

COMMON SERVICES

In our Progress Report we cited three questions concerning the availability of matériel and services throughout government. First, we asked if the provision of common services had been satisfactory. Second, we questioned whether the present arrangements for charging for common services had encouraged economy on the part of user departments. Finally, we asked if the organization of common services in a departmental form weakened or strengthened the management of and accountability for the provision of common services.

Our inquiry indicated that the present structure and functioning of the system for the planning and delivery of matériel and services have given rise to major concerns. There appears to be much uncertainty with respect to the interpretation of common service policy. There is doubt about the effectiveness of the common service organizations and concern about the efficiency of their operations. The central co-ordination of common service organizations has generated role and responsibility conflicts among the departments and agencies that provide common services and the departments they supply and serve. In addition, there are significant differences in the ways in which common services are administered, and there is confusion as to where the common service organizations should account.

Although the Treasury Board has provided both a formal policy manual and sets of guidelines for all concerned, there is no coherent agreement with respect to the interpretation of these statements. Departments, common service organizations, and central agencies all have different perceptions and assumptions about common service policy. As a result, officials in program depart-

ments and in common service organizations behave and make decisions according to assumptions and premises that they believe to be correct. The assumptions are not necessarily shared by others involved.

One view of common service roles and policy is that the common service organizations are arms of the Treasury Board, functioning as intermediaries between program departments and the Treasury Board on the one hand, and between program departments and sources of supply on the other. According to this view, program departments are responsible for defining requirements, the common service organization is responsible for contracting, and the purview of the common service organizations should not extend into the control of matters such as specifications, design criteria, or project management. This view also maintains that loading too many subsidiary objectives on the common service organization will undermine the basic requirement for probity and prudence.

A second and widely held view is that common service organizations, while primarily support vehicles for other programs, are also effective instruments to carry out other government policies and to provide visibility to the contracting process. In these latter roles the common service organizations are seen to be agents of the Treasury Board. They are not considered, however, to be responsible for policy and, according to this interpretation, only perform a service function within a framework of specific policies and regulations.

A third view is that the role of the common service organizations is simply to provide services to program departments. Their major concern should be to respond to departmental priorities and operational needs with due regard for economy, quality, and timeliness.

The different interpretations of the Treasury Board's common service policy make for an ill-defined framework for the management of matériel and services. These implicit and conflicting interpretations create a situation in which decision-making and choices concerning matériel and service are not guided by coherent premises that apply throughout government. For example, program department officials often perceive that the common service organizations, because of their monopoly position, assume a control function which effectively denies the program manager the authority to manage. Particular concern over the responsibilities of

common service organizations relates to the procurement of single purpose items which are unique to the requirements of specific departments.

Unproductive conflicts also emerge in the delivery phases of large projects. Blame is cast in all directions when project costs run over estimates, or when completion deadlines are not met. Efforts by common service organizations to expand the scope of their responsibilities are seen by departments as empire building and are strongly resisted. Conflicts also arise between common service organizations and departments that have retained common service construction units. Such conflicts blunt the benefits of common service, and do not contribute to greater efficiency and effectiveness in the management of matériel and services.

Steps have been taken in government in an attempt to relieve some of these difficulties. The Administrative Policy Branch of the Treasury Board has developed a common service policy and established guidelines. The Senior Interdepartmental Committee on Administrative Improvements is recommending to Treasury Board new policies and measures whereby the provision, management, and control of administrative activities can be improved. In addition, the Treasury Board Advisory Committee on Federal Land Management has been established to resolve conflicts and examine policies, guidelines, and procedures for the acquisition, management, and disposal of land.

Notwithstanding these efforts to overcome conflicts and problems, the major concerns remain. Our analysis here is based on a study of the questions posed in the Progress Report with respect to the major common service organizations that exist in government today. While some services common to all departments and agencies are excluded from this analysis, we believe that the recommendations provide a broad framework applicable to all common service organizations.

Implementation of almost all of the eighty recommendations of the Glassco Commission with respect to common services, and attempts to apply the guidelines that the Commission proposed, have led to a group of departments and agencies undertaking the provision of services to meet the needs of other government departments and agencies. Today, two large departments, the Department of Supply and Services and the Department of Public Works, are primarily responsible for the provision of matériel and services. Auxiliary services are still provided, however, by special-

ized units located in program departments. For example, telecommunications services are provided by the Government Telecommunications Agency, housed in the Department of Communications, and translation services are provided by the Bureau for Translations, ordinarily referred to as the Translation Bureau, located within the Department of the Secretary of State. As well, design and construction capabilities exist in several program departments, most notably in the Departments of Transport, National Defence, and Indian Affairs and Northern Development.

The five common service organizations upon which we have based our study and recommendations are briefly described here. These are the Department of Public Works, the Department of Supply and Services, the Government Telecommunications Agency, the Translation Bureau, and the Crown Assets Disposal Corporation.

Established at the time of Confederation, the *Department of Public Works* (DPW) has seen its responsibilities modified through time. The first consequence of the Glassco report of 1962 was the transfer, in 1964, of the responsibility for furniture procurement and supply from DPW to the Department of Defence Production. In 1966, DPW took on the responsibility for maintaining a central real property inventory. In 1971, it became responsible for expropriations for all government departments, agencies, and Crown corporations. In 1972 it was assigned the central responsibility for land management and in 1974 it was made the central point for the disposal of surplus lands and buildings.

DPW is the exclusive and mandatory provider of office space for the Government of Canada. All space is provided free of charge to departments. About 27 million of the 100 million square feet of office space provided by DPW in the year ended March 31, 1977 was leased from the private sector. Total expenditures of DPW were about \$683 million in 1976-77, 80% for the provision of office space. Authorized man-years in the Department numbered 9,449 in 1976-77, up from 7,910 in 1971-72, and staff is highly dispersed.

DPW undertakes construction not only to provide accommodation to other departments but also to provide special purpose buildings for departments like the Post Office and the Solicitor General. During 1976-77, funds administered for capital projects on behalf of other departments were \$202 million. All construction is funded by appropriation to DPW, and all work is contracted out

to the private sector. The consolidation of all construction activities into a single agency as recommended in the Glassco Report has not, however, been achieved. For instance, in 1976-77, total expenditures for construction and acquisition of land, buildings, and equipment for the Government of Canada were \$712 million, and 59% of this amount was under the management of DPW. In 1970-71 the figure was 52%.

On April 1, 1969 an Act of Parliament created the *Department of Supply and Services* (DSS). The department has a dual organization involving two distinct divisions, the Supply Administration and the Services Administration.

Following the recommendations of the Glassco Commission, the Cabinet enlarged the role of the Department of Defence Production by designating this department as the central purchasing agency of the federal government. It was thereby given the responsibility for providing goods and services to both civilian and military departments. As a result, the Printing Bureau was detached from the Department of Public Printing and Stationery and brought under the Department of Defence Production in 1963. The authority to supply furniture was transferred from the Department of Public Works to Defence Production in 1964, and the authority to provide office supplies was transferred from Public Printing and Stationery in 1965. These changes in the role of Defence Production, and the hiving off from that department of its industrial development responsibilities in 1966, led to a major reorganization of the department.

The *Supply Administration* of DSS succeeded the Department of Defence Production as the organization with the mandate to provide purchasing and matériel management services to departments and agencies with the sole exception of the management of "matériel essential for the conduct of military missions." Under the authority of the *Defence Production Act*, however, the Supply Administration does perform acquisition functions relating to the procurement of military equipment.

The Supply Administration of the Department of Supply and Services provides the following services to all departments and agencies of the government: acquisition of goods and services of a scientific, engineering, and commercial nature; printing and publishing; maintenance and repair; traffic control; security; exposition; and warehousing and distribution. Services are provided by the Supply Administration on a total cost recovery basis or, as it is

now termed, revenue dependency. Departments and agencies pay both for matériel received and for the services rendered by the Supply Administration. In the fiscal year ended March 31, 1977, the Supply Program had 4,719 authorized man-years and actual expenditures of \$2 96 million, and through 281,000 contracts, it procured goods and services worth \$2.872 billion. The consolidation of purchases is evidenced by the fact that close to the same number of contracts, 270,000, worth \$1.065 billion, more than \$1.5 billion less than in 1976-77, were centrally processed in 1971-72.

The *Services Administration* of DSS was formed by the amalgamation of three existing units lodged elsewhere in the public service: the Office of the Comptroller of the Treasury from the Department of Finance, the Central Data Processing Bureau, established first in the Treasury Board Secretariat and transferred in 1968 to the Department of Defence Production, and the Bureau of Management Consulting Services from the Public Service Commission.

The authority and functions of the Services Administration are governed by two statutes, the *Department of Supply and Services Act*, which states that the minister is the Receiver General of Canada, and the *Financial Administration Act*. The latter statute entrusts responsibility for accounting, budgeting, and financial control to deputy heads of departments and agencies but makes the Services Administration responsible for central accounting and the operation of the Consolidated Revenue Fund. The Services Administration offers optional advisory and management services to departments and agencies on a partial cost recovery basis. These management services include audits, accounting, computing, and management consulting.

Total expenditures of the Services Administration for the year ended March 31, 1977 were \$111 million. Authorized man-years were 5,213. Appropriations account for nearly two-thirds of the Services Administration budget. To carry out statutory functions, the Administration operates a computer network, 15 offices in the national capital region, and 23 offices across the country. It issues approximately 120 million cheques annually.

Established in 1966 to plan and co-ordinate administrative telecommunications facilities and services used by the federal government, the *Government Telecommunications Agency* (GTA) is housed in the Department of Communications. Telecommunica-

tions services include the transmission of voice messages, images, and computer data. Its creation was recommended by the Glassco Commission in order to reap the benefits of economies of scale. In 1976-77 GTA had 229 authorized man-years and spent approximately \$33 million for services purchased from telecommunications companies and for administrative expenses.

The Agency does not have an exclusive mandate for the provision of telecommunications services within the public service. It is responsible only for the management of "shared" and "customized" systems and for consolidated service centres representing 25% of total telecommunications operational expenditures. GTA manages consolidated telephone systems in 19 cities coast-to-coast using 650,000 miles of intercity circuits leased from the private sector. Growth in shared and customized services managed by GTA has been greater than growth of departmentally managed services. GTA operates by recovering its direct and overhead costs from its clients according to their statistically estimated shares of the total "shared" volume generated by the whole of government. Departments, however, pay telephone companies directly for all services that are not shared.

The "*Bureau for Translations*" was established in 1934 through the consolidation of translation units in different departments of the public service. It is now housed within the Department of the Secretary of State. It has an exclusive mandate for the provision of translation, interpretation, and terminological services within the Government of Canada, ranging from the proceedings of both Houses of Parliament to all the departments and agencies of the public service.

Translation and terminological services are provided free of charge. The Translation Bureau is funded by appropriations voted by Parliament. Direct travelling and lodging expenditures are, however, recovered by charges to departments and agencies. Approximately 87% of the work is done by the Bureau's own staff. During 1976-77 the Translation Bureau had expenditures of \$39 million and about 2,000 full-time employees, 800 at headquarters, and the rest working in departments and agencies. During the same year, the Bureau translated 242 million words and provided 12,500 interpreter days. By comparison, in 1967-68 it employed 448 full-time personnel, translated 95 million words, and provided 2,300 interpreter days. The impact of Government policy with respect to official languages accounts for this great increase.

Though it provides services to over 150 departments and agencies the Bureau's major customers are, by volume, Parliament, the Departments of National Defence, Industry, Trade and Commerce, Environment, External Affairs, and National Health and Welfare, Statistics Canada, and the Department of Transport.

The *Crown Assets Disposal Corporation* was established in December 1949 by the *Surplus Crown Assets Act* to replace the War Assets Corporation which had been created in 1944. The Corporation, with a board made up of public servants and persons from outside the public service, falls under the responsibility of the Minister of Supply and Services. It is charged by statute with disposal of the surplus assets of departments, agencies, and Crown corporations with the exception, since December 1974, of the disposal of surplus lands and buildings, responsibility for which, with the associated personnel, was transferred to the Department of Public Works.

The Corporation also acts as agent for the United States, British, and other governments in the sale of their surplus assets located in Canada. The Corporation employs about 60 people and has annual sales varying between \$10 and \$15 million, depending on the stock of used aircraft, ships, vehicles, and sundry merchandise. The Corporation is financed by levying a commission on all sales. The scale of commission fees is determined by the Corporation's board of directors. According to a 1977 Treasury Board directive that is being implemented now, the remaining proceeds, after deduction of the commission, are returned to the departments that have declared the matériel surplus. This is an incentive that good managers should not require and one that we do not endorse.

Because of the political and economic impact of supply and real property decisions, departmental discretion as to the level and methods of procurement is regulated by administrative policy decisions taken directly by the Cabinet or by central agencies such as the Treasury Board. Through administrative policies and directives concerning the procurement, use, and disposal of goods, services, and real property, the Treasury Board aims at ensuring that departments achieve their program objectives within reasonable standards of economy and effectiveness.

Departments, then, are constrained in the way financial resources are used to acquire matériel and services. By virtue of the discretionary powers delegated to them, operating departments may specify, according to standards and guidelines, the character-

istics and the amounts of matériel and services they require; however, in most cases, they are obliged to channel their supply requisitions to the common service organizations to which purchasing and contracting powers have been entrusted.

Under existing policy and within the present system, common service organizations respond to program departments, which have the responsibility to define their needs and outline specifications. The contracting phase is the responsibility of the common service organizations, but client departments are consulted on significant issues during tender evaluation or contract negotiation to ensure that specifications as to time, cost, and quality are met. During the contract administration phase, the common service organizations are responsible for monitoring contract execution. The decision to accept the goods or services tendered is the responsibility of the client department. In their capacity as contracting authorities, however, the common service organizations decide, on behalf of government, whether suppliers have fulfilled requirements in accordance with the terms of the contract.

More succinctly, then, the client departments or agencies are responsible for determining *what* they want, *where*, and *when*. *How* these needs are met is the responsibility of the common service organization. This responsibility is reinforced by the expanded contracting limits that have been delegated by Treasury Board to the Department of Public Works and the Department of Supply and Services as compared with other departments.

Common service organizations relieve Treasury Board of a lot of detail by virtue of the fact that they have been given higher limits than other departments on the contracts that they may enter into without Treasury Board approval. This extension of contracting limits is justified in the view of the Treasury Board because the common service organizations exercise this authority according to Treasury Board policy directives.

Clarifying the Role of Common Service Organizations

There is confusion with respect to the roles and responsibilities of common service organizations and program departments concerning the provision of matériel and services. Because of their

accountability for program performance, program departments are responsible for the definition of requirements for the planning of real property needs. Common service organizations must be accountable for ensuring value for money and for achieving the maximum level of efficiency in the use of manpower and financial resources allocated to them. Thus, responsibility in the procurement process must be shared.

While, for general purpose items, program departments need only control the level and quality of matériel and services required and need not get involved in the actual procurement, they must be intimately involved in the procurement of items which are critical to their missions. Construction of airports or purchase of military equipment serve well as examples of critical procurement.

While the common service organizations must act on behalf of central management agencies to ensure probity and prudence, they are not themselves central management agencies. Common service organizations must refrain from assuming a control function with respect to departments' compliance with administrative policies and standards of central management. Ensuring compliance by program departments is a central management responsibility. The accountability of program managers requires that they conform to administrative practices and standards issued by central management; in like fashion, common service organizations must abide by the same administrative policies and standards that apply to all departments.

Common service organizations should perform a service role and be efficient in their responses to the needs of program departments. They should not be active policy-makers on the means to use procurement or real property to attain goals. These responsibilities belong to central management. In summary, we endorse arrangements with respect to common services whereby

- responsibility for common service policy across government is vested in the Board of Management
- program departments are responsible for the definition of their requirements for matériel and services, in keeping with standards and norms set down by the Board of Management
- common service organizations have exclusive authority for the selection of procurement methods and the calling of contracts according to policies laid down by the Board of Management

- common service organizations are treated like any other department (in accordance with the recommendations that we have made for all government departments)

Nevertheless, while this policy exists, we urge that several major problems with regard to the interpretation, acceptance, and implementation of policy be settled. The primary function of the common service organization is to act as an intermediary between program departments and the central management agencies on the one hand, and supply sources on the other. In this function four inter-related roles are performed. These must be accepted and respected by all departments, agencies, and organizations.

First, the common service organizations furnish goods and services throughout government and meet specified departmental requirements for matériel and services. Second, they provide advice and guidance concerning administrative standards to the central agencies. Third, the common service organizations select procurement methods and enter into contracts with the private sector on behalf of the government when such options are expected to lead to a more efficient use of resources. This frequently leads to decisions as to whether to "make or buy". Fourth, purchases of matériel and services by common service organizations for the conduct of government business are used, at times, to help meet broader government objectives.

The achievement of the highest possible degrees of probity, prudence, and integrity, and of the greatest value for money, must stand as the basic objectives of all common service activities. Other related benefits from the easy availability of expertise, specialization, or economies of scale must support these objectives and remain consistent with them. These objectives justify the legislative mandates of common service organizations for exclusive procurement within government.

