministers and their counterparts in Crown agencies.

We are confident that the implementation of these recommendations will clarify central responsibility for personnel management. The clear and undivided assignment of operational responsibilities to the Secretary for Personnel Management will help to ensure that an account is rendered, both within government and to Parliament, for the performance of this essential component of management. The responsibilities we recommend for the Secretary

for Personnel Management would, in many instances, parallel the responsibilities that should be vested in the other Secretary of the Board of Management, the Comptroller General.

For example, the Secretary for Personnel Management should have an important role in the selection and appointment of managers in the senior executive and equivalent groups. We propose that the Secretary for Personnel Management maintain records and draw up lists of candidates for assistant deputy minister positions in order to provide deputy ministers with information about potential senior executives. In addition, lists of candidates for senior personnel officer positions should be prepared by the Secretary for Personnel Management. We recommend, therefore, that

7.13 the Secretary for Personnel Management be responsible for appointing assistant deputy ministers and their equivalents, including senior personnel officers and senior financial officers, on the recommendation of the deputy head concerned.

The Secretary for Personnel Management should also have a responsibility for identifying individuals inside government who have the potential to become effective deputy ministers, and bringing them to the attention of the Prime Minister's adviser on senior appointments.

In addition to responsibility for training policy, the Secretary for Personnel Management should also have the operational responsibility in this area. Transferring this responsibility from the Public Service Commission will place significant demands on the Secretary; however, training is an integral part of personnel management and should, therefore, rest with the Secretary. The training activity should be located in a separate, visible organization reporting to the Secretary for Personnel Management and should be funded and managed on the same basis that we recommend for common services. The training service should be fully costed and revenue dependent, with a fee structure set by the Board of Management on the advice of the Comptroller General. We recommend that.

7.14 the Board of Management reassume the Treasury Board's full responsibility for training, and delegate the authority for carrying it out to the Secretary for Personnel Management; and that

7.15 training services be provided through a separate, revenue dependent organization reporting to the Secretary for Personnel Management and subject to the accountability régime set out for common service organizations.

In the area of personal evaluation, we expect that the Secretary for Personnel Management would provide leadership and guidance so that government-wide standards are set for the appraisal of performance. As well, the Secretary for Personnel Management would have vital responsibility in the development of personnel managers; the selection, appointment, and career planning of senior managers in the personnel area should be of prime concern to him.

A New Role for the Public Service Commission

A major weakness in personnel administration is the relative lack of parliamentary surveillance of this activity. The Public Service Commission submission to this Commission pointed out that there is no parliamentary review of personnel management comparable to the review of financial management by the Public Accounts Committee. Although in recent years the Public Service Commission has taken steps to improve the content of its annual reports and to brief Members of Parliament on the issues and problems facing the Public Service Commission, accounting to Parliament for personnel management remains inadequate. This is partly due to the fact that the relationship between Parliament and the Public Service Commission is unclear. The legal status of the Commission is akin to that of an independent deciding or advisory body; there is nothing in the *Public Service Employment Act*, for example, to suggest a supportive role comparable to the role outlined in the *Auditor General Act*. It is unclear whether the PSC should appear before a parliamentary committee to account for the exercise of its staffing authority, as well as to provide an independent assurance that staffing has been carried out on the basis of merit.

Clearly, Parliament should receive an accounting for both, but the two reports should come from different sources. Accounting for personnel management activities should become the respon-

sibility of the Secretary for Personnel Management at the centre and of deputy heads at the departmental and agency level. The Public Service Commission should report directly to Parliament on its responsibility for ensuring that appointments within the public service are based on merit and are not subject to political or administrative patronage. The independence necessary for this task should be established by requiring that both Houses of Parliament ratify the appointments of Public Service Commissioners, by establishing tenure, during good behaviour, for a period of ten years, and by permitting removal by the Governor in Council only on address by both Houses. In addition, the salary of the Chairman and Commissioners should be set by statute and they should not be subject to the appraisal procedures applicable to Governor in Council appointees. The Public Service Commission should be empowered to request any documents and information necessary to the fulfilment of its duties, and should have the right to require and receive from members of the public service such reports and explanations as it deems necessary.

We see three tasks involved in fulfilling this responsibility. First, the PSC should examine the personnel policies and procedures established by the Board of Management and promulgated by the Secretary for Personnel Management and the deputy heads to whom personnel management responsibilities have been delegated, to ensure that the merit principle is protected at all times. It should pay special attention to the internal audit programs of departments so that non-compliance will be detected and reported to the deputy head and to the Secretary for Personnel Management.

Second, the Commission should continue to hear appeals against staffing actions where an appellant contends that the merit principle has been violated. If the Commission upholds an appeal, it should be able to direct the Secretary for Personnel Management to revoke the appointment and to institute new selection procedures. Furthermore, before launching an appeal, an employee should be able to consult the Commission on a confidential basis to determine whether he has legitimate grounds for complaint.

Finally, the Commission should report annually to Parliament. With respect to the merit principle, this report should reveal at least the following information:

- whether personnel policies and procedures throughout the public service ensure the protection of the merit principle at all times
- whether departmental internal audit provides for review of compliance with these personnel policies and procedures, and the extent to which internal audit has revealed non-compliance with the merit principle
- statistical data set out by department and agency showing, for example, the number of confidential preliminary inquiries made by employees, the number of appeals heard, the number of directives to the Secretary for Personnel Management, and the number of appeals pending.

The implementation of these proposals would help to ensure an impartial, non-partisan public service, the benefits of which we fully support. While public service unions would continue to scrutinize appointments on behalf of their members, the confidential consultation procedure we have suggested would protect public servants outside bargaining units against the pitfalls of launching an untenable appeal. Furthermore, the objectivity and fairness of the appeal process would be strengthened if it rests with a Public Service Commission with no responsibility for staffing.

Appendix A of this Report sets out a new classification scheme for departments and Crown agencies in government. Among the six entities identified as *Parliamentary Departments*, are the Auditor General and the Canadian Human Rights Commissioner. The role we have defined for the Public Service Commission requires that it be included in this group of *Parliamentary Departments*. All are servants of Parliament with special reporting functions and with responsibilities requiring that they be granted a measure of autonomy in carrying out their duties. We recommend that

7.16 the Public Service Commission be reconstituted as a *Parliamentary Department* with the duty of ensuring that selection and appointment to the public service are made on the basis of merit, and that the PSC report annually to Parliament those instances where personnel policies, procedures, and actions fail to support the merit principle; that

7.17 the autonomy of the Public Service Commission be assured by providing that the appointment of Commissioners by the Governor in Council be for ten years during good behaviour and be subject to ratification by the Senate and the House of Commons, and that removal be upon address of both Houses of Parliament; and that

7.18 the Public Service Commission have the power to direct the Secretary for Personnel Management to cause appointments to be revoked and to institute new competitions or other selection procedures.

While we have not examined the question of appeals and redress of grievances in depth, we have identified the major issues with which senior managers who met with us are most concerned. The subject is within the mandate of another inquiry, the Special Committee on Personnel Management and the Merit Principle in the Public Service. It is our hope that the work of that Committee will lead to remedies for the delay and frustration caused by the complexity of existing appeal and grievance mechanisms. In the meantime, the Public Service Commission should continue to have responsibility for hearing the appeals against improper selection or wrongful dismissal of employees provided for in Sections 21 and 31 of the *Public Service Employment Act*. Similarly, the Public Service Staff Relations Board should continue to administer the grievance and appeal procedures set out in the *Public Service Staff Relations Act*.

Financial Management

Although the Auditor General acknowledged in his 1978 report that some progress had been made toward improving financial administration, he stated that there is "widespread lack of due regard for economy and efficiency in the operations of the Government, and inadequate attention to determining whether programs costing many millions of dollars are accomplishing what Parliament intended".[†] Nothing that has come to our attention would

[†] Canada. Office of the Auditor General. *Report, 1978*, p. 6.

suggest that the inadequacies of government financial management and control have been overstated. We believe that within the existing organization of government, the Auditor General's recommendations for improvement are sound:

The Government has taken some steps toward implementing these recommendations. The most significant was the announcement in April 1977 of the intention to establish the position of Comptroller General. We believe, however, that the authority and responsibility of the Comptroller General must be augmented if he is to pursue his role as chief financial officer of the Government of Canada effectively.

The chief financial officer of the Government of Canada has a primary responsibility to ensure that value is obtained for public money. He must, therefore, ensure that management systems are designed and monitored to make certain that economy, efficiency, and effectiveness are given sufficient consideration in the planning and implementation of all programs and activities. To fulfil this responsibility, the chief financial officer should have the authority to scrutinize spending proposals, to ensure that their implementation is monitored and their achievements evaluated, and to see that programs and activities are conducted with integrity and probity. He should be able to scrutinize and report both the estimated cost of proposals and the actual cost of implementation according to acceptable methods of accounting. As well, he should be able to assure that accounting, payroll, and other management information systems provide accurate, relevant, and timely financial data to those who need them. The chief financial officer should be able to ensure that financial management personnel throughout the government have the technical proficiency required to fulfil their responsibilities efficiently and effectively.

In announcing the Government's intention to create the position of Comptroller General, the President of the Treasury Board stated that "the Comptroller General [would] be responsible to Treasury Board for the quality and integrity of the financial control systems and administrative policies and practices in use throughout the federal Public Service." He further stated that "the entire responsibility for the control and direction of the resource allocation and control processes... [would] not be changed... [but would] rest with the secretary of the Treasury Board." The Comptroller General's authority and responsibility would be applicable to "expenditure control systems and related

administrative practices and procedures designed to operate *after* and within the authorization of the allocation of resources by the government and, of course, by Parliament.”[†]

To enable the Comptroller General to fulfil his mandate, the Financial Administration Branch and the Efficiency Evaluation Branch of the Treasury Board Secretariat were placed under his authority. Within the Financial Administration Branch, the Financial Policy Development Division is responsible for recommending to the Treasury Board new or amended rules of accounting, financial control practices to be followed in the public service, financial reporting procedures to be followed by departments and agencies, and rules governing the preparation of budgets and the exercise of budgetary control by departments and agencies. The Professional Development Division is concerned with the organization, structure, and staffing of the financial management activity, and the training and development of financial personnel. The Financial Policy Evaluation Division conducts department-by-department reviews of compliance with Treasury Board directives and guidelines. The Efficiency Evaluation Branch is responsible for ensuring that departments and agencies are implementing new Treasury Board policies relating to performance assessment and program evaluation. This Branch must ensure that departments and agencies have systems in place to enable them to conduct satisfactory program evaluations using adequate and objective measurement procedures.

Notwithstanding this support, the Comptroller General's effectiveness is seriously hampered by the Government's express decision to make his responsibility for expenditure control systems applicable only "*after* and within the authorization of the allocation of resources". His authority is further limited by the inadequacy of the tools at his disposal, in particular, the Estimates and the Public Accounts, and program evaluation, accounting, payroll, and management information systems.

We do not believe that accountability between a central agency and individual departments and agencies can be established unless the same unit that screens spending proposals also evaluates the economy and efficiency of program management. The current division of duties between the Secretary of the Treasury Board and the Comptroller General, which divorces these two important

[†]Canada. House of Commons. *Debates*, p. 4949, April 25, 1977. (Our emphasis).

responsibilities, constitutes a major weakness. We propose that the weakness be remedied by placing responsibility for screening departmental and agency Estimates with the Comptroller General and by strengthening the tools available to him for ensuring that programs are being managed with due regard for economy, efficiency, and effectiveness.