Probity and prudence require that the government, in obtaining matériel and services from the private sector or from within government, ensure equal opportunity, due process, and fairness to actual and potential suppliers. Moreover, the methods by which decisions are made must ensure not only fairness but the appearance of fairness. Openness must characterize the process. Firms and individuals wishing to supply the government must be made aware of the possibilities that exist and of the criteria used to assess bids and award contracts.

Given these basic objectives, it is important to recognize that Government may wish to use the process of procurement to help to achieve social, economic, and environmental objectives such as increased employment, regional development, and national standards. The pursuit of these Government objectives may involve higher costs than would be dictated by strict adherence to economic and efficient procurement procedures. The decision by Government to house a given department in a prestige building or to construct a special purpose complex in a given region may be valid; however, it is necessary that the extra costs incurred through meeting these special objectives be explicitly identified, visible and approved by the Board of Management. Such approval by the Board of Management should be accompanied by explicit direction to the common service organization to proceed. The Board of Management should also be required to indicate clearly the special purposes to be served and the additional costs that result. In so doing, the Government must state its reasons and accept the responsibility for the increased costs which the implementation of the policy might demand.

Funding the Common Service Organizations

We believe that clear mandates for the common service organizations and specific and explicit policies and objectives respecting the services they provide will result in much needed clarification of the roles and responsibilities both of the common service organizations and the clients they serve with respect to procurement and delivery of goods and services. To further encourage efficiency and to strengthen management and accountability we propose a funding method for common service organizations based on a system of revenue dependency. A revenue dependent organization must fully cost its operations, including all direct, indirect, and overhead expenses, and recover these costs from its clients through fees and charges for services rendered and goods procured. Recovery of capital costs over the useful life of major investments would be expected as well. Such a system of revenue dependency for common service organizations would force all departments, agencies, and common service organizations to

emphasize value for money in the use of matériel and services. We recommend that

8.1 common service organizations be funded through a system of revenue dependency on a full-cost basis.

We are not the first to advocate that such a system of funding be adopted for common service organizations. The Glassco Commission recommended that departments and agencies be charged for the acquisition and delivery of services and matériel. In 1964, the Public Accounts Committee endorsed a recommendation of the Auditor General that interdepartmental billing for services rendered be introduced. In his 1966 Annual Report, the Auditor General recommended that clear information concerning the actual financial results of departmental trading and servicing activities should be provided to Parliament. At the same time, he recommended that charges be levied for the value of services provided, up to then without charge, by other departments. In 1970, the Public Accounts Committee recommended that accommodation, repair, and damage costs be made a charge to each department's appropriations rather than a charge to the Department of Public Works. Again, in 1975, the Public Accounts Committee recommended that rental costs be charged to departments and recovered from them, so that the departments would be more careful in their planning.

The Standing Senate Committee on National Finance, which studied in depth the accommodation program of the Department of Public Works, recommended, in September 1978, that that program be made revenue dependent. The 1978 Annual Report of the Auditor General supported the Senate Committee's recommendations but went a step further. The Senate Committee recommended the establishment of a Department of Public Works Building Fund through which the cost of capital assets would be repayed to the Consolidated Revenue Fund and operating expenses met. The Auditor General proposed that capital and operating expenditures be financed through two separate revolving funds, the Buildings Operations Revolving Fund and the Accommodation Management and Professional Services Revolving Fund. We endorse the proposals of the Senate Committee and believe that they present a sound approach to establishing appropriate charges for accommodation and related services as well as incorporating

commercial financial and accounting practices, but we feel that the Auditor General's proposal to separate the operating account from the capital account is sound and warrants full consideration.

Notwithstanding the recommendations and urgings of the Public Accounts Committee, the Auditor General, and the Glassco Commission, only the Supply Administration of the Department of Supply and Services is operating today on a fully revenue dependent basis. Although most of the common service organizations do make use of some form of charging for some services rendered, the arrangements are grossly inadequate. In some cases, such as the Services side of Supply and Services, charges are made, but full costs are not recovered and subsidies are required in the form of appropriations. In other cases, no charge is made for services and it is therefore impossible to determine exactly what the cost of a given program using these "free" common services may be.

Fees charged for services and fees charged for procurement differ to some extent. In the service situation, the fee structure can cover full costs, while the fee for cost of procurement is based on a percentage of the total costs. In the latter situation, it is necessary for both client and common service organization to know the cost of the item itself *and* the fee charged for actual procurement.

In the present arrangements, the user of common services does not have a sufficient sense of cost or control. The client has no vested interest in obtaining value for money, and, with the common service organizations being subsidized through appropriations, there is no great incentive for them to improve their internal or external efficiency. A system where the client would pay for services rendered and goods received would provide incentive to both clients and common service organizations by insisting that each department, agency, and organization plan its expenditures, account for its spending, and pursue economy and efficiency in operations. In addition to understanding and accepting the roles and responsibilities of the common service organizations, the departments and the organizations must know the full costs involved in the planning and provision of matériel and services.

The goods and services that are now provided by common service organizations are identifiable and divisible "items" which can be priced. The Department of Public Works offers, among others, engineering, construction, project management, brokerage, and building maintenance services. All of these can be unit-priced.

A translator can charge a client at a per-word, per-page, or per-hour rate agreed upon before the work is begun. Management consulting and computer expertise, offered by the Services Administration of the Department of Supply and Services, are amenable to unit pricing, as are the services rendered by the Government Telecommunications Agency. We recommend that

8.2 all common service organizations offer their goods and services at rates based on a full-cost approach, and that all goods and services provided by common service organizations be unit-priced.

A full cost, unit-pricing approach would ensure that departments and common service organizations were aware of the direct cost of a given good or service and, in addition, all would be aware of the indirect costs of the management and control systems that would prevail. Pressure would be applied from all sources to control indirect costs. We believe that a full-cost, user-pay approach to the provision of matériel and services will enhance efficiency in departments and in common service organizations. To achieve total revenue dependency for common services, however, the organizations must not only offer goods and services, they must sell them to departments and agencies of government at a just price and departments and agencies must be provided with the means of paying for the services and goods.

Requiring that departments pay common service organizations directly for goods and services implies that an interdepartmental billing system will be necessary. We recognize that arguments against interdepartmental billing stress that there are additional costs involved, and that the same purposes can be accomplished by displaying the financial information needed through the use of "shadow pricing" or notational displays. The excess cost argument does not hold. Any normal, sound, full costing system should provide billing information as a basic output. Furthermore, transactions must represent real charges and valid expenditures by departments to encourage concern about the value that departments receive for their money. An army of bookkeepers would not be necessary; the personnel required for keeping track of such a system are in departments and agencies now.

The basic argument in favour of an interdepartmental billing system is that it provides the most realistic way of transmitting financial information on a transaction basis to managers in client departments. Moreover, it ensures that managers will pay attention to the cost involved by placing before them the financial consequences of the decisions related to common services that they have made. In turn, pressure is applied on the common service organizations for stringent and precise standards in their cost accounting system. To be effective, full cost information must be available on a transaction basis. Therefore, the cost of establishing an interdepartmental billing system would be incurred in any event. The advantage of an interdepartmental billing system over a shadow pricing or notational system is that it offers better assurances that the cost of matériel and services can be made absolutely visible to managers and can be basic information that they use to manage their activities. Pressure is applied to the common service organizations to maintain an accounting system that is both precise and operational. In summary, we recommend that

8.3 funds for common services, including annual rental costs for accommodation, be provided in the Estimates of the user departments, and that all transactions between common service organizations and client departments be actual transactions.

Setting and Reviewing Rates We have suggested that common service organizations charge departments and agencies for the goods and services that they provide, taking into account the full cost of rendering those services and supplying those goods. While full costing and meaningful transactions are necessary ingredients for a revenue dependent organization, one more component is required to complete the system. Rates and fees must be set for the provision of services and matériel.

The present method whereby common service organizations recommend their rates to Treasury Board for its approval is cursory and routine. The process is not viewed as a mechanism for achieving greater efficiencies or economies in the common service organizations or in the departments and agencies they serve. In the few areas where rates are set, attention is paid to rates only to the extent that they provide sufficient revenue to cover a budget which is approved. Program departments do not participate in the process and well-prepared challenges to proposed common service rates are

not made by the staff of Treasury Board. Where revenue dependency has been adopted to date, it falls short of its potential as a driving force for efficient management because a sound rate review process does not exist.

Formal procedures should be established through which the Comptroller General holds annual hearings, and the fee structures of the common service organizations are reviewed and, should the need be identified, revised. These hearings should be open to all client departments and agencies as well as interested private sector groups. Common service organizations should make submissions of proposed fee schedules in advance and these should be open to challenge by all the participants, including the staff of the Board of Management. Once the hearings have been held, the fee structure should be set on the basis of the recommendation of the Comptroller General and with the approval of the Board of Management. We recommend that

8.4 the Comptroller General annually conduct public hearings with respect to the fees charged by common service organizations with the full participation of common service organizations, program departments and agencies, and interested private sector groups, and that, on the basis of these hearings, the common service fee structures be recommended to the Board of Management for approval and communication to all departments and agencies.

Through these hearings, the Comptroller General and his staff would be serving in the capacity of a "rate review board" and, through the process of conducting hearings concerning common service issues, they would be in a position to carry out a full range of related responsibilities with respect to costing principles in the common service area, the identification of role disputes within the existing machinery of government, and the co-ordination of recommendations to the Board of Management concerning the use of common services and resources to promote other Government objectives. The rate review hearings would provide departments and agencies with an opportunity to call all common service organizations to account for the fees that they charge, the timeliness of their delivery systems, and the quality of the goods and services provided.

Changes in the Organization of Common Services

Establishing a clear common service role and full revenue dependency will go a long way towards creating an environment conducive to improved management and accountability in the provision of common services in government. We believe that ensuring a consistent common service policy and capturing maximum economy and efficiency require that the common service organizations be treated as departments with specific tasks to perform. In this respect, visibility and a fully costed approach are of great importance. The Department of Public Works, the Department of Supply and Services and the consulting and computer services within DSS are readily visible at the present time. The Translation Bureau and the Government Telecommunications Agency, however, are not as visible. Each is currently housed within a large department and, although each performs a distinct service, accountability is not clearly defined. The orientation of the GTA is to contracting with telecommunications companies and is not in providing the Department of Communications with operational or policy advice. The Translation Bureau provides a specialized service which relates in only a secondary fashion to the responsibilities of the Secretary of State. Both of these common service functions would benefit from being part of an organization subject to a full cost, revenue dependency régime. We recommend, therefore, that

8.5 the Bureau for Translations and the Government Telecommunications Agency be transferred to the Department of Supply and Services under the direction and control of the Minister of Supply and Services.

Our recommendation concerning the removal from the Services Administration of the functions of accounting, auditing, and cash management would facilitate the transfer of the Translation Bureau and the Government Telecommunications Agency. The Services Administration would thus be composed of organizations offering services in translation, telecommunications, management consulting, and computer advice and expertise. Such a proposal brings together under one minister a group of common service organizations whose functions are important to government and whose services can be fully costed and unit-priced. All should be

able to compete effectively with similar services offered outside government.

The Department of Supply and Services is currently administered by two deputy heads, one for the Supply Administration and one for the Services Administration. If the proposed transfer of functions to and from DSS occurs, the existing split between supply and services would no longer be necessary. All the services should be provided under the management of one deputy. In this way, the existing experience with full costing and revenue dependency could be applied across the Department. Such an arrangement should provide for greater co-ordination of the Department and the achievement of some new economies. Moreover, because DSS operations lend themselves to sound financial information systems, delegation, and, as a result, accountability, one deputy should be in charge of departmental management and organization. We recommend, therefore, that

8.6 all the functions of the Department of Supply and Services be brought together under one deputy minister.

We believe that Crown Assets Disposal Corporation does not require an arm's length relationship from Government because it is basically an integral part of the common service structure. It should function under the common services policies applicable to the other organizations, and be subject to the management and accountability régime that we have prescribed for all departments. Consequently, we have categorized the CADC as an *Other Designated Department*. We recommend that

8.7 the Crown Assets Disposal Corporation continue to be responsible to the Minister of Supply and Services, be governed by the common service policies of the Board of Management, and subject to the proposed management and accountability régime recommended for all departments.

Design and Construction Capabilities within Departments The design and construction capabilities in the Department of National Defence, the Department of Transport, and the Department of Indian Affairs and Northern Development are of a common service nature; however, they do not now operate in accordance with the policies we are recommending for common service organizations. We recognize that the unique needs of the program departments concerned and the design and construction specializa-

tion involved in meeting these needs are strong reasons for maintaining these capabilities within the departments. Still, we cannot accept that the present arrangements are conducive to efficient management or accountability. We believe that all activities in the field of design and construction now housed within departments should be set apart as distinct units, severed from their client departments. These units should bear the full costs of their operations and be funded on a fully revenue dependent basis. To clarify their specialized roles within their departments we think that these units should be organized in the same fashion as we have recommended for the Crown Assets Disposal Corporation and categorized as *Other Designated Departments*, our Category I-B. These organizations would require no addition or duplication of staff, and should be accountable through the same régime as we recommend for all government departments. In summary, we recommend that

8.8 the branches within the Departments of National Defence, Transport, and Indian Affairs and Northern Development which provide design and construction capabilities be specifically and separately identified and organized as *Other Designated Departments*, and made revenue dependent on a full-cost basis.

Setting apart these branches within departments and constituting them as fully revenue dependent organizations will also allow for a greater capacity on the part of the Comptroller General to compare costs across government with respect to design and construction. Healthy competition would develop among the new *Other Designated Departments* themselves and the Department of Public Works in that costs would be visible for purposes of comparison and positive pressure would be applied to each organization to keep costs down and delivery of goods and services timely. None of the organizations should be permitted to operate in a "cost sanctuary". The application of fully costed revenue dependency would preclude this undesirable situation.

Management of Large Projects

The final question which must be considered in dealing with the common service organizations in government, and one which

we have examined closely, is the management of large projects. The Treasury Board published in June 1978 a document entitled, "Treasury Board Policy and Guidelines on the Management of Major Crown Projects". These guidelines are detailed and comprehensive and state clearly the Government's policy with respect to major Crown projects and the methods and systems to be followed in their planning, management, and delivery. Our conclusion is that the Treasury Board position is sound. Departments, agencies, and common service organizations should be made fully aware of the contents of this document, accept them, implement them, and recognize that they still retain their responsibilities and accountability with respect to large project management.

At the beginning of this chapter we indicated the questions that we pursued with respect to the provision of matériel and services to government departments and agencies. Our study has indicated that, to a degree, the experience with the provision of common services has been satisfactory, although there is surely room for improvement. We found that the present arrangements for charging for common services does not go far enough in encouraging economy on the part of user departments, and we have made recommendations that should alleviate this situation. Finally, we believe that the organization of common services in a departmental form has the potential for strengthening management of, and accountability for, the provision of common services. Implementation of the recommendations in this chapter, and those in Part III of this Report, will clarify roles and responsibilities and provide a sound accountability régime for common service organizations and the departments and agencies which they serve.

PART III

DEPARTMENTS

RESPONSIBILITY AND ACCOUNTABILITY FOR DEPARTMENTAL MANAGEMENT

This part of the Report builds on the changes recommended for the central management framework by setting out our conclusions and recommendations for corresponding changes required at the departmental level. We reject the idea put to us by some that the realignment of responsibilities and re-ordering of systems that we are recommending are already in place. The concepts may have been proposed, but too often, words have not been followed up by the actions which would have ensured the desired effects. Furthermore, changes have often been made on a piecemeal basis. One of our primary purposes, therefore, is to bring roles and processes together in such a way that compatibility is achieved and responsibility is focussed. While central management should provide impetus and direction, departments and agencies must be the focus for management in government.

Departments are the principal delivery arm of government; through them, the Government manages its programs and delivers its services. They are instruments under the direction and management of ministers and through which ministers discharge mandates conferred on them by Parliament in departmental acts. Each departmental statute sets out a minister's area of jurisdiction and prescribes his responsibility for direction and management. Departments are thus distinguished from any other type of governmental body by the fact that each is legally under the direct control of a responsible minister.

Departments differ considerably in function and organizational form. Organizations may vary from the classical department such as Agriculture, or External Affairs, to the ministry format of the Solicitor General's department, to departmental agencies like

the Canadian International Development Agency, to departmental corporations such as Canadian Arsenals Limited. Departmental functions cover the range from policy development and co-ordination to program delivery. The Department of National Revenue, for example, is an operational department, while the Department of Finance is primarily concerned with policy, and the Ministry of State for Science and Technology with policy co-ordination. Others, such as the Department of Transport, combine policy and operational functions.

In Part I of this Report we described the numerous activities in which government is engaged, the variety of forms in which it is organized, and the implications of such organization. Crown agencies, for example, have purposely been situated at arm's length from ministers in terms of direction or management or both. Departments, on the other hand, are meant to be highly responsive to the direction of ministers. Too often, however, departments have been provided policy direction without being appropriately monitored to see how they are being managed. Too often, the priorities, concerns, and skills of ministers—and, by extension, deputy heads—are directed toward policy and not administration or operations.