While the authority for establishing the format and standards of disclosure for the financial information submitted to Parliament should rest with the President of the Board of Management, the Comptroller General should have practical responsibility for recommending and for ensuring adherence to these standards. This would permit rapid and efficient implementation of recommendations made in the past to improve the format and the content of this information. We believe that the Comptroller General should have the authority, and the responsibility, to ensure that departments and agencies provide the financial information needed on a relevant, accurate, and timely basis.

The Screening of Estimates Responsibility both for screening and recommending the approval of expenditure plans and for subsequently monitoring the way in which they are implemented, must be located in the same place. Both should be carried out by someone with a thorough awareness of management capability, so that the realism and reliability of expenditure plans can be assessed. For this reason we recommend that

7.19 the Program Branch of the Treasury Board Secretariat be transferred to the Financial Management Secretariat.

The diverse responsibilities we recommend for the Comptroller General require that his office have the broad knowledge of departmental management capability necessary to review expenditure plans and to monitor their implementation. The transfer of the Program Branch would provide this knowledge and would enhance the Comptroller General's ability to carry out the activities we recommend. Furthermore, we believe that the present Program Branch of the Treasury Board Secretariat could be the nucleus of a new program review branch. This branch would also encompass the activities of the Efficiency Evaluation Branch, which already reports to the Comptroller General, and should absorb some of the responsibilities of the Financial Administration

Branch for the preparation of, and control over, departmental budgets.

The screening and recommending process now conducted by the Program Branch and the Treasury Board is known as "resource allocation". This title would no longer apply to the process once our recommendations for the Fiscal Plan have been implemented. Resources would be allocated by the Cabinet through the establishment of expenditure limits by function for five years and by department and agency for three years and their inclusion in the annual Fiscal Plan. It would be up to departments to determine how best to use funds within these limits to achieve their own and the Government's priorities. The role of the Board of Management secretariats would be to screen expenditure proposals, a process we describe in Chapter 11. The role of the Board of Management should not be to negotiate levels of expenditure for individual programs, nor should it be an attempt to change departmental spending plans and priorities. Both require decisions about the relative importance of programs, decisions that should be made by departmental management. Rather, we believe the role of the Comptroller General's staff should be to counsel and guide departments, to ensure that their Estimates fit into their long-term plans in a logical way, that they have identified their long and short-term goals, that their plans take into account observations of the Auditor General, the Public Accounts Committee, and others concerned with program management, and finally, that proposed expenditures do not exceed limits established in the Fiscal Plan. With respect to screening Estimates, we recommend that

7.20 the Comptroller General be responsible for screening and recommending the approval of departmental Estimates to the Board of Management.

Evaluating Program Management To fulfil its responsibility for the quality of management in the public service, the Board of Management must monitor the management of departments to ensure that programs are being evaluated for economy, efficiency, and effectiveness. The Board should be supported in this role by the Comptroller General and his staff. At present a survey entitled Improvement in Management Practices and Controls (IMPAC) is being conducted in twenty government departments by his office. The IMPAC survey is assessing the extent and nature of management and control weaknesses in order to indicate priority action

needed in each of the departments under study. As significant as the IMPAC program, is a program evaluation study being conducted by the Comptroller General to determine how departments should establish a plan for evaluating programs and activities. This study should result in plans to evaluate activities selected on the basis of their relation to departmental priorities, ease of evaluation, and a comparison of the cost of evaluation with potential benefits.

Further steps are, however, necessary. Among the reasons for the low level of concern for economy, efficiency, and effectiveness among program managers is the absence of any means of ensuring that the risk of resources being squandered is minimized. The new *Auditor General Act* requires that the Auditor General report to Parliament any cases where he has observed that money has been spent without due regard to economy or efficiency, or where satisfactory procedures have not been established to measure and report on the effectiveness of programs. While this is a step in the right direction, it does little to prevent such occurrences. If the fundamental weaknesses that lead to inefficiency were corrected, there would be few such instances for the Auditor General to detect.

We have reviewed the Treasury Board circular on program evaluation and have noted the Comptroller General's published comments on the topic. They support the concept of encouraging managers to manage by providing them with the tools to do so. We believe, however, that in this key area the Board of Management must adopt a more active role than has been suggested. The concepts and purposes of program evaluation are not sufficiently well established and understood in government to enable the Board of Management to rest assured that evaluation is being carried out on a systematic basis. Rather, the Board of Management as part of its central management responsibilities should be able to require that particular programs or activities be evaluated by departments according to standards set by the Board in consultation with them, to review the substance and conclusions of these evaluations, and to cause appropriate action to be taken when findings reveal deficiencies resulting in waste, duplication, or ineffectiveness. This joint approach should be taken in a spirit of co-operation, particularly during the early years of program evaluation; collaboration, objectivity, and fairness remain the keys to success.

Government activities do not always lend themselves to watertight divisions; two or more departments may be involved in pursuing similar objectives. Jurisdictional disputes can lead to reluctance to conduct evaluation. Similarly, an activity important to one minister may be closely related to the responsibilities of another minister who may not share the concern. In these circumstances the Board of Management should be able to direct that evaluations be conducted by two or several departments to clarify jurisdictions, assess performance, and, as a result, eliminate overlap and duplication. There is also a risk of wasting expensive and time-consuming research and a danger of a proliferation of evaluations, varying in objectivity, if there is no central source from which departments can obtain guidelines and minimum standards for program evaluation that carry with them the authority and weight of the Board of Management.

The Comptroller General should also take a significant part in ensuring that appropriate action is taken on the results of evaluation. During the course of our inquiry, we were surprised by the extent to which many of the subjects we were considering had previously been reviewed by task forces, committees, and auditors. In many cases, suggestions and recommendations had been made, but no action had been taken. This did not appear to be due to any unwillingness to act, but rather to the government-wide problem of ambiguous jurisdiction. If the Board of Management is to fulfil its responsibilities, it must be able to cut through these difficulties and to direct, where necessary, that appropriate action be taken.

The Board of Management should also have the right to permit the Comptroller General to conduct program evaluation where circumstances dictate. The *Auditor General Act* requires that the Auditor General advise Parliament of cases in which he has observed that satisfactory procedures have not been established to measure and report the effectiveness of programs; it does not direct him to report on the effectiveness of programs. Consequently, a department could have a highly satisfactory procedure to measure program effectiveness, but could continue to run an ineffective program for years. The evaluation procedure would detect ineffectiveness but would not force corrective action. The Comptroller General should, therefore, be able to undertake program effectiveness evaluation in cases where the Board of Management, or perhaps the responsible minister, is concerned about the quality of departmental program management. This kind of

evaluation should be undertaken rarely and judiciously. The Comptroller General should seek written agreement from the deputy head concerned on the nature and extent of his evaluation, and the quantifiable objectives of the program to be evaluated. The Comptroller General should discuss the results of the evaluation with the deputy and report his findings, along with any comments by the deputy head, to the minister and to the President of the Board of Management for action as the President sees fit.

In summary, while departments would be responsible for establishing and implementing a program evaluation plan, the Comptroller General would also have a vital role to play. We recommend that

7.21 the Comptroller General be empowered by the Board of Management to require that departments conduct specific program evaluations in problem areas identified by the Board, that the Comptroller General set standards for these evaluations, and that the Comptroller General recommend to the President of the Board of Management that action be taken where program evaluation is hindered by jurisdictional disputes; and that

7.22 the Board of Management direct the Comptroller General, as required, to conduct an evaluation of the effectiveness of any program or program component, or of the economy and efficiency with which a program or component is managed.

Monitoring Expenditures The Estimates and the Public Accounts are two important financial reports made to Parliament; to these we add the Fiscal Plan. These reports should eventually be supplemented by quarterly financial statements comparing the expenditures requested in the Consolidated Estimates with actual expenditures. These should be prepared by the Financial Management Secretariat from its Consolidated Revenue Fund records and from financial information submitted by departments and Crown agencies. The preparation of these reports would provide an opportunity for the Comptroller General to ensure that departments were preparing accurate and relevant financial information throughout the year. As well, it would provide him with information about actual or potential implementation problems, expenditure overruns or lapses, and whether statutory expenditures were being made at rates different from those forecast.

Presenting Information to Parliament There are several deficiencies in the financial information received by Parliament. As we explained in Chapter 6, the Estimates do not disclose fully or clearly why resources are requested, how they will be used, or what the results of using them will be. The Public Accounts do not give a comprehensive report of how resources were used and what transpired as a result of using them. In addition, since responsibility for the form and content of the Estimates and the Public Accounts is divided among three different departments, the information contained in one is not comparable to that contained in the other. Estimates are presented to Parliament by the President of the Treasury Board; responsibility for their format and content lies with the Program Branch of the Treasury Board Secretariat. The Public Accounts are presented by the Minister of Finance, but they are prepared by the Receiver General whose duties are carried out by the Minister of Supply and Services.

Some suggestions for improvement have been made, but we believe that improvement will not be possible until responsibility for all these financial documents is consolidated. Authority and responsibility for the format and content of all government-wide financial documents must be placed with the President of the Board of Management and then delegated to the Comptroller General. As the chief financial officer of government, he must be able to examine all financial information before it is submitted to Parliament in order to ensure that it is relevant, accurate, comprehensive, and timely. He must be able to propose changes and have them made where the information does not meet these criteria. He must be in a position to consider the observations of the Auditor General and the Public Accounts Committee in the light of this information so that response can be made to criticism. None of these can be accomplished in a logical and coherent way under the present division of responsibilities.

In framing our recommendations we have been careful to distinguish between financial information that should be presented to Parliament under authority delegated to the Comptroller General, and financial information contained in departmental Estimates and annual reports that should be presented by individual ministers as part of their responsibility. The Comptroller General should prepare the Consolidated Estimates and the Public Accounts for submission to Parliament by the President of the Board of Management and should sign the Consolidated Estimates

and that part of the Public Accounts that relates to government-wide information. With respect to departmental Estimates and annual reports, the Comptroller General's responsibility should be to ensure, through consultation and screening, that financial information is relevant, accurate, and comprehensive and that it is presented in a correct and consistent manner. To this end, we recommend that

7.23 authority and responsibility for the format and content of the Consolidated Estimates and the Public Accounts be assigned to the President of the Board of Management, and that he be supported in these responsibilities by the Comptroller General; and that

7.24 the Comptroller General recommend standards of disclosure and accounting to the Board of Management for use in all Estimates, the Public Accounts, and annual reports submitted to Parliament, and that he ensure that the standards approved by the Board are adhered to.

Improvement in the quality of financial information presented to Parliament is both important and long overdue. The task of improving financial information is, however, separate from the many other responsibilities that we propose for the Comptroller General. A comprehensive review of the many recommendations for change will be required, a synthesis of these proposals will have to be made, and legislative changes will be required before significant improvements are possible. We believe that the importance and complexity of this task should be recognized by the appointment of a *Chief Accountant of the Government of Canada* who would report to the Comptroller General. The person appointed to this position should have an impeccable background in the theory and practice of accounting and an excellent knowledge of the parliamentary process. Having the opportunity to assign this important responsibility to a competent subordinate would enable the Comptroller General to provide leadership and direction in this important area while at the same time ensuring that the necessary technical competence is provided at a senior level and on a full-time basis. We recommend that

7.25 a *Chief Accountant of the Government of Canada* be appointed to assist the Comptroller General in determining the format and content of the Consolidated Estimates and the

Public Accounts, in setting standards of disclosure and accounting to be used in Estimates, Public Accounts, and annual reports, and in ensuring that approved standards are maintained.