Ministers are normally selected to head departments for reasons other than their managerial skills. Their attitudes toward their portfolios understandably will be influenced by partisan considerations. Moreover, long tenure cannot be guaranteed. Elections occur at fairly frequent intervals and changes in the Cabinet line-up, even during the life of a parliament, are not uncommon. The nature of the political leadership that results has two important consequences for departmental administration. The first is the inevitable tendency of ministers to focus on policy matters and other issues of immediate importance to them. Management concerns tend to receive proportionately less attention unless particular problems of an administrative nature arise and require an immediate solution. The second consequence of the impermanence of ministers is the requirement for a permanent career public service whose leadership in each department is vested in a deputy minister. Deputy ministers are the link between the permanent public service and its transient political leadership. They represent two aspects of the conduct of public business, the need for continuity in its operations and the inevitability of change in its leadership. Deputy ministers are both the confidential advisers of

ministers and the chief administrative officers of departments. Seeking or achieving the appropriate balance between these roles is the essence of their job.

The conditions under which departmental and government business are conducted strongly influence deputy ministers' perceptions of what is required of them and hence their view of the relative importance of their administrative and policy advisory roles. To describe the environment in which deputy ministers and other public servants have recently worked, one witness appearing before us drew an analogy with the marketplace. A deputy faces stiff competition for the minister's time and attention, not in the area of departmental administration, but in policy advice. For policy advice the minister can turn to a variety of sources, while for advice on administrative matters the deputy's position is far less likely to be challenged. Consequently, the deputy has tended to devote more time to policy in order to maintain his competitive position with the minister.

Other factors have influenced perceptions of the relative importance of policy and administrative concerns and consequently the attention paid to each. The assumption that resources would be perpetually abundant led to placing a premium on creativity and ingenuity in policy development rather than on financial and administrative skills. There has been a commonly shared perception that the road to career advancement is in the policy advisory field. Indeed, many deputy ministers still believe that policy skills are valued more highly than administrative skills and that administrative ability is not given sufficient consideration in making deputy minister appointments (See Appendix B, "Deputy Head Questionnaire"). Furthermore, in responding to our Questionnaire, though deputy heads did choose a balanced set of management and policy responsibilities, including "assuring economy and efficiency in operations" and "managing my executive team", more deputies ranked "supporting my minister" and "ensuring that my department is responsive to the policy thrusts of the government" as their first or second most important responsibilities. Management responsibilities tended to be ranked third or lower. Deputies generally agreed about their five most important responsibilities, but disagreed about the relative importance of each. This suggests that each deputy's view of his role is strongly influenced by his particular circumstances and the concerns of his minister. In most cases these concerns are related to policy rather

than to administration. That a deputy's concerns should reflect those of his minister is not surprising in view of the deputy's accountability to him, but it also tends to reinforce the view, expressed to us on many occasions, that there are no rewards for good management. The corollary is that in the past there seldom have been sanctions against bad management either.

The importance of policy in government does nothing to detract from the need for sound management. Good administration is, in fact, essential to policy development because it provides the foundation for the allocation and efficient use of the resources required to implement policy. Careful planning and administration become even more necessary to the success of policy initiatives when those resources are in short supply. Good management in departments, therefore, is essential.

The present quality of management in government falls short of acceptable standards. We have discussed the preoccupation with policy and the resulting lack of emphasis on management. We are also aware that the pre-eminence of policy concerns can be used as an excuse for not managing or as a disguise for poor administration. Nevertheless, the Government's policy responsibility will remain and, in an environment of limited resources, will become even more challenging because difficult choices will have to be made. At the same time, the interdependence of policy and management should become more understood; each should be expected to support the other.

Departmental management has fallen short of acceptable standards because the pressure necessary to produce sound management of resources at all levels has not been applied. The resulting vacuum, when it has been recognized, has been filled through the actions of central agencies. While we have criticized the mounting numbers of central agency directives and controls, we recognize that many of these have been necessary measures that appear to be in the best interests of departments. Improved accounting standards, performance measures, program evaluation, and even controls over such seemingly minor things as taxi use and travel are all basic components of a departmental management system. Senior departmental managers should provide the leadership and pressure for improvements in these areas, but when they do not, it is understandable that central agencies have had to intrude on the management prerogatives of departmental administrators.

There is a lack of understanding of the full role of management in government. Management responsibilities are not well defined nor clearly delineated in the administrative structure. Thus, control and accountability relationships are obscured.

Our extensive investigations into the problems of departmental management have led us to the conclusion that policy development and program implementation in departments must be complementary. Deputy heads must be actively involved in the administration and operation of their departments if they are to be effective in offering policy advice and in developing programs that can be designed and carried out with value for money in mind.

The findings we present in this chapter are based on meetings with all the deputy ministers of departments, and the heads of many of the agencies designated as departments; a review of written submissions from many of the deputies and from the central agencies; the analysis of the responses to the detailed and comprehensive Questionnaire which was completed by the 27 deputy heads to whom we sent it; a study of how ten deputy ministers use their time; and, discussions of management matters with officials of central agencies, a number of ministers, and members of opposition parties.

As we said in our Progress Report, within any department, the minister and the deputy minister form an interdependent team who together provide the direction and management of the department. We devote the balance of this chapter to a detailed examination of how the responsibility and authority for this direction and management, and consequently, the accountability, are shared by and divided between the minister and the deputy.

Ministerial Responsibility for Management

In our system of government, authority is vested in ministers who are responsible to Parliament for its exercise. This principle of ministerial responsibility means that Parliament can assure itself that power is being exercised lawfully. Ministers are called upon to answer in Parliament for the actions of their subordinates and are held personally responsible for the activities carried out under their authority. This is fundamental to responsible government; if ministers are to meet the demands of responsibility to Parliament, they

must be able to speak with confidence about the actions of their subordinates.

When a minister delegates to a deputy authority for the control, management, and direction of the department, the minister's responsibility persists even if he or she has not the means to control and direct the exercise of the delegated authority. Ministers therefore must be able to assure themselves that actions carried out under their authority are in accordance with the requirements of the responsible exercise of power. In recent years, the ability of ministers to gain this assurance has been questioned, throwing the validity of the whole doctrine into doubt. We see no reason why this should be so. Because it is grounded in convention, the interpretation and application of the doctrine are subject to change.

Circumstances have changed since the development of the doctrine in the 19th century. Today, ministers are not necessarily held responsible for all the mistakes or failings of public service subordinates unless they clearly knew about and ignored them, or ought to have known about them. Even in cases where fault has been found, ministers are not really expected to resign unless they have been personally involved. Moreover, the imposition of the ultimate sanction, Parliament's withdrawal of confidence, is highly unlikely under a system of governments based on disciplined political parties and legislative majorities.

What is clear is that ministers continue to be responsible to Parliament for answering questions, providing information, and indicating that investigations or corrective action are underway if required. This requires that ministers recognize that they may, and likely will, be called upon to answer for all matters relating to their departments. At the same time, ministers must be free to delegate to officials the authority to carry out specific tasks. Ministers must do this with the knowledge that officials understand and accept the tasks assigned to them and will be held to account for their stewardship.

Ministerial delegation of management authority is essential. Ministers face heavy demands on their time. They are members of a political party, constituency representatives, members of the Cabinet and its committees, and Members of Parliament. The obligations attendant on these roles must be balanced with departmental responsibilities, and it is unrealistic to expect that ministers will be able to devote to their departments the time necessary to

gain a detailed knowledge of their operations. This does not detract from responsibility. It does, however, require that the role of the minister be clarified, supported, and strengthened. To this end, the information developed through the Board of Management review of departmental performance should be helpful to ministers in gauging the quality of administration in their departments and the way in which delegated management authority has been exercised. In Chapter 11 we make recommendations to strengthen and support ministers' responsibility for planning and determining priorities and goals in departments.

In summary, we do not accept that the doctrine of ministerial responsibility has been abrogated or its importance diminished. We realize, however, that circumstances have changed and that ministerial responsibility must now be supported by greater delegation of management authority. This, in turn, requires that accountability for the exercise of delegated authority be clearly identified and defined.

The Administrative Authority of the Deputy Head

Our terms of reference suggested and our investigations confirmed, that accountability for departmental management must be focussed in deputy heads. The role and authority of deputy heads are defined in a number of formal and informal ways. Formal definitions of their duties and responsibilities are found in a variety of acts of Parliament, under which deputies are directly assigned responsibility or have authority delegated to them by ministers or by the central agency responsible for implementing the act. ?

The primary legal basis for a deputy's role is the departmental act. Departmental statutes invariably assign to ministers the management and direction of the department and also establish the position "chief officer" or "deputy head" of the department. A second basis is the *Interpretation Act*, which states in part in Section 23(a): "Words . . . empowering a Minister . . . to do an act or thing, . . . include . . . his . . . deputy." This allows deputies to exercise the minister's authority and to undertake a wide range of tasks on his behalf. These include managing the department, co-ordinating interdepartmental activities, meeting with other governments, and ensuring the implementation of other acts assigned

to the department. In addition, acts such as the *Customs Act*, may assign responsibility for a particular task directly to the deputy head or to another departmental official.

Deputy heads also have specific administrative responsibilities assigned by the minister or by a central agency. These responsibilities are defined under the *Financial Administration Act*, the *Public Service Employment Act*, and the *Official Languages Act*. Together they delimit the managerial role of deputies, establish the basis for their accountability, and underline the fact that deputies are the chief administrative officers of departments.

The Financial Administration Act gives implicit recognition to the management role of deputy heads by assigning responsibility to them, rather than to ministers, in a number of important areas.

1) *Financial and Asset Management* The Act assigns to "the deputy head or other person charged with the administration of a service" authority for the following:

- Control of departmental allotments by means of "an adequate system of internal control and audit". Section 24(4)
- Ensuring the availability of the required funds before any "contract or other arrangement providing for the payment of money by Her Majesty shall be entered into". Section 25(1)
- Maintaining "a record of commitments" chargeable to appropriations. Section 25(2)

2) *Contract Performance* Section 27 of the Act assigns responsibility to deputy heads for approving payment for work, goods or services on the basis that

- "the work has been performed, the goods supplied or the service rendered, as the case may be, and . . . the price charged is according to contract, or if not specified by contract, is reasonable" or
- "where payment is to be made before the completion of the work, delivery of the goods or rendering of service, as the case may be . . . the payment is in accordance with the contract".

In this connection, it should be noted that deputy heads do not have the authority to determine the terms of contracts for work, goods, or services; they may only determine that the terms as above have been met.

3) *Custody of Public Property* Section 53 of the Act assigns to deputy heads authority for the management of public property, stipulating that "the deputy head of every department shall maintain adequate records in relation to public property for which the department is responsible and shall comply with regulations of the Treasury Board governing the custody and control of public property".

4) *Security* Finally, the security inquiry regulations established by virtue of Section 7 of the Act require that all recommendations to the Governor in Council respecting dismissals for security reasons be made by deputy heads.

Very clearly, then, the *Financial Administration Act* makes the deputy head responsible for the financial management of the department and for its administration and operation. The Act does give the minister the final signing authority before payments against appropriations are made, but in practice this authority is delegated to the deputy minister and financial officers in the department under Section 26(1).

Personnel management responsibilities are set out in both the *Financial Administration Act* and the *Public Service Employment Act* and are assigned to the Treasury Board and the Public Service Commission. These two central agencies delegate authority directly to deputy ministers in this area.

The Treasury Board's responsibility for personnel management under the *Financial Administration Act* encompasses manpower requirements and allocation, training and development, classification of positions and employees, determination of pay, standards of discipline, and other terms and conditions of employment. The Board is empowered to delegate this authority to deputy heads by Section 7(2) of the Act, and may "revise or rescind and reinstate" the delegated authority as it sees fit.

Under the *Public Service Employment Act*, the Public Service Commission has exclusive right and authority to make appointments to or within the public service, including initial appointment, promotions, transfers, demotions, and release. Section 6 of the Act allows the Commission to delegate any of its powers, functions, and duties to deputy heads, save for those powers relating to appeals and investigations. The Commission may similarly "revise or rescind and reinstate" the delegated authority.

Under the *Official Languages Act*, when the Commissioner of Official Languages acts on a complaint, it is to the deputy head of the department concerned that he first makes recommendations for corrective action. If the result is not satisfactory, the Commissioner reports to the Governor in Council and not to the deputy head's minister. The Act thus recognizes that if administrative practices or procedures bearing on the use of official languages need to be changed, it is the deputy head who is in a position to direct that these changes be made; he has been directly assigned this responsibility by the Government.

In summary, the deputy head's formally defined administrative authority, whether delegated, directly assigned, or implicit in legislation, provides a clear basis for his managerial role and accountability. In addition, the implicit and explicit duties for which authority has been delegated or assigned should be the basis for a formal assessment of the deputy's performance. Regrettably, this is not now the case. Moreover, such an assessment must take into account that the deputy's responsibilities extend well beyond departmental administration. It is to this wider area that we now turn.

Deputy heads occupy an exceedingly important position in the machinery of government. But while their administrative responsibilities are reasonably well defined in law, the same is not true of the other major aspects of their job. There is little or no legislative guidance concerning the provision of policy advice to ministers, or to the Government, or respecting the support of ministers in their broad collective responsibilities.

Deputies' policy responsibilities require the provision of advice on policies and programs to their ministers individually. They also have a responsibility to counsel the Government, through their ministers and by participation in Cabinet committees, on the potential benefits and risks, including the financial implications, of any proposal. They must be responsive to the policy requirements of the Government and provide sound advice that reflects a perception of the balance among departmental priorities, the Government's objectives, their ministers' concerns, and the public interest. In addition, because ministers are allowed only small personal staffs, deputies, through the department, provide support to the minister in the preparation of speeches, responses to questions in the House, and other activities.

Traditionally, the deputies are non-partisan and capable of serving any Government. Though they are appointed by the Governor in Council on the recommendation of the Prime Minister to serve at pleasure and are, therefore, outside the scope of the *Public Service Employment Act*, most deputies are career public servants. They are the link between the political arm of government and the public service and stand on the frontier between the bureaucracy and the political world.

Deputies, apart from their departmental responsibilities, support the collective management responsibility of the Government. In part, this requires the implementation of financial and personnel management policies established by central agencies on behalf of the Government. In addition, the complexity of the issues with which government now deals makes it more and more likely that the actions of any one department affect, and are affected by, the actions of others. Deputies must, therefore, support efforts by the central agencies to co-ordinate government activities, and at times, subordinate departmental interests to the broader interests of the collectivity. Departmental interests demand, however, that the deputy maintain a distinct role that involves him in continuing negotiations with the centre to secure resources, concurrence with program plans and policy initiatives, and co-operation in the timely provision of supporting services.

As manager of a department of government, the deputy head should focus critically on the policies, programs, and services that must be developed and implemented to fulfil the mandate of the department. Deputies must exercise their delegated authority over departmental organization, personnel, and operations to ensure that maximum value is obtained from resources. In managing existing programs, the deputy's concern must be with efficiency, doing better what is already being done. In implementing policy initiatives of the minister and the Government, when involved in the development of new programs, the deputy's concern must also be with effectiveness. The deputy must be concerned with changing current practices and directing resources to where they best serve the departmental mandate.

Deputies throughout government discharge their responsibilities with varying emphasis and effectiveness. Nevertheless, the deputy is the only senior official who is in a position to see that policy and management responsibilities of departments are appropriately balanced and carried out. The Government must, through

both selection and guidance, strengthen the management performance of deputy heads, in order to improve the efficiency and effectiveness of departmental administration. Given the competing pressures on the deputy, we raised a basic issue in our Progress Report: "Do the policy advisory responsibilities of the deputy minister significantly reduce his or her capacity to give adequate attention to the administration of the department?" We conclude that the answer to this question is "no". The management role can and must be adequately performed and there is no merit in or need for separating the policy and administrative responsibilities.

The Managerial Capacity of Deputies

Given the mix of responsibilities described above, the conflicting accountability relationships they imply, and the demands on a deputy's time and attention they impose, we were concerned about the constraints on the deputy's freedom to manage and, therefore, about the practicability of realistically evaluating his performance and holding him accountable in a meaningful way.

Deputies' responses to the Questionnaire show that most believe they are in control of the management of their departments. They carry out the basic management tasks related to both policy development and operations. They establish direction, gain agreement on specific objectives, delegate authority, deploy resources, review performance, and take corrective action. As detailed in Appendix B,

- deputies overwhelmingly assert that they have developed a clear set of objectives for the department
- the vast majority of deputies agree that they are given early warning of possible significant variances from budget
- they confirm that they are able to keep pretty well to the management priorities that they set
- the majority agree that when authority is delegated in their department, it carries clearly defined objectives
- most say that they can adequately review the use of delegated authority by their subordinates

In most departments there is a formal management group, not always known as a management committee, that meets regularly to address all important departmental issues and to communicate priorities, decisions, plans, and problems. We ascertained from our study of how deputy heads use their time that on average, about two-thirds of a deputy's long working day is spent on management activities. They spend only about 15% of their time in interdepartmental committees, central agency meetings, and Cabinet committee meetings, and about 10% of their time on external contacts. Thus, deputies can and do organize their time to manage their departments. For the most part, they can control the use of their time by carefully selecting their personal participation levels in internal and external activities, limiting their personal intervention to strategic and important issues, and being represented on other occasions by senior members of the department's management team.