In recognition of the importance of this task, the Chief Accountant should be supported by an accounting branch in the Financial Management Secretariat. The staff of this branch should be drawn from the Financial Policy Development and Evaluation Divisions of the present Financial Administration Branch within the present Office of the Comptroller General, and the Government of Canada Accounting Branch of the Department of Supply and Services, and should include personnel to carry out the recommended changes in systems of financial reporting and accounting.

Accounting and Payroll Systems The accounting policies appropriate to the Government of Canada as a whole are not necessarily suited to all the needs of individual departments and agencies. Departments need accurate and comprehensive cost data and systems for controlling non-financial assets and liabilities. The accounting and payroll information now provided to departments by the Department of Supply and Services is not suitable; it is neither timely nor sufficiently accurate. Departments have developed their own partial systems in an attempt to overcome these difficulties; not surprisingly, wasteful duplication has been the result. In Chapter 14, we recommend that departments design and use comprehensive cost-based accounting systems, operating them internally or having the work done for them. The information needed by central agencies for government-wide reporting would also be provided by each department. That chapter also suggests that certain departments prepare their own payrolls if the deficiencies of the central pay system cannot be overcome.

These are major, complex, and time-consuming tasks that will involve all departments and many agencies of government. The introduction of cost-based accounting systems will result in the divorce of departmental accounting information from the traditional source of cheque issue and, consequently, from the Consolidated Revenue Fund operations. The transfer of accounting systems design and maintenance from the Department of Supply and Services to departments and agencies involves a series of co-ordinated steps which must be carefully planned, controlled, and monitored so that there is no interruption in the production of

accounts or in the consistency of the financial information required by central agencies and individual departments. For example, departments will have to be rated according to their present and future ability to make these changes, and improvements necessary in departmental financial management will have to be identified and made before departments can implement changes. As well, the Chief Accountant will have to determine the nature, timing, and destination of financial information needed by central agencies, and departments will have to identify their own needs. The transfer would also require the identification of new or changed personnel and equipment needs.

Furthermore, a prerequisite for any departmental action to implement these recommendations is the establishment and approval of government-wide directives, standards, and guidelines for the design and maintenance of cost-based accounting systems. In addition, a central unit capable of examining and approving the various implementation proposals in the light of government-wide and departmental needs, costs, and benefits will be required. To meet these needs and to ensure the appropriate degree of central guidance and co-ordination in introducing new accounting systems, we recommend that

7.26 the accounting branch of the Financial Management Secretariat include an accounting systems division charged with planning, controlling, and monitoring the development, introduction, and maintenance of cost-based accounting systems in departments.

We recognize that central responsibility for accounting systems would be enhanced by the support of the Operational Services Branch of the Department of Supply and Services, particularly during the transitional period. This branch is closely involved in the design, maintenance, and operation of existing departmental accounting and payroll systems. We believe, however, that the effectiveness of the Financial Management Secretariat would be hampered if it were to assume such extensive operational concerns. Instead, the accounting systems division should be staffed by only a nucleus of systems design and maintenance personnel drawn from the Operational Services Branch, which should remain in DSS. This would facilitate the establishment of the close working relationship between these two units necessary to the efficient implementation of our recommendations.

Financial Personnel and Organization Financial managers and personnel have too often been placed in positions of authority for which their training and experience have not prepared them. Conditions for entry to the public service, training and development programs, and career planning have not been adequate to ensure that excellent candidates were available for promotion to vacant positions. Most senior financial officers have not established performance goals, their performance has been inadequately appraised, and they have not obtained sufficient career guidance. Within departments, many senior financial officers are unable to make a full contribution to management because not all are members of management committees, nor do they report directly to deputy heads. Moreover, they are often unable to exercise satisfactory authority over financial staff employed in programs or in regional offices.

This aspect of financial personnel and organization is vital. Only if financial managers are well-trained and experienced will improved systems and procedures have any lasting value. The implementation of our recommendations relating to financial management and control have a significant bearing on the technical skills needed by senior financial officers in departments. As participants in departmental management, they will be expected to provide assistance in determining how program costs can best be accommodated within expenditure limits for periods of three years or more.

It is essential that an early start be made in establishing an inventory of the financial management skills and of the candidates for financial positions that will be required in the public service over the next ten years. From this inventory, the Comptroller General would be able to determine the number of people required now and in the future in the government financial community as well as the levels of education, qualifications, and experience that should be sought in future entrants to the financial stream of the public service. We recommend that

7.27 the Comptroller General determine the requirements of government for financial and accounting skills, and be responsible for the identification and development of the necessary people to meet these requirements.

The Professional Development Division of the Financial Administration Branch should provide the support for improving

the level of technical skill and experience of financial officers in government. Through a close working relationship with the appropriate branch of the Personnel Management Secretariat, the Division should be able to give increased attention to career planning and other matters relating to financial organization and personnel in departments and agencies.

Internal Auditing An over-abundance of unco-ordinated audits unduly burdens departmental management. The scope of most of these audits is narrow, their standards and procedures are unsatisfactory, and follow-up is fragmented or inconclusive because findings are reported inconsistently and to inappropriate levels of management. Our recommendations to unify and otherwise improve the standards and scope of internal audit in departments are set out in Chapter 14. We propose that the Comptroller General provide guidance in the implementation of these recommendations. He should ensure the regular entry of competent internal auditors to the public service and should encourage professional development courses in auditing procedures. His main task, however, should be to ensure that the standards and scope of internal audit reach acceptable levels.

To do this, the Financial Management Secretariat should identify the purpose and scope of all central agency compliance audits and direct that they be consolidated and included in the comprehensive internal audit programs of departments. These should cover personnel management policies and procedures, official languages policy implementation, administrative and contract procedures, and financial management policies and procedures. In order to ensure a comprehensive compliance audit program, the Comptroller General would therefore need the support and agreement of the Secretary for Personnel Management.