Finally, deputies' own perceptions indicate that policy preoccupations do not detract from concern for management. When given an opportunity to select their most important responsibilities, deputies chose a balanced set of tasks that reflects the complexity of their positions in relation both to their ministers and to their departments. Deputies chose the following responsibilities as their eight most important:

- managing my executive team
- ensuring that my department is responsive to the policy thrusts of the government
- supporting my minister
- providing the government with sound policy advice
- assuring economy and efficiency in operations
- adjusting/adopting programs to achieve my department's mission
- setting up/building my department's management capability
- performing the role of leader for my department's employees

The deputies avoided selecting responsibilities that could be characterized as routine, involving administrative and procedural rectitude, the use of regulatory authority, or the undertaking of specific activities. Their particular choices of management tasks

related neither to the size of the department nor to their perception of the department's orientation toward policy or operations. We recognize that the priority given to each task by individual deputies may have been specific to the management problems and requirements of their departments, and that there will inevitably be discrepancies between what deputies consider should apply and what actually does occur. Nevertheless, it is significant that so many deputies define their role in managerial terms, that they speak of accepting responsibility and being held accountable.

We conclude, therefore, that even under present circumstances, there is no overriding reason why deputies should not be held accountable for their management. Indeed, deputy ministers *want* to be held accountable.

Deputy Minister Accountability

The foregoing description of the deputy minister's role is by no means exhaustive, and only suggests the many accountability relationships it involves. In addition to the links to the minister and the Government, and to the central agencies, which imply accountability, the deputy is involved in other relationships that can impose their own requirements for, or sense of, accountability. Perhaps principal among these are deputies' links to Parliament. Deputies appear before parliamentary committees, theoretically as representatives of their ministers, but in fact these sessions provide the only occasion for public examination of departmental administration, which is the direct responsibility of deputies. Deputies can have a sense of direct accountability to the Prime Minister who appoints them and who can dismiss them. They are members of a community of their peers and perceive that they are evaluated by them; they are part of "the side" which must not be let down. They are members of departmental management teams and leaders of employees and have a responsibility for their motivation and well-being. They may act in a variety of formal and informal capacities in relation to Crown corporations, agencies, and advisory bodies within their ministers' portfolios. They are also influenced by a sense of accountability to the public. Some departments serve or otherwise affect a particular group or clientele and the quality of that service is of primary concern. Accountability to

the public can also relate to a responsibility to guard the public trust in the use of resources or to attempt to define and serve the public interest in developing and implementing policies and programs. Some deputies maintain that they are, in effect, accountable only to themselves, and claim to measure their performance against their own standards of excellence.

Despite this gamut of opportunities for accountability, some of which are realized, albeit in a limited way, deputy heads are not regularly held accountable in a systematic or coherent way for program management and departmental administration. It is essential that the authority of deputies with respect to administration be clearly prescribed, and that they be held accountable for that administration. The minister, the Prime Minister and the Cabinet, the central agencies, and Parliament all have specific requirements for an accounting from deputies. All of these requirements must be met, but no one to the exclusion or detriment of the others. We have concluded that what is required, rather than the present state of confusion and diffusion of accountability, is a means of holding deputies accountable so that the needs of each are satisfied.

More specifically, unless the accountability of deputy heads is defined and made real, delegation of managerial authority can never adequately support the individual and collective responsibilities of ministers as we have said it must. This can be accomplished through three distinct but interrelated procedures for setting goals and reviewing their achievement. To this end, we recommend that

9.1 departmental plans and performance goals be developed for the minister's approval by the deputy minister in his capacity as *Chief Administrative Officer*, and that the achievement of these program and performance objectives be monitored and later reviewed by the Board of Management in a manner that would permit the deputy to defend departmental performance; and that

9.2 deputy ministers be liable to be called to account directly for their assigned and delegated responsibilities before the parliamentary committee most directly concerned with administrative performance, the Public Accounts Committee.

The third procedure, that for selecting and appointing deputy heads and for appraising their performance, is the subject of the next chapter.

THE APPOINTMENT AND APPRAISAL OF DEPUTY HEADS

Following the establishment of the Advisory Group on Executive Compensation in 1967, the Government set up procedures for evaluating performance and determining salaries for the executive category in government, including all Order in Council appointments. Our examination of these procedures, as they apply particularly to deputy heads, however, indicates that managerial performance is not given adequate recognition in the deputy head appraisal and appointment process. In Chapter 7, we recommended an approach to reviewing departmental performance that stresses operational planning and open reporting of progress toward planned objectives; in short, accountability for results. We strongly emphasize this approach. It will provide essential information for use in appraising deputy heads.

This chapter addresses our concern that managerial performance is currently undervalued in deputy head appointments, and is not given recognition and support at senior levels of government. We recognize, and have taken into account, the breadth of deputies' responsibilities, but we are convinced that effective management by deputies is a basic part of their total role.

Deputy heads are appointed to or removed from office by the Governor in Council on the recommendation of the Prime Minister. The function of advising the Prime Minister on senior appointments is performed by the present Secretary to the Cabinet for Federal-Provincial Relations. The Secretary is supported in this role by the Senior Personnel Secretariat in the Privy Council Office.

The secretariat maintains files on all Governor in Council appointees, forecasts likely vacancies, and prepares material on

prospective candidates from both inside and outside government. The secretariat does not have the use of established job descriptions from which to develop selection criteria; there is neither a general description applying to all deputies, nor a specific set of responsibilities for each department. Nevertheless, the secretariat does prepare job profiles for new positions or for positions whose orientation has changed. These profiles are drawn from sources such as the relevant departmental Act, current Government policy, and the Prime Minister's views on future directions in particular areas of responsibility. From these sources the secretariat develops a general picture of the qualities required for a specific position and assesses the strengths, weaknesses, and experience of potential candidates accordingly. This information is used by the adviser on senior appointments in preparing for the consideration of the Prime Minister lists of candidates for appointment by the Governor in Council to individual, full-time positions.

The Principal Secretary to the Prime Minister is consulted about these lists. In addition, the Prime Minister's Office independently prepares lists of candidates for part-time positions that are filled by Governor in Council appointment.

Usually after consultation with the adviser on senior appointments, the Principal Secretary, and the Secretary to the Cabinet, who is also the Clerk of the Privy Council, the Prime Minister authorizes further consideration of some of the proposed candidates. Contact with these candidates is generally the responsibility of the adviser on senior appointments. Before the Prime Minister makes his final decision and proposes the appointment to the Cabinet, he usually consults with the minister of the department in question and with others as he deems appropriate. The appointee may learn of his appointment from the adviser on senior appointments or from the Prime Minister himself.

The Prime Minister has, and needs to have, the prerogative of appointing the deputy head. This power provides him with an opportunity to create a balanced team. Moreover, because the Prime Minister may need to, and often does, change ministers during the life of his Government, he should be able to rely on the deputy minister to provide continuity and a sense of permanence. As well, appointment by the Prime Minister as leader of the Government is justified by the fact that, in accordance with various acts, the deputy head exercises authority on behalf of the Government independently of the minister.

In other respects, however, the present approach to filling deputy minister positions is less than satisfactory. First, the mobility that has been characteristic of the deputy head group (at least until very recently) is too high to ensure effectiveness and continuity in departmental management. Second, insufficient consideration is given to departments' administrative needs and to the management skills of potential deputies.

Whether by intent or because of circumstances, the movement of deputy ministers into and out of departments reached high levels in recent years. In June 1978, the median time for deputy ministers in office was 1½ years and the maximum for any deputy was seven years. Mobility has been increasing. Twice as many deputy appointments were made in the five-year period from 1974 to 1978 to the departments in existence in 1959 as were made in the years 1959 to 1963.

TABLE 10.1
NUMBER OF DEPUTY MINISTER APPOINTMENTS
MADE IN 5-YEAR PERIODS, 1959-78

Year	To the 22 Departments Existing in 1959	To the 22 Departments Plus All Others Created Since 1959
1959-63.....	16	19
1964-68.....	14	24
1969-73.....	23	34
1974-June 78	30	41

Not all departments have experienced frequent change. There have been only three Clerks of the Privy Council and three Deputy Ministers of Transport since 1954, and the Department of Finance has had only four deputies since 1953. The following, however, have had five deputies since 1967: Consumer and Corporate Affairs; Energy, Mines and Resources; Employment and Immigration; National Revenue—Taxation; Public Works; Secretary of State; and the Treasury Board Secretariat.

The high rate of mobility among deputy heads of departments and agencies has become a major management problem. If continued, excessive changes could undermine efforts to strengthen management and accountability in government. Frequent change in the leadership of departments, by breaking management continuity, can undermine the morale of organizations. Moreover,

claims cannot be made that wide experience helps make up for the high mobility of deputies. Nearly 80% of present deputies received their initial appointments as deputy heads since 1971, and about half have neither worked at lower levels in the department they administer, nor had the benefit of significant similar experience in related fields before joining the federal government.

Departmental managers have experienced too often the pattern of events that follows replacement of the deputy head. A new deputy means re-orientation, a decision-making pause, potential new priorities, possible re-organization, new relationships, and the anxiety that can precede the establishment of the basic trust upon which all successful organizations depend. This is a trying process; that many departments have experienced it as often as every two years is a partial but vital explanation of low morale in the public service, drifting departments, and the lack of a sense of direction in management. Moreover, a deputy who changes jobs frequently will not have a chance to settle into managing the department after the initial adjustment period; nor will he be required to live with the consequences of his actions if he moves on before their effects are felt. Unless deputy mobility is reduced, the prospects for sound management are slim. We recommend that

10.1 on appointment, a deputy head be expected to serve in his department for a period of three to five years.

Responses to the Deputy Head Questionnaire show that deputies believe that the appointment process is guided by the principle of merit, that the better deputies are recognized and moved ahead, that career success is based more on what one does than on whom one knows, and that they would not be more effective in a deputy post different from the one they now hold. This vote of confidence in the appointment process is encouraging, but most deputies also point to a serious weakness in the present system in that they believe that administrative skills are not given sufficient consideration in making deputy appointments. We agree with this observation.

Our recommendations in earlier chapters with respect to the integrated management responsibilities of the Board of Management should form a basis for ensuring that managerial competence is among the most important considerations in the appointment process. We have recommended that the Board's Secretary for

Personnel Management be the leading participant in the most senior public service appointments below the level of deputy head. Since 70% of deputy heads have come to their posts from lower management positions in the public service, the Secretary would have access to assessments of their performance potential. In addition, he would have participated in the planning of their career development. Moreover, through their involvement in the recommended annual review of departments' administrative performance, both the Secretary and the Comptroller General would be in a position to develop assessments of departments' management needs, internal strengths, and areas for improvement. We believe, therefore, that their views should be sought on the development of management criteria to be met in a specific appointment, as well as on the likely ability of candidates to meet those criteria. We recommend that

10.2 the views of the Secretary for Personnel Management and the Comptroller General be sought with respect to all deputy head appointments.

At the present time, the performance of deputy heads is evaluated annually through what is essentially a peer appraisal process focussed in the Committee of Senior Officials on Executive Personnel (COSO). The Committee is now comprised of four permanent members: the Secretary to the Cabinet; the official serving as adviser on senior appointments; the Secretary of the Treasury Board; and the Chairman of the Public Service Commission; and four other deputy heads who serve on a rotational basis. The evaluation procedure applies to all deputy ministers and Governor in Council appointees who report directly to a minister with the exception of the eight members of COSO and other senior deputies at the DM3 level. Of this group, the two Secretaries to the Cabinet evaluate the other members of COSO and DM3s, and the Prime Minister evaluates the Secretary to the Cabinet and the adviser on senior appointments.

In preparation for the annual review by COSO one of the two Secretaries to the Cabinet interviews each minister to obtain his assessment of his deputy's performance. A staff member from the Privy Council Office usually attends these meetings to make a record. In addition, the Secretary of the Treasury Board and the Chairman of the Public Service Commission have assessments of

departmental performance compiled for their own use by their respective staffs. These three assessments provide the basis of the reports made to the full Committee.

The Committee is first presented with a record of the interview with the minister of the deputy head under consideration. Then the Secretary of the Treasury Board and the Chairman of the Public Service Commission give their own views and report on those aspects of their staff assessments of the department's performance that they consider pertinent. The Secretary of the Treasury Board might discuss the deputy's administrative performance in such areas as program management, personnel and financial management, and official languages policy. The staff review conducted for the Chairman of the Public Service Commission examines the deputy's exercise of delegated staffing authority and adherence to Commission regulations. The Secretary to the Cabinet and the adviser on senior appointments provide their personal assessments of the deputy's general contribution to policy development and co-ordination in the public service. The other deputies add their views as they think appropriate. Finally, the Committee suggests a tentative evaluation of the deputy which is recorded, along with significant comments, by staff of the Senior Personnel Secretariat of the Privy Council Office.

At a subsequent meeting, COSO compares the evaluations of all the deputy heads, and groups the deputies into evaluation grades. The Committee also proposes a pay increase for each deputy, based upon his performance relative to his peers in the same compensation range, for consideration by the Cabinet Committee on the Public Service. The Cabinet itself makes the final decisions on the COSO compensation proposals for each deputy after they have been reviewed by the Cabinet committee. Each deputy is informed by letter of his pay award, of his evaluation grade, and of the average increase awarded the other deputies. The letters to the better performers are signed by the Prime Minister; the remainder are signed by the Secretary to the Cabinet for Federal-Provincial Relations, functioning in his role as adviser on senior appointments.

This evaluation process is a fairly recent innovation that is still evolving and improving. Its existence, and the time and effort devoted to it, show a real interest at the centre of government in deputy head performance. But it seems to us that there has been in the past too much emphasis on policy advice and too little on

managerial competence. Many deputies, moreover, indicated that they did not know what was expected of them and hence could not be aware of the basis for their evaluations.

Given the importance of their position as the chief administrative officers in government, it is essential that deputies be motivated to achieve high levels of performance. Our research indicated that serious concerns exist about the satisfactions of being a deputy head. Many deputies are self-motivated, but others are not and feel the lack of external motivation. Forty per cent of the deputy heads indicated that the satisfactions of being a deputy minister are not worth the personal investment required. Moreover, the present evaluation process does not fill the motivation gap. For example, responses to the Questionnaire indicated that half of the deputies did not agree that COSO is the best vehicle for evaluating administrative performance, and the majority of deputies did not believe that the Treasury Board Secretariat has a good knowledge of their administrative performance. Only four of 27 deputies agreed that deputies not performing satisfactorily were dealt with effectively, and only 40% agreed that a good deputy who wore out early because of job pressure was treated well.

Part of the problem underlying this lack of motivation is inadequate communication. An effective management system involves the establishment of objectives, the measurement of performance, and the development of corrective action. It requires communication, discussion, and agreement between the person assuming responsibility for achieving the objectives and the evaluator. For evaluation to have full meaning, there must first be an understanding of the areas where performance will be judged, and of how performance will be gauged. Also required are an agreement on performance expectations, communication of the evaluator's judgement, and an agreed plan for improvement, none of which now exists. In responding to our Questionnaire, only one-third of the deputies said that they were told what was expected of them when appointed to their job, and only one in seven believed that the members of COSO were well aware of a department's performance goals. Fewer than half reported that they knew what their performance evaluation was for the last year, and only one-third believed they understood the basis on which their performance was evaluated. Only one-quarter thought that their administrative performance was given enough consideration

in their evaluation, and fewer than half believed their contributions to policy had been properly recognized.

A full evaluation of the deputy head should include an assessment of his performance in supporting the minister and the Cabinet, providing policy advice, handling intergovernmental relations or negotiations, undertaking public service co-ordination activities, and managing the department's programs, finances, and personnel. Nevertheless, equal weight cannot be given to each of these responsibilities in all departments. The performance appraisal of the individual deputy must recognize the unique characteristics of his department, and the blend of policy and managerial skills required to run it. While we conclude that managerial performance has been undervalued in the appraisal process in the past, we also conclude that the objective for the future must be a process that balances all of the components of a deputy's role.

The appraisal of the deputy minister's managerial performance cannot be based solely on the report on departmental administration prepared for the Board of Management. Consideration must be given to the state of management in the department and the nature of the challenge it presents. For example, the tasks of turning around a moribund organization, cutting back on the scale of operations, or introducing a major new program require different kinds of managerial skills. Evaluation must, therefore, recognize the point from which the deputy begins. Because each deputy faces different problems and opportunities, each should have specific and individually prepared targets to be used for his performance evaluation.

The Privy Council Office has indicated to us that it intends to take steps to begin to integrate performance expectations into the COSO evaluation. Under this proposal, each newly appointed deputy head would meet with the Secretary to the Cabinet, the adviser on senior appointments, the Secretary of the Treasury Board and the Chairman of the Public Service Commission to discuss problems and issues that face the department and demand attention. During his first eight months on the job the deputy would develop, and seek his minister's agreement to, a statement of his objectives. This statement will be sent to the Prime Minister who could, if necessary, respond to it. The statement will then serve as the benchmark for COSO evaluations. The Privy Council Office has indicated that deputies now in office could voluntarily submit the same kinds of statements to their ministers.

While these proposals are an advance, they need to be reinforced if their full potential is to be achieved. Our investigations show that the problems of motivation, the lack of understanding of performance objectives, and the lack of confidence in the evaluation process are not unique to new deputies; they also affect deputies with long experience in government. A comprehensive and systematic approach to developing performance objectives and keeping them up to date is necessary. We recommend that

10.3 on appointment of the deputy, the Secretary to the Cabinet, the official serving as adviser on senior appointments, and the two secretaries of the Board of Management meet with him to discuss departmental problems, issues, and performance expectations, and that individual objectives be agreed between the minister and the deputy, submitted to the Prime Minister, and serve as the continuing basis for performance evaluations; and that

10.4 these statements of objectives be reviewed annually by the deputy head and the minister, and any changes deemed necessary be communicated to the Prime Minister, the Secretary to the Cabinet, the adviser on senior appointments, and the two secretaries of the Board of Management.

These recommendations are intended to ensure that up-to-date performance objectives are developed and are clearly understood by the parties to the evaluation process. Equal care must be taken to ensure that the deputy's performance is correctly and credibly evaluated.

The performance evaluation and ranking of deputies should be undertaken by those officials who have a direct responsibility for, and knowledge of, some of the significant aspects of the deputy's job. The Secretaries to the Cabinet, who are responsible for supporting the Cabinet committees, co-ordinating policy development, organizing the machinery of government, and advising on senior appointments, have an important contribution to make, and should remain permanent members of COSO. If our proposals are implemented, the Comptroller General and the Secretary for Personnel Management of the Board of Management will be holding full-scale reviews of departmental performance with the deputy. Thus, they should be able to develop a thorough understanding of the deputy's management achievements and the condi-

tions under which he works. They should carry this knowledge through to the appraisal of deputy heads by filling the permanent COSO positions now occupied by the Secretary of the Treasury Board and the Chairman of the Public Service Commission. To give balance to the evaluation process and to help ensure that the appraisal is not dominated by the view from the centre, other senior deputies should continue to serve on COSO on a rotational basis, to bring to the appraisal the perspective of deputies operating within the system.

With the addition of statements of objectives on which to base appraisals and the information obtained in departmental performance reviews, the evaluation should proceed as at present, but with one important exception. The deputy should have the opportunity to comment, in writing, on his evaluation before it goes to the Cabinet Committee on the Public Service. Then a synopsis of the evaluation and any comments can be transmitted to the Cabinet for final decision. Once the evaluation of the deputy head is approved by the Cabinet, it is essential that its results be formally discussed with the deputy. While the results of the proposed review of departmental performance by the Comptroller General and Secretary for Personnel Management would be fully explored with the deputy head, this will not suffice for communication of the evaluation of the deputy's personal performance. The evaluation of the deputy's performance covers other important matters, and therefore must be discussed with him by the Prime Minister's adviser on senior appointments. In summary, we recommend that

10.5 the Committee of Senior Officials on Executive Personnel, comprising the Secretary to the Cabinet, the adviser on senior appointments, the Comptroller General, and the Secretary for Personnel Management as permanent members, and four other deputy ministers appointed on a rotational basis, be responsible for preparing for the Cabinet appraisals of the performance of all Governor in Council appointees who are involved in the management of departments; that

10.6 the deputy head have the opportunity to comment on the evaluation before it is forwarded to the Cabinet Committee on the Public Service and the full Cabinet; and that

10.7 following the final decision by the Cabinet, the annual evaluation of a deputy's performance be discussed personally with him by the adviser on senior appointments.

The implementation of proposals in this Report will significantly strengthen the role of the minister in performance evaluation. The minister should approve the individual performance objectives set by the deputy; he should receive the Board of Management report on the performance of the department; and he should continue to provide a performance appraisal indirectly to COSO. These steps should help to reinforce the minister's ability to fulfil his own responsibility for departmental management. They also emphasize the significance of the close working relationship between the minister and his deputy. While this relationship is already close, our research has confirmed that it needs strengthening.

Our study of how deputies use their time revealed that they spend an average of two to four hours with their minister each week. Deputies also indicated that they have far more contact with their minister than with any other potential evaluator of their performance. Moreover, deputies and ministers frequently use written communication and the services of secretariats to keep each other well informed. In their responses to the Questionnaire, 17 deputies indicated that their ministers had a good understanding of their administrative performance, while only six thought that they did not. At the same time, only eight thought that the Treasury Board Secretariat had a good knowledge of their administrative performance, while 13 thought that it did not.

Ministers may also develop an appreciation of the department's management needs and the deputy's performance through other departmental contacts. Senior departmental officials often meet with ministers and accompany them to Cabinet committee meetings without the deputy being present. As well, ministers travel and meet separately with departmental officials in all regions of the country.

Our reason for emphasizing the importance of the minister-deputy relationship, and demonstrating that the minister has the opportunity to become aware of administrative performance, is to propose one more aspect of involvement for the minister in the appraisal process. Under proposals we have already made, the minister would receive the report of the Board of Management on the administration of the department, and he would provide his own appraisal to COSO. In addition, the minister should become a party to the final evaluation of the deputy through a review of COSO's report. At the same time, in the interests of maintaining

free and frank discussion, the minister should not be privy to the details of COSO's discussion or to the sources of information underlying its report. We recommend that

10.8 the COSO evaluation of the deputy be reviewed and, if necessary, commented upon by the minister before its submission to the Cabinet.

Staff Support for the Senior Appointment Process We have given serious consideration to proposing the establishment of a new Cabinet secretary position with full-time responsibility for senior appointments. While there is justification for such a position, we have come to the conclusion that responsibility for the provision of advice on appointments is an integral part of the jobs of the present Secretaries to the Cabinet, no matter how heavy their present workloads might be. While the task is time consuming, it relates to decisions that can be crucial to the success of government programs and to the general tenor of management across the public service. Moreover, the Prime Minister's time is a limited commodity, and we are persuaded that a third secretary would have limited access to the Prime Minister if his responsibilities did not include other major matters that put him in regular touch. As a result, we concur with the present arrangement in which one of the Secretaries to the Cabinet is also the adviser on senior appointments.

Nevertheless, the responsibilities involved in providing necessary advice to the Prime Minister cannot be fulfilled without senior staff support. This support is now provided by the Senior Personnel Secretariat. In addition to backing up the adviser, it provides staff support for COSO and the Advisory Group on Executive Compensation. It is involved in the career planning of senior officers below the rank of deputy head who are prospective Governor in Council appointees, forecasts upcoming vacancies in the ranks of Governor in Council appointees, develops criteria to be met by candidates for some specific positions, and provides other necessary staff work.

With the implementation of our recommendations, the adviser would also have to ensure that management needs, as well as policy responsibilities, were adequately considered in appointments and reflected in appraisals. His already important responsibilities would grow significantly, with the greater emphasis being placed on management, evaluation, and communication. In carrying out

these expanded responsibilities, the adviser on senior appointments would require competent senior staff support to develop and maintain current descriptions of each deputy head job, and to prepare a statement of the personal skills and knowledge to be sought in choosing a candidate for deputy head appointment. The staff should also prepare a statement of the Government's expectations for the department for discussion with COSO and with the appointee and maintain a record of agreed goals and performance. Finally, senior staff could assist in communicating the results of annual reviews and providing follow-up information to deputy heads.

While our recommendations focus on the evaluation of deputy heads, the extent of staff work required relates to a much larger community. In addition to appointing deputy heads, the Governor in Council has appointment authority for approximately 70 more positions at the pay levels of deputy minister or above, such as the heads of agencies and commissions. The Prime Minister's adviser can also be involved in appointments made by the Governor in Council at pay levels lower than that of deputy minister and the Privy Council staff must also provide support in this area.

The proposals in this chapter should apply to all deputy heads, and to the heads of *Other Designated Departments* as set out in Appendix A to this Report. We recommend somewhat different processes for the other Governor in Council appointees. In Part IV we recommend procedures for appointing and appraising members of *Independent Deciding and Advisory Bodies*. Candidates for these positions should be subject to the same rigorous scrutiny as deputy ministers. The annual establishment of performance objectives at the centre, however, is inappropriate for these positions which must be at arm's length from Government and where Government direction must be overt and explicit. The head of an agency or the chairman of a corporation generally operates independently within the mandate established by Government and Parliament; in many cases both the levels of pay and the terms of appointment are fixed by statute. With respect to *Other Designated Departments* and *Independent Deciding and Advisory Bodies*, the minister should submit annual reviews of the performance of chief executive officers to COSO for subsequent use in the appointment process.

While we accept that the adviser on senior appointments will only be able to devote part of his time to this responsibility, the

staff providing support to him in the Privy Council Office will have to be headed by an officer who will be able to devote all of his time and who, because of the responsibilities he will have, should be able to command the same respect, trust, and confidence across government as is accorded the adviser himself. Obviously, the person filling this role must be, and must be seen to be, at a very senior level. Within the Privy Council Office this role with respect to direction of support staff for senior appointments is now combined with responsibility for government organization and vested in a Senior Assistant Secretary to the Cabinet. We believe that the two roles should be separated; the role of heading the staff providing support in appointments to departments and Crown agencies, including to the boards of Crown corporations, should be upgraded. We recommend, therefore, that

10.9 a deputy secretary to the Cabinet be assigned full-time responsibility for supporting the adviser on senior appointments.

The performance of deputy heads is critical to successful management in government. As chief administrative officer of the department and principal policy adviser to the minister, the deputy minister is in a unique position to influence the course of policy and the manner in which policies are implemented. The process for selecting a candidate and appointing him to a particular position should reflect the pivotal nature of the deputy's role and take into account the candidate's personal skills in relation to the requirements of the position, keeping in mind that requirements can vary among departments, and, indeed, can change over time within a department. In addition, the system for the appraisal of deputy ministers must support the appointment process by identifying personal strengths and weaknesses in a systematic way so that candidates can be matched to the requirements of positions.

The systems of appointment and appraisal of deputy ministers must be linked to a means of identifying the management needs of each department, to ensuring the selection of a deputy minister qualified to meet those needs, to ensuring that deputies know what is expected of them and are motivated to high levels of achievement, and to providing the Prime Minister, the Cabinet, and the minister, who are ultimately responsible for the management of government, with information on the performance of deputies.

THE PREPARATION AND REVIEW OF DEPARTMENTAL PLANS

The implementation of the recommendations we have made with regard to the submission of a Fiscal Plan to Parliament, the setting of expenditure limits, and improvements in the format and content of the Estimates will have a dramatic effect on the way in which departments and agencies develop their own plans. They will have to plan, for both the medium term and the short term, within finite limits that are known to all. Their activities will be clearly related to objectives and measurable outputs. The responsibilities of program managers will be linked directly to specific resources. These changes will result in useful departmental plans which are needed if financial management and accountability are to be strengthened. In this chapter, we explore how medium and short-term plans should be assembled by departments and agencies, and centrally screened so that they meet this objective.

Given that the Government's Fiscal Plan will be implemented by departments, changes in departmental planning processes and organization are needed to ensure responsiveness, and adherence, to the Fiscal Plan, and to provide departmental managers and the central agencies with a means for monitoring and measuring progress toward approved objectives. We propose that the Program Forecast be replaced by a medium-term planning document, the *Departmental Strategic Plan*, and that this plan, and a document setting out key short-term goals and objectives, be submitted in support of the department's individual Estimates.

A strategic plan should state how, in terms of its programs and activities, the department has responded to the Fiscal Plan, and should set out medium-term goals and objectives that are consistent with the Fiscal Plan. The strategic plan sets the frame-

work within which the department's annual Estimates are developed and submitted. The Estimates in turn should be translated into operational plans, or detailed departmental budgets, that include the setting of goals, the allocation of responsibility, the assignment of tasks, and the establishment of a basis for management and accountability, using, where possible, indicators against which performance can be measured. This implies a departmental organization based upon the explicit designation of missions, expected results, and performance indicators.

We propose more regular direct contact between the Board of Management and departmental ministers in the review of their plans and Estimates. The Board of Management review should focus on the ways in which the plans would provide for economy, efficiency, and effectiveness. Furthermore, the Board of Management should assume a reactive monitoring role over departmental achievement of objectives.

Good planning in an operational unit requires that the availability of resources be established, priorities be identified and objectives set, and the most effective way of attaining these objectives be determined. The planning process must also make it possible to determine the effectiveness of a program by measuring its benefits against the costs involved. Programs must be clearly linked to the persons responsible for them. A system that establishes these clear relationships is therefore a prerequisite to putting any departmental planning process in motion.

Planning in government must start at the top, for it deals with a department's objectives and the policies and programs selected to meet them. These are the prime concerns of the minister and the deputy minister. Any change of objectives affects all parts of the department to some degree. Only the senior departmental management team has the broad knowledge of internal and external conditions necessary to ensure that plans take proper account of governmental priorities and constraints, and developments in other departments, at other levels of government, or in the private sector, as well as particular constraints within the department itself.

Our review of the planning processes in departments has revealed that senior-level participation in planning has been insufficient. Senior financial and personnel officials are not always involved in department planning even though planners could benefit from their skills and advice and planning decisions will eventually affect their areas of direct authority and responsibility.

Deputy ministers carry responsibility for overall departmental operations, but, in order to fulfill this responsibility, they must delegate authority for carrying out individual activities to managers who can, in a manner analogous to the deputy himself, be held accountable. This requires that measurable outputs be identified and expected results stated for each activity centre. Within each activity centre responsibility should be all-inclusive. Activity managers must be provided, within clearly defined mandates, appropriate autonomy and authority over those who work for them, over the financial resources allocated to them, and over the assets they control. We recommend that

11.1 deputy heads of all departments ensure that their organizational structures clearly reflect that responsibility centres are directly related to programs, activities, or sub-activities that can be identified with particular resources and, where possible, with specific measurable outputs; and that

11.2 such responsibility centres be under the control of managers who can be accountable for establishing plans and achieving results.

Setting up an organization that meets these requirements, determining an overall departmental plan, and ensuring that responsibility centres develop their own plans in the light of the departmental plan are the responsibility of the deputy minister. He must also ensure that plans contain clearly identifiable medium and short-term goals whose attainment can be measured and used as a basis for the performance appraisal of his management team and the managers of all responsibility centres.

The clarification of present management systems is, we recognize, a significant undertaking, but it will bring dividends. Organizational structures now in place do not clearly reflect authority and responsibility. Line and functional authorities overlap or are otherwise blurred. The respective management authority of regional and headquarters personnel is difficult to determine. Plans are not always committed to paper for review and approval at appropriate levels. Departmental priorities are not clearly communicated to managers of responsibility centres. Goals are not set and thus cannot form part of the performance appraisal system.

To introduce departmental planning of the type we recommend, to bring it to a level of excellence, and then to keep it

running, require the complete involvement and commitment of deputy ministers and their management teams. We recommend that

11.3 each departmental management committee place priority on developing strategy and plans by setting medium-term departmental objectives, by approving challenging goals for managers, and by communicating these objectives and goals clearly to managers of responsibility centres.

Departmental management committees usually comprise the deputy minister and all assistant deputy ministers in charge of programs and major activities. They should also include the senior financial and personnel officers, who would be looked to for objective advice and criticism regarding the validity of the objectives and goals in view of financial considerations and personnel capabilities and the reliability of measures of performance.

Departmental Strategic Plans

As we described in Chapter 6, the Program Forecast was originally intended to be a statement by senior management of plans for five years. It required approval by the Treasury Board Secretariat at a date early in the summer so that the short-term plans presented in the Estimates and reviewed in the fall could reflect the Secretariat's suggested changes in emphasis or approach. As we pointed out, the Program Forecast has not met the objective of exacting such senior level plans from departments. It fails to address major policy and management issues of a medium-term nature, and does not effectively relate programs and their costs to the likely benefits arising from them. It contains too many numbers at the expense of informative narrative on objectives and expected results. Its presentation and content are limited by the constraints of standardized format and it covers too short a time period. In the light of these major faults, we believe that the Program Forecast should be eliminated and a fresh start made.

The requirements of a new process for departmental planning are that it fit into our recommended Fiscal Plan and Estimates processes, that it support and enhance the thrust for accountabili-

ty, that it require senior management participation, and that it be workable. We suggest that an appropriate title for this new document would be the *Departmental Strategic Plan*.

The Departmental Strategic Plan should reveal how a department intends to conduct its affairs over Years 2, 3, 4, and 5 of the most recent Fiscal Plan. It should cover a longer period if the department is a significant capital spender involved in major projects using highly complex technology. It should be updated every year in the light of the new Fiscal Plan and revised expenditure limits. It should be submitted to the Board of Management in support of the department's Estimates submission so as to show how short-term proposals relate to longer-term strategy. Like the Estimates submission, the Departmental Strategic Plan should be screened by the Board's secretariats with regard to its financial implications and its impact on personnel.

A well-structured Departmental Strategic Plan should first set out the background against which it has been established. This should include a review of relevant social and economic trends likely to influence the department's ability to fulfil its objectives. It should contain an indication of how changes in the Government's broad priorities would affect the department's strategy. In addition, it should address the likely effects on medium-term plans of implementing recommendations made to Parliament by standing committees or by the Auditor General in his annual report. It should review changes in strategy deemed necessary as a result of the department's internal examination of the efficiency and effectiveness of its own performance, and whether value for money in program delivery was obtained.