The compliance and other audit program directives established by the Financial Management Secretariat should set out standards for such matters as the issues and activities to be examined, the frequency of examination, and the extent of the sampling permitted. They should also establish standards of performance management for the audit program itself. Once developed, departmental audit programs should be submitted to the Comptroller General for his approval, and the subsequent conduct of the work should also be open to scrutiny by him. We recommend that

7.28 the minimum scope and standards of internal auditing, including auditing for compliance with central agency directives and guidelines, be determined by the Comptroller General; and that

7.29 departmental internal audit programs and reports be submitted to the Comptroller General for his review, and that the Comptroller General also have the authority to evaluate the effectiveness of the internal audit work performed by departmental and agency audit staff.

We appreciate that it may not be economical for some of the smaller departments to employ their own audit staff. For departments where the need for audit staff exists, personnel resources should be transferred from the Audit Services Bureau of the Department of Supply and Services. The staff remaining in the Audit Services Bureau should then be transferred to the Financial Administration Branch under the direction of the Comptroller General to assist in the development and monitoring of audit standards, and to conduct periodic internal audit of smaller departments without an audit capacity. We recommend that

7.30 the Audit Services Bureau in the Department of Supply and Services be disbanded and its staff transferred to individual departments and to the Financial Management Secretariat; and that

7.31 the Financial Administration Branch in the Financial Management Secretariat be staffed to conduct internal audits of departments without an internal audit capability.

To assume these responsibilities, an operational audit division should be established in the Financial Management Secretariat. This division should continue the work of the Financial Administration Branch, co-operating with departments to develop annual work plans for improving financial management and control. The plans should be agreed upon by the deputy head and his senior financial officer, in consultation with the Comptroller General, following an annual review of the department's financial management performance. This review should be conducted by the senior officials of each of the branches under the Comptroller General's direction. Prior to the review, the Comptroller General's staff

should review the reports of the Auditor General and the internal auditors and departmental audit committee, the previous year's work plan, and the scope and standards of the internal audit program of the department. After a work plan has been agreed upon, the Comptroller General's staff should review progress, provide guidance where required, and assist in overcoming external constraints. We recommend that

7.32 the Comptroller General and his staff work with departments to assist them in the preparation of annual work plans for improving financial management and control, and that they monitor and assist in the satisfactory implementation of these plans.

The implementation of our recommendations respecting the duties and responsibilities that the Comptroller General should fulfil on behalf of the Board of Management will further consolidate and clarify accountability for the central direction of management. The Board of Management would be able to ensure that departments make realistic program proposals and carry them out with economy, efficiency, and effectiveness. Parliament would receive clear, comprehensive, and consistent information on spending proposals and achievements. Moreover, the accountability of departments would be enhanced through the establishment of accounting and operational audit capabilities as well as the standards necessary to operate these systems smoothly and effectively.

The Review of Departmental Performance

Given its personnel and financial management responsibilities, the Board of Management must be able to assure Parliament and the public that sound management practices are in place and operating in government. The Board must, therefore, have procedures for ensuring that the managers of departments and agencies do pay attention to administration, that government-wide financial, personnel, and administrative policies are being consistently applied, and that those with responsibility for administration provide an account of departmental performance. In carrying out these responsibilities, the Board will be able to rely on the Secre-

tary for Personnel Management and the Comptroller General, who will be equipped to perform this role as a result of the organizational changes we have proposed. The information necessary to assess the performance of managers in all departments will be available to them as a product of their other duties. We believe that senior public servants—not ministers—should conduct this review, both because of the time required for it, and because the focus of this review should be on management performance and not on the appropriateness of policies.

A joint review by these two officials should provide the necessary counterbalance to increased delegation of authority to departments and should inject the discipline required to secure essential improvements in government management. This review process is vital. It must take place on a regular basis and in a formal way. Judgements must be made fairly and frankly. Furthermore, commitments must be given by the participants to remedy any weaknesses brought to light during the review.

The information that the Board of Management secretariats will need to review departmental performance can be garnered from a variety of sources. Departmental Strategic Plans, detailed Estimates submissions, and memoranda concerning key short-term goals, all of which are discussed in Chapter 11, should be submitted to the Board of Management after being reviewed by both secretariats. The secretariats would have worked with deputy heads to agree on plans to improve financial and personnel management, and would monitor, and where necessary assist, in the achievement of those plans. Details of departmental internal audit, discussed in Chapter 14, should be freely available for review by the Comptroller General who would also be responsible for ensuring the maintenance of internal audit standards and scope throughout government. The departmental program evaluations we recommend would provide an additional source of information, while independent sources, such as the Auditor General's reports, and reports from the Public Accounts Committee and other standing committees would also be available.

With this information to assist them, the Secretary for Personnel Management and the Comptroller General should develop an analysis and appreciation of departmental performance based on the responses to questions such as the following:

- Does the department have a planning process that ensures the development of short-term goals that support long-term plans to achieve major objectives corresponding to government priorities?
- Are the short-term plans realistically timed and the related expenditures realistically costed?
- Is program delivery being managed with due regard for economy, efficiency, effectiveness, and attainment of goals; are results being measured in terms of outputs and the costs associated with them; is the allocation of resources appropriate given the demands of the objectives?
- Is full consideration given to the financial implications of major decisions before these decisions are taken; does this consideration include proposals for systems and procedures to control expenditures?
- Are comprehensive internal audit and other audit reports and critiques promptly and thoroughly followed up; are improvements made where they are required?
- Do management, financial, and operational information systems provide accurate and relevant information when and where it is required?
- Is the department staffed with due regard for economy and efficiency in accordance with approved staff complements; do procedures ensure that personnel are thoughtfully appraised, promoted, or compensated according to merit; are sound training and development programs in place and being used; are measures taken to deal with unsatisfactory performers?
- Is departmental organization sufficiently flexible to reflect and respond well to changes in priorities and responsibilities?