The Departmental Strategic Plan should then set out how the department intends to meet these requirements for change by modifying departmental objectives, priorities, and programs, and by identifying new initiatives and their approximate resource requirements, or activities to be eliminated and the consequent savings. It could go on to describe operational changes contemplated during the period of the plan to meet changes in objectives, and to provide greater economy and efficiency. Such matters as personnel planning, organizational improvements, modifications in ongoing accommodation and supply needs, and elimination of overlap with other departments and agencies could be covered. This description should be accompanied by details of the impact of these changes on the department's future resource requirements.

A department's strategic plan should also review the suitability of the departmental expenditure limits for the current year and the year following. It could show, for example, that some activities had been replaced by higher priority items, or that savings had been generated so that limits could be met. A good plan would also identify activities where future savings could be generated through more efficient procedures or by transferring activities to other levels of government or to the private sector.

The Departmental Strategic Plan should also show how the costs of programs and activities would be accommodated within the expenditure limits for Years 2 and 3 of the Fiscal Plan, and, in the light of the inflation assumptions and functional expenditure limits in the Fiscal Plan, the general order of magnitude of such costs for the two remaining years. It is within the framework of these strategic plans that departments should go on to develop their operational plans in the form of Estimates for presentation to the Board of Management, the Cabinet, and Parliament. Strategic plans should be submitted to the Board in support of Estimates, but should not be considered to be immutable. For this reason, they should be submitted only for the Board's information, not for formal approval. As part of the medium-term planning process of government, Departmental Strategic Plans should also be provided to the Department of Finance and the Privy Council Office for information and consideration in the context of Fiscal Plans. Indeed, these strategic plans will be important sources of information for determining departmental expenditure limits.

These plans need have no standard format. They should be judged on the extent to which they reflect Government priorities, the Fiscal Plan, parliamentary recommendations, and critiques of previous departmental plans and performance. Plans should take these factors into account by showing clearly the changing relationships among objectives, programs, and activities, and the efficient and economical use of people and money for a four-year period. Departmental Strategic Plans should represent the commitment of senior departmental managers to a series of actions over a fairly long period of time. Some of the proposals will relate to major concerns of the electorate, Parliament, and the Government, as well as the department. Thus, they should be prepared by the deputy heads of departments in close consultation with their ministers and with the active participation of departmental man-

agement committees. Those who must be committed to effecting the plan must have participated in its establishment.

The Departmental Strategic Plan we propose bears some resemblance to the Program Forecast as it was originally conceived, but little to what that Program Forecast has become. The most significant change is that plans will be drawn within the limits of finite resources. Second, while the plans would have to disclose information within minimum standards prescribed on a government-wide basis by the Comptroller General, they would outline departmental goals as perceived by the managers accountable for their achievement, and not according to a hidebound format dictated by a thirst for financial data. Finally, plans would be presented to the Board of Management in support of the detailed Estimates, so that the two documents could be compared and related to each other. We recommend that

11.4 the preparation and submission of Program Forecasts be discontinued; and that

11.5 departments be required to prepare *Departmental Strategic Plans* each year for submission to the Board of Management in support of the Estimates, and to the Department of Finance and the Privy Council Office for their information and consideration.

Departmental Estimates and Statements of Operational Goals

In Chapter 6 we set out proposals for simplifying the format of the Estimates. We stated that separate Estimates should be submitted by each department and agency in the format best suited to disclosing their intentions for the Estimates year. We went on to describe the contents of the detailed narrative that should accompany the Estimates. This narrative should also relate any changes in the Estimates to changes in the Departmental Strategic Plan.

While we encourage comprehensive disclosure of spending intentions in the Estimates, we are aware that there are practical limits to what can be published for the information of Parliament

and the general public. Nevertheless, for the purposes of the Board of Management, Estimates should be supported by Departmental Strategic Plans and by statements of key operational goals. While strategic plans would display medium-term intentions, statements of operational goals should reveal short-term intentions. These statements should include the major objectives that the minister and deputy wish to achieve during the Estimates year. This additional support of the Estimates should take the form of a memorandum to the Board of Management expressing the key operational goals, explaining how they fit into the Departmental Strategic Plan, showing their relation to the financial and human resources requested in the Estimates, and stating the results expected and the ways in which the results will be measured.

The establishment of key goals on an annual basis has several uses. In the first instance, explanations of year-to-year changes in resource allocation displayed in the Estimates are most likely to be found by referring to these annual operational goals rather than to statements of longer term strategy. Second, a statement of key goals focusses attention on major matters of principle and renders the subsequent discussion of numbers more meaningful. As a corollary, the value of key goals would be placed in doubt if major changes in resource utilization did not reflect the goals selected. Finally, annual operational goals could become significant factors in assessing management performance and exacting accountability for it.

While the final selection of key goals to be achieved in the Estimates year should be determined by the minister, this decision should be made on the advice of the deputy head who, in turn, must work closely with the departmental management committee to identify goals. The deputy and the management committee must also ensure that goals are communicated clearly to responsibility centre managers so that they can take account of and support departmental goals in establishing their own operational plans. Responsibility centre managers should then ensure that their operational goals are supported by satisfactory and measurable standards of performance, and that they are directly tied to the share of resources available for achieving them. The communication of these goals should be accompanied by indications of the resources available to each responsibility centre to meet them and to carry out their other activities so that when the departmental Estimates are assembled they will reflect the fact that allowance

for achieving these goals has already been made. In summary, we recommend that

11.6 the departmental Estimates submission to the Board of Management be accompanied by a memorandum outlining the key operational goals to be achieved by the end of the Estimates year.

Since the content of the Estimates would be largely determined by departmental managers, there should be no constraints on the inclusion of any information that they consider relevant. For example, in Chapter 6 we recommended that the practice of vote-netting be discontinued. Notwithstanding this recommendation, a department providing specific services to a defined class of user could set out the revenues from the service and compare them to the costs of providing it. Indeed, we would encourage this practice. Similarly, a department could usefully set out how its operations interlock with those of another by revealing the benefits exchanged between them, provided these benefits are quantifiable. For example, the Department of Public Works could, in its Estimates of capital construction costs, give details of major building projects, including the department for which a building was being erected, the building's square footage, and how many people it would accommodate.

The establishment of key operational goals and decisions on the form and content of departmental Estimates will require close consultation between the deputy head and the minister. The minister must also formally approve the Estimates submission and should do the same for the operational goals and the Departmental Strategic Plan. This would provide ministers with an opportunity to emphasize their policy concerns, to ensure that departmental plans took them into account, and to become aware of administrative problems faced by their deputy ministers. Finally, prior consultation should help to ensure that both the minister and the deputy can fully explain and justify their departmental Estimates requests before the Board of Management.

Screening Departmental Estimates The setting of expenditure limits in the Fiscal Plan, the requirement that departments develop and submit strategic plans, and ministerial involvement in the preparation of Estimates submissions should change significantly the approach taken to screening plans and Estimates prior to their submission to the Board of Management. We have recommended

that this key task be entrusted to the Comptroller General. However, in carrying out this task, his staff would not question the total amounts requested by departments as the Treasury Board Secretariat now does. These amounts would have been determined and allocated many months previously by the Cabinet when it approved the Fiscal Plan on the recommendation of all three central agencies. Second, because of the financial and administrative responsibilities we recommend for the Comptroller General, the Financial Management Secretariat should adopt a management oriented, rather than a policy oriented, stance in screening plans. The Financial Management Secretariat should screen plans submitted to the Board of Management to ensure that they comply with the wishes of Parliament, the Government, and the Board itself. In doing this, the Secretariat would raise considerations similar to those now raised by the Program Branch of the Treasury Board Secretariat. These would include the following:

- Has the department correctly interpreted the Government's priorities?
- Has the department adhered to its expenditure limits as reflected in the most recent Fiscal Plan and in any amendments to it?
- Do any programs or activities overlap with those of other departments or agencies?
- Have established standards of disclosure been respected, have acceptable accounting principles been employed, and is the accompanying financial data and narrative factually accurate and relevant?

The screening process we envisage, however, should go far beyond these four considerations, important as they are. Such a screening process should evolve to become an annual review of departmental responsiveness to suggestions for improvement, and of management and administration generally. Additional considerations that should be taken into account, therefore, include the following:

- Has sufficient consideration been given to matters raised by parliamentary committees in their various reviews, including reviews of both statutory expenditures and major voted programs?

- Do the plans incorporate or otherwise respond to improvements suggested by the Auditor General and the Board of Management (including both secretariats)?
- Is appropriate emphasis being placed on programs and activities that are demonstrably effective and, conversely, are ineffective programs and activities being weeded out?
- Are economy and efficiency being practised and encouraged?
- Is the department organized and staffed to meet changing needs?
- Do plans associate goals with the people responsible for achieving them, and is authority commensurate with these responsibilities?
- Are the plans and goals realistic?

The Personnel Management Secretariat should also participate in this screening to ensure that staffing plans are realistic and that the plans indicate steps to deal with weaknesses in the field of personnel management.

At the conclusion of the screening process, the departments should receive comments on these various matters from the Personnel Management and Financial Management Secretariats. These might be accompanied by a suggestion that the department either amend its Estimates submission or postpone a program that does not have high priority. We are proposing this approach to ensure that the review of plans is given the attention it merits, that any contentious issues or problem areas are brought out in a formal manner and not in a piecemeal fashion or on the basis of hearsay, and that dialogue between departments and the reviewing agency is frank and explicit. We recommend that

11.7 the screening of departmental plans be concluded by the transmittal of a letter to each minister from the President of the Board of Management, and that this letter comment on the results of the screening and report any unresolved or other important issues.

Approving Estimates Submissions Departmental Program Forecasts are now approved by the Treasury Board in June, and Estimates submissions are approved in October or November on the recommendation of the Treasury Board Secretariat. Ministers

and deputy ministers generally appear at the sessions when the Board is considering these documents only if they wish to dispute any of the Secretariat's recommendations. The present process fails to acknowledge the nature of the respective responsibilities, and hence the accountability, of the departments and agencies or the Secretariat. The Treasury Board itself has failed to gain a good knowledge of departmental managers' plans and problems. In summary, the process itself is responsible for much of the misunderstanding and distrust that exist between the Secretariat and the departments and agencies. We believe that implementation of our recommendations would result in a process characterized by frankness, fairness, and trust. We recommend that

11.8 the minister responsible for the Departmental Strategic Plan and Estimates, accompanied by the deputy head, appear before the Board of Management to explain and justify his Estimates submission, and that the Comptroller General and the Secretary for Personnel Management attend these meetings to respond to any questions from the Board about their interpretation of, or recommendations on, the plans and the Estimates.

If the Board of Management fulfils the mandate we propose for it, it is possible that these sessions will result in recommendations from the Board for changes, particularly in strategic plans as they relate to operational economy and efficiency. To further strengthen accountability and planning processes any such recommendations should be formally transmitted to departments, and their implementation monitored by the Office of the Comptroller General. We recommend that

11.9 the Financial Management Secretariat monitor the implementation of recommendations made by the Board of Management for any changes in departmental plans or Estimates.

Once Estimates submissions are approved by the Board of Management they are submitted to the Cabinet for its concurrence before they are presented to Parliament. It is at this time that any major differences between the Board and an individual minister should be resolved.

The recommendations in this chapter support our more general proposals for improving the effectiveness of planning at the senior levels of management. They should contribute to the establishment of a chain of accountability where responsibility is clearly set out and where the results expected from the use of resources are plainly stated. We believe that the proposals will bring about a substantial improvement in the general quality of departmental financial management. At the same time, however, departments must be organized to achieve the objectives set out in their plans. The realization of these plans depends on the successful deployment of people and other resources, on the existence of appropriate supporting systems, and on the presence of a means of monitoring progress toward goals and taking action to correct deviations from plans. The balance of this part of the Report is devoted to describing how departments should put in place such mechanisms and processes.

THE DEPUTY AND THE DEPARTMENTAL MANAGEMENT TEAM

The deputy's ability to manage people and his authority to organize and to influence the selection of senior managers are critical to the department's performance and to his own accountability. The senior management category includes approximately 2,000 Senior Executives (SX) and SX-equivalents, and approximately 7,500 incumbents of positions in each of the two levels immediately below SX, for example, PM-6 and 7. This group of senior managers constitutes only 3% of the total public service, but the work of its members is vital to the efforts of deputy heads, who must direct their activities, delegate authority to them, and work with them to achieve the Government's goals and objectives. If people occupying senior positions do not have the skills or motivation to complete their tasks, or if roles or delegated authority are confused, the organization will fail to meet its aims.

It is elementary that the performance of the deputy head is in large part a function of his ability to recruit and motivate people to do the tasks required. As we have shown, there has not been full and clear delegation of authority for personnel management from central agencies to deputy heads of departments. In turn, these ambiguities and shortcomings are reflected in the internal organization and procedures of many departments and agencies. Many of these failings stem from a lack of clarity in identifying objectives and setting tasks. Our conclusion is that deputy heads have less authority in personnel management than in any other area, and that lines of authority are confused and inconsistent among departments.

In this chapter we examine existing personnel management processes and make recommendations to assist deputies in improv-

ing the performance evaluations of managers, organizing the management team for effectiveness, dealing with managers whose performance is below a satisfactory level, and strengthening the career development plan for executives.

Basic to any system of compensation and motivation is the accurate and equitable assessment of performance. This ingredient is missing to an alarming degree across government. Of 27 deputy ministers responding to the Deputy Head Questionnaire, 17 agreed that personnel systems and practices have fostered the overrating of SX performance, while 17 thought that merit was not properly reflected in pay increases.

Deputy ministers and officials of the Treasury Board Secretariat have stated to us that executives, once appointed to a certain classification and grade, rise to the top of that grade in a seemingly inexorable way. It is also apparent that there is insufficient distinction between the level of compensation of satisfactory performers and less satisfactory performers.

An assessment of performance should be the basis for advancement and increases in pay. In the past, deputies have tended to rank the performance of executives as being extraordinarily high. In 1976, 97% of all executives were ranked "fully satisfactory" or better, including 56% who were ranked "superior" or "outstanding". Only 3% were considered "acceptable" or "not satisfactory". In 1977, after this serious problem was highlighted by the Advisory Group on Executive Compensation, the Treasury Board issued instructions specifying limits on the percentage of executives who could be ranked in the top grades. This practice should be continued and extended to other groups of employees in order to achieve a more realistic distribution.

Further steps must be taken, however, to correct the problems associated with performance appraisal. Senior officials of the Treasury Board Secretariat and the Public Service Commission have reported to us that appraisals of executives are frequently of low quality and not based on uniform standards. Our investigations show that underlying this deficiency is the failure of some deputies to set objectives for managers, to assess their performance, or to communicate the results of appraisals to them. A system of delegation and accountability is not yet in place in some departments. Deputies of these departments should be able to turn to the Secretariats of the Board of Management for assistance in designing and learning how to use methods of delegation and

performance appraisal. Without them, deputies cannot exercise appropriate authority over their management teams. Most experienced deputy ministers have informed us that meaningful objectives can be established and that criteria for performance assessment can be developed. We conclude from this testimony that our proposals can be implemented if appropriate guidance is available and if the will exists.

For a comprehensive system of accountability to work, senior departmental managers must develop objectives that are understood and accepted, that conform with Government priorities, and that provide an adequate basis for the subsequent evaluation of departmental performance. Each responsibility centre in turn must develop subordinate objectives so that the department has an integrated system of objective setting and performance measurement that links the efforts of each manager to the performance of the department and, through the deputy and the minister, to the Government. It is clear to us that the organization of each department should be based on discrete units that use resources and produce measurable results, and are under the control of managers who can be held accountable. The units would be responsible for the components of programs under the general control of the deputy minister. Such a system should ensure that the objectives of these responsibility centres are clearly related to the objectives of the department, and establish a clear chain of responsibility for results from managers of responsibility centres, through senior managers, to the deputy.

The deputy should take the lead in the management of the human resources in the department, for, as chief administrative officer of his department, he assumes responsibility for the morale and well-being of all his personnel. Consequently, performance appraisals must be of the highest quality and prepared with the greatest degree of objectivity and integrity. What is needed to improve the quality of performance appraisals is not new systems and procedures, but that more deputies assign high priority to this basic management task and recognize that their own accountability is significantly affected by their success in this area. Therefore, the deputy's ability to set objectives for subordinates and measure their performance should be a major factor in his own annual performance appraisal. We recommend that

12.1 the Board of Management require the deputy to ensure that goals are set for each manager reporting directly to him, that goals focus attention on the most important problems and priorities in the manager's area of responsibility, and that they provide an objective basis for measuring the manager's performance.

The deputy's second important function with respect to departmental management is determining the composition and organizing the work of the department's executive group. Responses to our Questionnaire indicated that deputies recognize the importance of this task; they selected the setting up of the department's management capability as one of their most important responsibilities. While the legal responsibility for organization and personnel appointments rests with the Treasury Board and the Public Service Commission, authority in these areas has been delegated to deputy heads, but only partially and inconsistently.

The Treasury Board has responsibility for the organization of departments by virtue of the *Financial Administration Act*. The Treasury Board has delegated authority to deputy heads to organize units within the department involving positions up to and including the SX-2 level. Deputy ministers must seek approval from the Treasury Board for organizational changes involving the most senior of public service positions, SX-3 and 4, which are usually at the level of assistant deputy minister or equivalent. For all SX and SX-equivalent positions, the Treasury Board also determines the classification, that is, the occupational group and level to which a position is assigned for pay purposes. The Board delegates to the deputy minister classification authority only for positions below SX-1. In essence, the Treasury Board retains the power to make decisions affecting all positions and organizational arrangements that affect departmental management.

The deputy should have the authority to deploy and re-deploy people to the tasks that require their particular skills and expertise. The deputy should be able, for example, to reorganize by taking advantage of the strengths of individuals and shifting responsibilities among executives rather than simply filling a position when it becomes vacant. He is prevented from doing so, however, by complex regulations and procedures governing the classification of people and positions and the appointment of qualified people to

classified positions. To classify positions, the deputy now must work through a complex process of some 20 steps that is controlled by the Treasury Board Secretariat and involves submissions on a case-by-case basis. The process is not only very time-consuming, but it limits the deputy head's flexibility to re-deploy managers to meet new demands placed on the department without accompanying increases in man-year ceilings. It also does not allow deputies to deploy good people to the jobs in which they are needed.

Once positions have been classified, public servants must be appointed under the *Public Service Employment Act*, which assigns to the Public Service Commission authority for appointments to and within the public service. While the PSC has delegated much of this authority to deputy heads, appointment authority at the senior management levels has been withheld. The PSC has retained almost all authority for staffing decisions—appointment, promotion, transfer, demotion and release—in the management group, though, to its credit, it has adopted procedures that mitigate this lack of delegation. Appointments to positions at these levels are made by the Public Service Commission only on the recommendation of the deputy head. Nevertheless, the present system of delegation is such that in one department with 12,000 employees, the PSC delegates to the deputy minister appointment authority for only seven of the 60 positions in the top two levels, and 150 of the 300 positions in the top four levels. Even if they are consulted on appointments, deputies find it particularly difficult to demote or release executives when performance is unsatisfactory.

In addition, the levels of authority delegated by the Public Service Commission and the Treasury Board are uneven. The PSC has delegated less authority for staffing senior positions than the Treasury Board has delegated for classifying senior positions. The Treasury Board in turn has delegated less authority for classifying senior positions than it has for organizing the management team. Not only is this situation confusing, it also reduces the real authority of the deputy head. These three components of personnel management—organizing, classifying, staffing—are so interdependent that the lowest level of authority delegated for any one of these becomes the deputy head's effective level of authority in building or restructuring the management team.

Not all deputies feel these constraints to the same degree. Some deputies have such status or experience in the federal

bureaucracy that they are able to exercise decisive personnel management leadership in their departments despite central controls. Others, perhaps less confident or less experienced, have not been able to operate with equal ease and feel frustrated in their attempts to manage. A few, not interested in the management of people, or preoccupied with pressing policy issues, avoid assuming these responsibilities at all. Thus, while deputies are theoretically delegated the same degree of personnel authority, in practical terms the exercise of personnel authority varies from one deputy to another. Rules can be circumvented and double standards can exist in their application. As a result, the personnel management system appears capricious, subject to the whims and personal power of the different participants.

To establish accountability for personnel management and to give deputy ministers the tools to do the job, we propose that deputies be delegated uniform authority for organization, classification, and appointments. For all positions *below* those of assistant deputy ministers and equivalents (that is, senior financial and personnel officers and other senior managers reporting directly to him), the deputy should have full delegated authority for organization, classification, and appointments, subject to eventual audit and accounting. For assistant deputy minister and equivalent positions, the deputy should be required to obtain approval for organization and classification from the Board of Management. For appointments to positions at this level, we propose that the Secretary for Personnel Management draw up a short list of candidates for vacancies which may occur. The deputy head could add to this list in consultation with and subject to the agreement of the Secretary. The deputy head would then select a candidate from the list and the Secretary for Personnel Management should make the appointment. Transfers, promotions, demotions, and release should be recommended by the deputy to the Secretary. This approach would make due allowance for the role of the Secretary in ensuring that departments do not become insular in their senior personnel policies and that a service-wide perspective is maintained in senior appointments, but would not reduce the management authority of the deputy.

Delegation of authority to the deputy can, and should, be withheld if there are clear indications of weakness in this area or abuse of the authority. As an example, the Board might temporari-

ly withdraw classification authority from a deputy head if an audit or an annual departmental evaluation showed that positions were being over-classified. Action should only be taken when there are specific indications that delegated authority is not being properly exercised. Moreover, the reasons for withholding authority should be explicitly stated, in order to avoid the risk of unwarranted and irresponsible interference in the management of departments and to enable deputies to take corrective action.

For the positions below the level of those reporting directly to the deputy, we believe that there should be a further delegation of authority within the department, on a similar basis. For example, assistant deputies should be required to seek approval from the deputy for actions regarding the executives who report directly to them, but should have authority to approve staffing actions below that level. Extending this pattern of delegation, which might be called a "recommend-approval process", down through the management hierarchy would establish a clear chain of accountability of responsibility centre managers to program managers, of senior executives to the deputy head, and of the deputy head to the central agencies. It should also ensure the involvement in each personnel action of an officer with a broader perspective than that of the manager immediately responsible for the relevant decision. This would reduce the chances of arbitrary action, inconsistent approaches, and unfair treatment. While this proposal may seem to be the system already in place in some departments, the actual degree of delegation in departments at present varies with the centralizing philosophy of the deputy or his senior managers.

The deputy head should withdraw or limit the personnel management authority of departmental managers only for a good reason. For example, a deputy head might take personal responsibility for organizing and staffing several levels of a new program to ensure that it is satisfactorily launched. Any arbitrary limitation of authority, however, tends to signal a lack of trust in the judgement of subordinates. Often this stems from fundamental management weaknesses and in these cases the deputy should move to resolve the root problem so that a return to a more decentralized organization is possible. In summary, we recommend that

12.2 deputy heads be delegated the authority for approving organization, classification, and staffing decisions affecting

all positions below the level of assistant deputy minister or equivalent within existing complements; that

12.3 the deputy's recommendations for the classification of positions at the level of assistant deputy minister and equivalent, and changes in organization involving positions at this level, be subject to approval by the Board of Management; that

12.4 for assistant deputy minister and equivalent positions, the deputy head select a candidate from a list drawn up by the Secretary for Personnel Management and recommend that candidate for appointment by the Secretary for Personnel Management; that

12.5 deputy heads establish similar procedures for delegating authority for and approving classification, organization, and staffing decisions within departments; and that

12.6 the Board of Management ensure the effective discharge of these fundamental personnel management responsibilities by deputy heads through audit procedures and annual departmental performance reviews.

One of the greatest difficulties faced by deputy heads is handling performance problems. We base this conclusion on interviews with senior officials of the central agencies, who stated categorically that the procedures for dealing with unsatisfactory performance are inadequate. This was confirmed by deputy heads in meetings with us and in their responses to the Questionnaire. Of 27 deputy heads responding, 17 agreed that one of the biggest challenges facing government is dealing with unsatisfactory performance in the public service; 13 agreed that one of the "biggest management problems is dealing with deadwood"; 18 indicated that they did not have adequate authority to get rid of unsatisfactory performers; and 22 agreed that they needed new options to deal with performance problems of senior managers in their departments. Although there was not unanimity in the responses, the balance in them indicates that there is a problem.

The grounds for releasing an employee under the *Public Service Employment Act* are incompetence and incapacity, as determined by the Public Service Commission. In addition, the Treasury Board may discharge an employee on grounds of misconduct. Of the 31,731 separations from the public service in 1976,

there were only 119 dismissals for incompetence or incapacity and another 93 for breach of discipline or misconduct. In order to dismiss an employee, departmental managers must build a case which proves incompetence, incapacity, or misconduct, and which is capable of withstanding every form of legal objection. Deputies report that eighteen months to two years and an extraordinary amount of energy are required to build a case once the decision has been taken that an employee should be demoted or released.

Lateral transfers, involving no change in rate of pay or position level, are frequently the line of least resistance in resolving performance problems. Obviously this approach usually only shifts the problem without solving it; but even when a lateral move might be more appropriate than demotion or release, it is often difficult to effect. Unless proven incompetent, the incumbent has the right to remain in a position won by competition and to refuse a transfer. Moreover, the job to which a poor performer could be moved might also be subject to competition and therefore the deputy would not be free to appoint him to it.

Not all the fault lies with the system. Managers have a full year to decide whether to confirm most appointments of officers, and all appointments of senior executives. During this time managers have the option of returning the appointee to his original position. More careful monitoring of performance during the first year, and a greater willingness to exercise this option, would help to reduce future problems. Nevertheless, once an officer has attained and been confirmed in a position, he is virtually assured continuing employment at that level (and sometimes in that job) until he reaches pensionable age. Only if his superior expends extraordinary effort or resorts to such subterfuge as "reorganization" to discontinue a function, or if the work he performs is declared redundant, can he be released. Deputy heads often find it more expedient to work around an unsatisfactory performer, leaving the deadwood in the system and contributing to the demoralization of the whole organization.

If performance evaluation and accountability are to be meaningful, there must be a means of responding to the results of evaluations. Employment and promotion cannot be seen as a one-way street. The ineffective use of personnel resources cannot continue. The establishment and maintenance of rigorous standards would be a beginning to a solution to this problem. In light of

those standards, legislation should be enacted to ensure that personnel whose performance has been evaluated as unsatisfactory can be disciplined or removed.

The implementation of a scheme that makes it easier to shift, demote, and release managers and other employees will have to be undertaken with care. While many employees could be happier operating in new surroundings or working at a level commensurate with their competence, in other cases corrective actions could be severe blows to pride and prestige. Three elements would appear necessary to make demotion and release the solutions to performance problems.

First, managers must be given jobs to do, not positions to hold. The performance of that job to the satisfaction of senior managers must be seen as the major test for continuing to hold it. Length of service may provide a claim on continued employment but performance should be the only basis for a claim on a particular job. Clearly, however, the disciplinary actions taken by senior managers will have to be justifiable. Consequently, the regular assignment of goals and the rigorous assessment of performance will have to become a way of life. Goal-setting, performance appraisal, direct communication, and employee counselling must become integral parts of the job of deputies and other senior managers.

The second element is a placement service, organized to relocate managers deserving further consideration or a second chance. Such managers would include those whose positions are declared redundant because of reorganization or elimination of a program, who are victims of conflicts, either of personalities or management styles, or, who have performed well at lower levels before being promoted beyond their capabilities. Such a service should also be designed to help managers find employment outside the federal public service by assisting them in accurately assessing their strengths and weaknesses, determining the type and level of work for which they are most suited, obtaining suitable training, and developing an employment or career plan.

Finally, employees must be able to launch appeals without stigma or fear of reprisal. Ground rules must make it clear to all concerned that the appeals process will ensure justice and fair play in the evaluation of employees, while protecting the employer's prerogative to judge job performance.

While we have limited our investigations to senior personnel, the principles enunciated here are equally applicable to employees in bargaining groups. Parliament must give managers at all levels the tools to do the management job, to discipline or dismiss unsatisfactory performers, to correct situations where employees have been promoted beyond their level of competence, and, where necessary, to reduce staff levels so that all employees carry full and equitable work loads. We recommend that

12.7 Parliament enact legislation to introduce unsatisfactory performance as grounds for discipline or release, subject to the present appeals process and review by the Public Service Commission, and to simplify the process for disciplining or releasing consistently below-par performers at all levels; that

12.8 the Secretary for Personnel Management of the Board of Management delegate to deputy heads who have established acceptable performance appraisal procedures the authority to dismiss, demote, or transfer employees below the level of assistant deputy minister; and that

12.9 the Secretary for Personnel Management operate a placement and counselling service to assist employees who have been dismissed.

Like deputy heads, senior managers are a key resource for both the department they work in and the government as a whole. The deputy should be concerned with the development of capable managers who are knowledgeable and experienced in the operation of the department. The concern of the Secretary for Personnel Management should be to see that an outstanding cadre of senior public servants is developed for deployment across government.

At present, succession charts for approximately 1,700 senior management positions in the government are prepared each year by the Senior Executive Programs Branch of the Public Service Commission. Succession charts are based on performance assessment information provided by deputy heads. From this and other information, the Committee of Senior Officials develops lists of officers with high potential who can be considered by the Privy Council Office in proposing candidates for Governor in Council appointments, and by the Public Service Commission in making appointments under the *Public Service Employment Act*.

Deputy heads are not uniformly satisfied with the results of this system. Fifteen of the 27 deputies responding to the Questionnaire agreed that there should be better central career path planning for SXs. In part, dissatisfaction results from the rapid growth of the public service, which has blurred and diluted the criteria for entry to senior management ranks, and to the recent high number of deputy head appointments, which has accelerated the career advancement of members of the assistant deputy minister group and reduced that group's historical stability. For example, of a sample of 145 assistant deputies, 81% were in their first position at this level, and almost 50% had been appointed within the past two years.

Dissatisfaction also stems from the fact that deputy heads have not been sufficiently involved in the planning of senior managers' careers. Although they are a primary source of data for central planners, the particular needs that are supposed to be met by such a plan are not made known to them. Although deputies must employ senior managers, the results of the central planning process are not shared with them. Moreover, the existing strong central controls over organization, classification, and staffing tend to inhibit career planning within departments; deputies have had little interest in preparing development plans when they do not have the authority to implement them.

Clearly, greater attention should be directed to the career development of managers both within departments and across the government. The onus, however, should be on departments to nominate candidates for central development, because doing so will help to ensure that departments acquire sufficient depth in management talent to enable them to release their most capable managers for broader development elsewhere in the public service. We propose, therefore, that each department establish and follow a management succession and development plan. As chief administrative officer, the deputy should have a major responsibility to ensure that managers are available for the continuing successful operation of the department. In addition, as senior members of the government management team, deputies have a responsibility to support broader government management needs. Deputies should be expected to ensure that at least one or two candidates are identified for each senior management position, including their own. The replacement candidates should include one immediate

possibility, one medium-term possibility, and, where practicable, one candidate from another department, particularly for positions in the top two levels. In addition, deputies should identify the top managers in the department who can contribute to, and benefit from, assignments in other departments, as well as those officers who are under-utilized or surplus to their department's needs. The implementation of the recommendations in this chapter would give deputies the necessary authority to implement these career development plans.

Deputies should provide the necessary information to the Secretary for Personnel Management and discuss with him plans for the development of their management teams. The Secretary in turn should provide deputies with lists of officers of high potential identified by other deputy heads. Moreover, the Secretary should convene an annual meeting of all deputies to discuss and agree upon an overall plan for managerial career development and for dealing with surplus people. Finally, the deputies' performance in developing managers' careers should be an important part of their own annual evaluations.

In summary, we recommend that

12.10 deputy heads establish and follow a management succession and career development plan that systematically identifies candidates for senior positions in the department and for promotion to other positions within the public service; that

12.11 the Secretary for Personnel Management review the departmental plans with the deputy heads and consolidate them to establish a managerial career development plan for the government as a whole; and that

12.12 the performance of deputy heads in developing managers be made an important part of the deputies' own performance evaluation.

The job of managing people is one of the most important that the deputy undertakes. Departments can be more productive and the government can achieve greater value for money spent if high standards of personnel management are established and consistently met. In order to fulfil his personnel management responsibilities, which extend well beyond the senior management group discussed

in this chapter, the deputy head needs the strong staff support of a senior personnel officer. Since the senior personnel officer's duties directly support the deputy's personal responsibilities, we commend the growing practice of according the senior personnel officer a status similar to that of the senior financial officer. Both should report directly to the deputy head and participate fully in the activities of the management committee of the department. We recommend that

12.13 the senior personnel officer in the department report directly to the deputy head and be a full and active member of the management committee.

DEPARTMENTAL FINANCIAL ORGANIZATION AND PERSONNEL

Our inquiries revealed that financial management in most departments and agencies falls short of what is required for effective operational performance. Financial information is not used on a regular basis in the development of policy or the planning of programs. Only fragmented financial control over the use of resources is exercised. Comprehensive and effective inquiries to ensure that value for money is obtained cannot be conducted using present systems. In short, financial management does not contribute to senior departmental management decisions. These weaknesses are the consequence of a fundamental failure to comprehend the nature, purpose, and techniques of financial management at the senior levels of government. Moreover, the central agency charged with overseeing financial management has provided indifferent leadership and inadequate counsel. The development of good financial management systems has not been encouraged from either the top or the centre, and, in an environment where resources were perceived to be unlimited, there has been no challenge from within departments themselves.

In this chapter, we examine the areas where changes should be made if the financial component is to become an important and effective part of management. The shortcomings with respect to financial management that require attention lie in the knowledge and skills of operating managers, the organization of these activities in departments, and the qualifications of financial personnel.