Before meeting with each deputy head, the Comptroller General and the Secretary for Personnel Management should both sign a confidential memorandum setting out their analysis of performance, pointing out matters of particular interest or concern, and inviting the deputy head to consider these points prior to a formal meeting with them. With the agreement of the three participants, senior officials from the department and from the Board of Management secretariats should also be able to participate in the meeting. After this meeting, a formal assessment of departmental

performance should be drawn up jointly by the Comptroller General and the Secretary for Personnel Management. The report should cover major accomplishments, opportunities for improvement, and deficiencies in management. Action programs undertaken by the department and the Board of Management secretariats to make improvements or correct deficiencies should be highlighted in the report. Any significant disagreements among the participants should be specifically noted. The deputy minister should sign the report and should be free to add his own comments.

The report should be sent first to the minister responsible for the department so that he may be aware of performance and problems, and exercise his responsibilities in management. It should also be sent to the President of the Board of Management who bears a responsibility for the quality of management across government. The assessment of departmental performance is needed, not only to sharpen departmental operational planning, but also to assist in the performance appraisal of deputy heads. A copy of the review should thus be sent to the Privy Council Office. The Committee of Senior Officials on Executive Personnel should receive a copy of each review for consideration when deputy head performance is appraised.

The Board of Management should also review the departmental performance reports. While cognizant of the substantial time constraints faced by members of the Board, we believe it is necessary for ministers and deputy ministers to know that the administrative performance of their departments is subject to examination by the Board. Accordingly, the Board should make it a practice to conduct face-to-face reviews with ministers and their deputies. Each year these reviews should include both departments where major improvements are required, and those where administration is judged to be superior.

Based on the assessments of departmental performance, the President of the Board of Management should prepare a general assessment of management across government to be presented to Cabinet. This report should present an overview of actual accomplishments compared with plans and goals, and should describe necessary management improvements and the plan being developed by the Board of Management to carry them out.

The departmental performance assessment process will take time to develop. At present, comprehensive planning, reporting, and assessment are not possible; financial and management infor-

mation systems are insufficiently developed. Goal-setting is a relatively new activity in government management and the measurement of goal achievement is rare. Despite these problems, a start can be made immediately in conducting departmental assessments. We believe that this formal assessment will be welcomed by ministers and deputy heads. It will give them an independent and objective report on areas that require improvement and draw attention to strengths and weaknesses that must be considered in determining how objectives can best be achieved. The report would also provide a means of ensuring that the Prime Minister was aware of administrative requirements when recommending Governor in Council appointments. Equally important, it will result in the establishment of formal annual targets for improving management in government.

In summary, we recommend that

7.33 the Comptroller General and the Secretary for Personnel Management conduct an annual in-depth review of each department's management performance; and that

7.34 the assessment of departmental performance, prepared jointly by the Comptroller General and the Secretary for Personnel Management, be submitted to the responsible minister, the President of the Board of Management, the Privy Council Office, and the Committee of Senior Officials on Executive Personnel.

Cash Management

In completing this discussion of central responsibility for management, we turn to a review of the management of the government's cash funds. We reviewed the activities of the Government of Canada Accounting Branch—including the Consolidated Revenue Fund Operations—of the Department of Supply and Services. In doing so we found that, while the present organization permits the exercise of optimum control and reporting for cash transactions, there is no effective day-to-day management of the government's cash funds.

The purposes of cash management are twofold. The first is to ensure that a borrower stays well within the limits of the credit that lenders are prepared to extend to him. From the borrower's

point of view, the second purpose of cash management is to ensure that he pays as little interest on his debts as possible, while the lender will want to ensure that he earns the maximum possible interest on money lent. It is with the second purpose that we are particularly concerned. Its importance was not fully recognized in the private sector until late in the 1960s when interest rates reached high levels. Gradually, corporations and financial institutions developed systems of varying degrees of sophistication to ensure that cash did not lie idle, but was used swiftly, either to pay off debts incurring interest charges, or to generate supplementary revenues by investing in interest-bearing securities. The movement of cash between creditor and debtor was accelerated by electronic and other means. Corporations consolidated their banking operations so as to minimize the amount of idle funds, and appointed treasurers and cash managers to provide expert advice. Payments were consolidated to reduce the cost of transactions. Charges for the use of funds were calculated and considered in all but the most rudimentary business decisions relating to both capital expenditures and operating expenses.

Interest on the public debt in 1979-1980, as forecast in the November 1978 Budget, will amount to \$8.3 billion, or 16% of total budgetary expenditures for that fiscal year. In these circumstances, we would have expected to find a sound and efficient system of cash management in government, a system designed to ensure that only the necessary interest charges on the public debt were incurred. We were sadly disappointed. The existing system is not worthy of the name cash management as it is understood today; however, we did observe some recent tentative steps toward improving this important part of financial management.

There is no effective cash management system because the way that government is organized and accounts are kept fails to hold accountable those responsible for incurring interest expense. In consequence, there is little, if any, awareness on the part of managers that the cost of borrowing money is a significant element in the total cost of their programs and activities. We believe that three changes must be made to create this awareness and establish effective cash management.

First, the management of the government's finances, including the operation of the Consolidated Revenue Fund, must be conducted wholly by the Minister of Finance. Second, the government's banking arrangements should be placed on a competitive

commercial basis. Third, accounting methods must be improved so that departmental costing systems give proper recognition to the cost of borrowing.

Responsibilities for cash management are now spread over four agencies, the Department of Finance, the Department of Supply and Services acting as agent for the Receiver General, the Treasury Board, and the Bank of Canada. Section 8 of the *Financial Administration Act*, however, entrusts to the Minister of Finance "the management of the Consolidated Revenue Fund and the supervision, control and direction of all matters relating to the financial affairs of Canada not by law assigned to the Treasury Board or to any other Minister." In consequence, the other three agencies act in a support or service capacity for the Department of Finance. The Treasury Board issues directives and guidelines concerning the stewardship of public funds, including receipts and disbursements made by departments and agencies. The Department of Supply and Services acts as cashier, opening bank accounts in the name of the Receiver General for Canada for the deposit of public funds, and taking responsibility for the collection and disbursement of those funds. The Bank of Canada acts as the government's banker. Two divisions in the Department of Finance, Capital Markets and Fiscal Policy, perform tasks related to cash management. The former handles the management of the public debt by determining the government's annual borrowing requirements; the latter forecasts the amount of tax and other revenues. The cash management responsibilities of departments are limited to depositing public funds and submitting requests for payment. Departments and agencies that receive money deposit it in government accounts held in many bank branches. These funds are later transferred to the Bank of Canada. All requisitions for cheques to pay salaries, or to purchase goods and services relating to departmental operations are made to the Receiver General.

The Auditor General has commented on the weaknesses in the systems for collecting and depositing funds and has made a number of thoughtful suggestions for improving cash management. In response to these suggestions, two studies have been initiated. The Department of Supply and Services is studying the possibility of a comprehensive system that would enable departments to exercise much greater control over the various government accounts in the commercial banking system and over daily transactions. The second study, undertaken in 1978 by the Treasury

Board Secretariat, is examining existing methods for depositing and transferring public funds and comparing these with electronic and other methods. Apart from these studies, and a reduction in the amount of funds in transit, no significant changes have been made in response to the Auditor General's criticisms, even though the weaknesses he reported result in substantial costs.

One of the most serious weaknesses in existing cash management is the absence of planning. Neither the Receiver General nor the Treasury Board Secretariat has any forecast of receipts and disbursements, nor any plans for maintaining minimum and maximum cash balances. The Department of Finance forecasts monthly receipts and major expenditures, and plans short, medium, and long-term borrowing in capital markets, but these are for the purpose of managing the public debt. The plan is based on the budgeted surplus or deficit and on debt maturity dates. The Bank of Canada also makes a monthly forecast for several years ahead, based on a series of hypotheses. Nowhere is there a daily, or even weekly, plan of receipts and disbursements that could be used to reduce idle funds and excess borrowing to a minimum. Rather, the total of these—the float—is determined daily by the Governor of the Bank of Canada in deciding what amount should be injected into, or withdrawn from, the Canadian banking system so as to exercise control over the total amount of money in circulation, and thus over short-term interest rates. The precise amount of the injection depends on the amount of government deposits and disbursements for which compensation is given to the banking system on that same day. All receipts, except those arising from the sale of treasury bills, savings bonds, and other government bond issues, are deposited in the commercial banking system, and the government accounts cannot, therefore, be credited until the appropriate transfer documents are presented to the Bank of Canada for compensation. Several days can elapse between when the banks receive government deposits and when they have to start paying interest on them.

The separation of macro-economic cash management conducted by the Department of Finance and day-to-day cash management, such as it is, should be terminated immediately. All policy authority and operational responsibilities for the receipt, deposit, and disbursement of funds, however small the amount, should be located in the Department of Finance. The Department of Finance would then have responsibility for deciding how to

move the government's funds as quickly as possible to the Bank of Canada, when and how liabilities should be met, and what balances should remain in the banking system. We recommend that

7.35 the authority and responsibility for the operations of the Consolidated Revenue Fund and all other aspects of day-to-day cash management be clearly vested in and fulfilled by the Department of Finance.

The existing arrangements respecting government deposits, the costs of which are immeasurable, are defended on the grounds that, by law, banks cannot levy charges for financial transactions processed on behalf of government. As compensation for providing these services, and under an agreement going back to 1957, the chartered banks do not pay interest on the first \$100 million of public funds on deposit in government accounts. On the balance in excess of \$100 million, interest is paid at 90% of the average interest rate of 90-day treasury bills sold in the calendar quarter in question. The daily balances to which this arrangement applies have ranged in the last two or three years from \$1.5 to \$5 billion. We were unable to establish the cost of carrying these excess balances or how accountability for incurring these costs is exacted. The absence of adequate accountability for cash management at this level does nothing to change poor attitudes at lower levels. There is little or no sense of the commercial value of money on the part of those who manage either programs or public funds.

If accountability is to be established, and if value for money is to become a working principle in government, a significant start could be made by establishing a sound and effective cash management system and a business-like arrangement between the government and the banks. We believe that the government should earn interest on all the funds it deposits in the banking system and that government should pay for all the banking services it receives on a competitive basis. We recommend that

7.36 all funds deposited in authorized depositories in the name of the Receiver General be credited immediately to the account of the Government of Canada, and that amounts in excess of minimum balances established by contract earn interest as from the following business day; that

7.37 charges for all banking services rendered in connection with transactions relating to the government be made on a fully competitive basis; and that

7.38 plans for daily minimum cash balances, receipts, and disbursements be made by the Bank of Canada in the light of information provided by the Department of Finance.

Putting relations between the government and the banking system on a commercial footing will permit the Department of Finance to explore and introduce improved methods of cash collection, deposit, and disbursement, an exercise that would be frustrating if attempted at present. Under existing arrangements, there is little or no competition among the banks for government business, other than where remuneration is provided, as in the sale of Canada Savings Bonds. This is in sharp contrast with the aggressive competition among the banks for the business of provincial governments and for commercial business. Even under existing arrangements, however, some cost-saving improvements could be made. We recommend that

7.39 subject to election by recipients, repetitive payments to individuals, such as those for salaries, pensions, and family allowances, be made by automatic transfer through the central clearing system to designated depositories, thus obviating the costs of cheque issue and distribution.

In addition to consolidating the role of the Department of Finance as manager of all government finances, the separation of Consolidated Revenue Fund Operations from the Government of Canada Accounting Branch will finally permit management accounting needs to be examined, and systems established to meet them, without the traditional concern for meeting cash accounting requirements related to the Consolidated Revenue Fund as well. This will allow the development of comprehensive and accurate costing information in departments and agencies, where it is urgently needed.