Prior to the implementation of the Glassco recommendations, the perception of the role of financial management was determined in large part by the functions assigned to the Comptroller of the Treasury and the chief treasury officers, who were his agents, even

though they worked within departments. Since their primary function was to approve commitments, their presence was viewed as an undesirable constraint on departmental autonomy. Some major spending departments did have their own assistant deputy minister (financial) or financial adviser; these executives prepared and defended Estimates, kept track of expenditures, and maintained communication with the staff of the Comptroller of the Treasury. None played a part in broad departmental management, in planning, budgeting, or evaluation. Although the position of Comptroller of the Treasury was abolished and his treasury officers have long since been absorbed into departments, there lingers a vestige of this tradition and the attitude toward financial management that it engendered. To this day, the full potential of the senior financial officer as a member of the management team and as a participant in the planning and evaluation processes is considerably underestimated and under-utilized.

In commercial enterprises, financial management and control have long been regarded as indispensable management tools without which all but the most fortunate business will inevitably fail. Their establishment and operation are an integral part of general management and they can provide a basis for a major contribution to the decision-making process. Financial management and control involve stewardship over an organization's financial resources, but more important, they require that financial information be interpreted and applied in several ways. Financial information should assist in planning the optimum use of available resources in the context of the socio-economic environment likely to prevail during the period for which courses of future action are being charted. It should provide a basis for budgeting available resources to meet planned objectives, and provide the links in a chain that ensures total accountability for the use of these resources. It should be used to control, on a continuing basis, the implementation of plans and adherence to budgets by comparing actual performance with objectives stated in them. Finally, financial information should be used to compare revenues and expenditures, to ensure maximum economy, efficiency, and effectiveness, and to determine whether existing systems are encouraging the attainment of these objectives.

Financial management is particularly important in government which, as a trustee of public funds, must act in good faith and protect the interests of taxpayers. Government employees

must manage resources entrusted to them in the same way that a prudent person would conduct his own affairs. Furthermore, in the absence of profit incentives, there must be alternative indicators against which government performance can be measured. This can be done only if relevant, accurate, and timely financial data are available.

In pursuing our inquiries, we met few senior managers who disputed this interpretation of the role of financial management, though many were surprised by its implications, and a number confessed that they did not know what the role of financial management in government should be. One deputy minister admitted that he did not know what the functions of his newly appointed senior financial officer ought to be and had asked the latter to tell him. Another was surprised at the thought that the senior financial officer should be involved in the planning process. In one major policy-oriented department, headed by an experienced deputy minister, the senior financial officer is invited to attend management committee meetings only when financial matters are under discussion. In another department running many complex programs, some of which have been subject to questions about their financial controls, the principal financial officer is under the authority of an assistant deputy minister for corporate management, who is described as the "part-time senior financial officer".

Their qualifications on entering the public service and their subsequent government experience have not prepared most managers to understand the practical importance of financial management. Existing administrative training courses do little to bridge this gap, and the Government Expenditures Management (known as GEM) course for senior executives tends to lay a traditional emphasis on the constitutional and legal issues associated with resource allocation and expenditure without touching more than briefly on the role of the senior financial officer in a department.

If our recommendations with regard to financial management are to be successfully implemented, it is essential that senior managers be fully aware of the practical importance of financial management and of the extent to which it is an integral part of general management. If they do not, the present critical weaknesses will persist. We recommend that

13.1 staff courses, temporary secondment to the private sector, temporary assignment programs, and other career

development arrangements for senior managers be developed in such a way that they lay strong emphasis on practical explanations and demonstrations so that participants develop a better understanding of the nature and purpose of financial management in government.

Although the education of senior managers is a major step toward improving the quality of financial management, the process will take time and its effects will be gradual. More immediate improvements can be made if attention is also directed to the senior financial cadre in government. If financial personnel are to be effective, they must be aware of their appropriate role in management. Our definition of financial management requires that senior financial officers make a significant contribution to the planning, budgeting, controlling, and evaluation activities of their departments. Our research revealed that fewer than half the senior financial officers now fulfil this role. Those who do perform the role in the manner we recommend state that poor managerial attitudes, lack of parliamentary interest, a cumbersome personnel system, and the absence of effective leadership from the Financial Administration Branch of the Treasury Board Secretariat, now under the authority of the Office of the Comptroller General, make the task difficult and frustrating. Others, who do not, confess that they have come to regard these difficulties as insurmountable and have simply reverted to doing only what is requested of them.

The implementation of our recommendations to enhance accountability will necessitate improved managerial attitudes toward financial management. The recommendations relating to Parliament and its standing committees should help to revive an interest in financial management. Our proposals with respect to personnel management should facilitate the job of identifying and hiring the most suitable employees for financial positions. The recommendations concerning the responsibilities of the Comptroller General require that he and his office provide the effective direction and guidance that has been absent in the past. What remains is the need for a recognition and affirmation of the role of financial officers in management in government. We recommend that

13.2 deputies be required to manage and organize their department so as to permit senior financial officers to make a

significant contribution to their planning, budgeting, controlling, and evaluation activities.

The successful implementation of any program depends more on people than on the resources with which they are provided. Given appropriate organizational structures, adequate authority, and encouragement from a financially oriented central agency, we must ask whether financial managers in the federal government possess the requisite experience and skills to bring financial management up to the level of excellence Canadian taxpayers deserve. Our conclusion is that they do not. Our research disclosed that while 80% of financial managers have had formal accounting training, many have received no encouragement to use what they learned about costing, financial investigation, and auditing. Instead they concentrated on elementary bookkeeping, which is all the government accounting system required of them until the Glassco reforms were implemented. Since then, government-run courses have focussed on such matters as Program Forecast and Estimates preparation, and the interpretation of the *Financial Administration Act* and Treasury Board directives and guidelines. Financial managers are not required to use or keep up to date most of the skills and knowledge they acquired in their basic training.

Fewer than half the senior financial officers interviewed by our researchers stated that they participated actively in departmental planning processes, where these exist. With respect to budgeting, all were involved, to varying degrees, in the preparation and submission of Estimates. As for controlling, all those interviewed were active in ensuring that the *Financial Administration Act* and the Treasury Board's directives and guidelines were respected. Nevertheless, not one senior financial officer interviewed was able to cite any instance where he had, on his own initiative, examined a spending pattern or the cost of an activity, or sought out areas of overlap or duplication. One senior financial officer even stated that a report revealing overstaffing was the program manager's concern, not his own. Another advised that he suspected overtime abuses in his department but had done nothing to investigate them. The evaluation of activities for economy, efficiency, or effectiveness is as new and undeveloped among financial managers as it is elsewhere in the government. Not one senior financial officer interviewed had participated in this kind of evaluation.

It is with respect to their approach to controlling and evaluation that the attitudes of senior financial managers are most disappointing. They show considerable hesitancy about becoming involved in the issue of value for money; this arises, no doubt, because in raising such questions the senior financial officer can be perceived as challenging the judgement of a manager entrusted with program resources. As we pointed out, many program managers view financial officers in the same way they viewed the representatives of the former Comptroller of the Treasury, who were not permitted to comment on the wisdom of expenditure, but were restricted to ascertaining the availability of funds and ensuring that a contemplated expenditure was in accordance with Parliament's intentions as expressed in the wording of a specific vote. In recommending the transfer of control responsibilities to departmental financial managers, the Glassco Commission clearly contemplated a new role that would be of greater managerial significance than the Treasury role it replaced, and more intrusive than program managers wished it to be.

Technical skills, their utilization on the job, and even attitudes fall short of being acceptable. Of equal concern is the relative inexperience of senior financial managers. The introduction of new and expanded programs has provided so many opportunities for the promotion of financial managers, that the vast majority have but limited experience in their present posts and indeed, in their present departments. The median length of service in their present positions of the 20 senior financial officers interviewed was only 12 months. This inexperience contributes to many problems. First, it exacerbates problems associated with the mobility of deputy ministers; few departments enjoy the stability at senior management levels necessary to chart and implement plans for improving financial management. Second, an incomplete knowledge of the department's mandate and activities can place the financial manager at a substantial disadvantage with respect to operating managers with years of service in the department and an understandable resistance to change. Finally, the likelihood of promotion or transfer does not encourage financial managers to develop long-range plans that they would have to implement and live with. Instead, it encourages piecemeal and poorly planned change; it decreases the chances for improved financial management.

Closely related to the problems of high mobility and inexperience are the classification of positions and the matching of talents

to job requirements in making appointments. Job classification standards give disproportionate weight to position in the hierarchy, the number of people reporting to the incumbent, and the degree of contact with other agencies and departments. Conversely, little or no weight is attached to the extent and nature of the department's financial management problems, which can be more serious in departments with smaller budgets or in a new department. The result is that a candidate whose talents and experience are not those best suited to a job is often appointed to a senior financial management position. Furthermore, once senior financial officers have been appointed, there are no guarantees that work plans will be established and that an appraisal of their performance will take place. Only four of the 20 interviewed were able to state that they had agreed on goals and objectives with their deputy minister, and even in these cases, these goals were not used as the basis for performance evaluation.

The quality of departmental financial management, therefore, must be improved, particularly if senior financial officers are to cope with the additional duties and responsibilities that we recommend. We believe, however, that many senior financial officers are fully capable of performing these duties effectively, given an improved environment, and the example and leadership of deputy ministers and the Comptroller General. To reinforce these developments and to ensure continued improvement in the performance of senior financial officers, we recommend that

13.3 each senior financial officer be required annually to establish measurable goals for his personal performance, that such goals be agreed to by the deputy minister and the Comptroller General, and that his subsequent performance evaluation by the deputy be based on a measurement of achievement against these goals.

Of equal importance is the need to ensure that, as senior financial officer positions fall vacant, the right people are appointed to fill them. In an ideal environment, the deputy minister would be expected to determine the position requirements, technical qualifications, and personal qualities necessary in a senior financial officer. Unfortunately, many deputy ministers have admitted to us that they are certain of neither the qualifications needed nor all the duties that a senior financial officer might be expected to

perform. Furthermore, mechanisms are required that would broaden the selection process, reduce mobility, increase departmental experience, and improve career planning for senior financial officers. For these reasons, the Comptroller General should make a significant contribution to the selection of new senior financial officers. We recommend that

13.4 for senior financial officer positions, the deputy head select a candidate from a list draw up by the Comptroller General and recommend that candidate for appointment by the Secretary for Personnel Management.

We are satisfied that this arrangement would not represent an unnecessary intrusion since personal sensitivities and the views of deputy ministers could be given ample consideration.

Financial management is comprehensive; it cuts across all the programs and activities of all departments and agencies by contributing to planning, budgeting, controlling, and evaluation. One of the primary qualities a financial officer can bring to these activities is objectivity, because, apart from the senior personnel officer, he is the only departmental manager who has no direct responsibility for policy formulation related to a department's mandate. The senior financial officer is, therefore, ideally situated to provide objective advice and support to the deputy head. Too often in the past deputies have had to seek this advice from a central agency, placing an effective part of management outside the department.

A competent and experienced senior financial officer should be able to identify precisely all issues arising from program proposals that might have implications for other departments, central agency requirements, Government priorities, or the department's own ability to provide economic, efficient, and effective service. He should be able to contribute to solving the problems these issues raise, to weigh alternatives objectively, and to advise the deputy when a proposal, or procedure already in use, is illegal, wasteful, or inappropriate for achieving program, department, or Government objectives. Because this advice has not been available or requested within departments in the past, difficulties have been encountered in presenting program proposals to analysts in the Treasury Board Secretariat. Instead of screening proposals internally first, departments have presented their plans directly to the

central agency. We believe that this explains in part why so many deputy heads have expressed a concern that proposals are being challenged by relatively junior Treasury Board analysts whom deputies consider unqualified or inexperienced. The fault lies not so much with the central agency as with the departments that have not developed, or that have been unwilling to use, an internal capacity to provide this objective advice.

The importance of the need for objectivity is such that senior financial officers should have a responsibility, and recognized authority, to subject all proposed and existing programs to critical analysis. Such an analysis should ensure that a program or an activity corresponds to an objective or a sub-objective, and should include measuring the economy and efficiency with which programs are implemented, and ensuring that the department can assess program effectiveness. We have concluded that the role of senior financial adviser to a deputy cannot be satisfactorily filled in the federal government unless the adviser clearly has, and is seen to have, the necessary authority and responsibility. Without them, his credibility both inside and outside the department will suffer. We recommend, therefore, that

13.5 the senior financial officer in the department report directly to the deputy head and be a full and active member of the management committee.

Good financial management cannot be achieved, however, simply by appointing a senior financial officer with appropriate status and prestige. More important is the establishment of a clearly defined management process requiring the participation of the senior financial officer in all major decisions affecting departmental programs and activities, whether those decisions relate to policy, administration, the deployment of people, or the use of funds. In the same way that we recommend a key role for the Comptroller General in central planning, budgeting, controlling, and evaluating, the senior financial officer should be a key participant in these processes within his department.

If he is to play this role effectively, and if the number of managers reporting to the deputy head is to be limited to those making a major contribution to the decision-making process, the senior financial officer's authority should be designed to permit him to exercise full control over the financial management func-

tion. He could also be responsible for, or have a co-ordinating role in, other activities, but only in so far as these supplementary duties do not detract from his effectiveness as senior financial officer. His ability to undertake additional duties might be determined by such factors as the size of the department, the degree of complexity of its programs, and the state of its relations with the Board of Management. Acceptance of supplementary responsibilities would provide financial officers with the additional preparation necessary for promotion to the most senior ranks of the public service.

If this is to occur, a number of departments will have to re-examine the authority and responsibilities of some of their operating managers, and of senior staff responsible for such activities as planning and administration. Both activities relate to the whole spectrum of a department's activities and require regular contact with the Board of Management through the Financial Management Secretariat.

We are concerned by the extent to which the authority of senior financial officers with respect to financial staff varies in effectiveness among departments. In any organization, an executive is described as having 'line' authority when he instructs, counsels, and appraises his subordinates in all aspects of their employment. 'Functional' control provides an executive with the same opportunity to instruct, counsel, and appraise but only in relation to his particular responsibilities. In the latter case, another executive directs the employee in relation to the other aspects of his job. In a few departments there appears to be good line control, or at least clearly defined functional control, over most financial staff. In the majority, however—and this would help to explain why financial management is so weak and ineffective—senior financial officers have incomplete line control or poor functional control over financial management staff who report directly to program managers, both at headquarters and in the regions, or to regional directors. Among the problems caused by this dilution of authority are inconsistent standards of planning, goal-setting, and performance measurement; inconsistent accounting principles, systems, and procedures that can lead to erroneous interpretations of financial data; incomplete and inefficient methods of internal accounting controls; an inability to establish a departmental plan for the equitable training, development, and promotion of all financial staff; inconsistent methods of performance appraisal, and a consequent lowering of morale; and, the inaccurate assessment of

financial staff requirements, resulting in position classifications and salary rates that are too high.

A simple solution would be to propose that all members of program and regional financial staffs report directly to senior financial officers. Such a solution would, however, be contrary to our general call for increased delegation to managers accompanied by strengthened accountability processes. Instead, we propose that in cases where unsatisfactory financial management could be attributed to poorly defined and ineffective functional control, the Board of Management be empowered to step in. We recommend that

13.6 the Comptroller General, if his discussions with the deputy head concerned produce no satisfactory result, be required to report to the Board of Management those instances where financial management in a department is unsatisfactory because of badly defined and/or ineffective functional authority of senior financial officers over financial staffs reporting to program or regional managers; and that

13.7 on receipt of a report of unsatisfactory financial management, the Board of Management be empowered to direct that all financial staff of the department concerned report directly to the senior financial officer for a period to be specified by the Board.

The staff who support the senior financial officer fall into two groups; those whose duties require some formal accounting training and experience, and clerical staff, whose duties do not necessarily require a knowledge of accounting. Our inquiries have disclosed that the total number of employees in these two groups is more than sufficient to carry out present duties so that numbers should not increase as our recommendations are implemented.

There are, however, problems similar to those we outlined with respect to senior financial officers. These include high mobility, inexperience, poor attitudes, and unsatisfactory goal-setting and performance appraisal. In addition, the over-classification of positions in the FI group, the financial management occupational category, is widespread.

The FI group includes employees below the senior executive level who are involved solely in financial management. All have some accounting training or experience. The number of people in

this occupational category has grown rapidly in recent years, from 1,508 in 1974 to 2,213 in 1977, an increase of 46%. The group includes internal auditors, but does not include auditors working for the Auditor General, or those whose work involves dealing with the public; nor does the group include a number of employees who carry out duties that are primarily financial in nature, but who are classified in the administrative group.

The rapid growth of the FI group is due in large measure to over-classification. Senior financial officers and their subordinates tend to specify qualifications and experience far beyond what is really needed to get the job done in order to establish the high salary levels necessary to attract competent people. Over-classification has also accompanied decentralization; there is a common perception that all regional financial supervisors should have the same classification, regardless of the magnitude of their responsibilities. General government growth, decentralization, and the growing emphasis on financial management have also contributed to accelerated promotion within the FI group; 50% of all its members received promotions in 1974. In 1975, 29% were promoted, and in 1976, 16% were promoted.

This weakness has led to a high rate of entry from other occupational groups. Transfers from the clerical and regulatory group, whose members are not required to have financial training, amounted to 45%, 42%, and 44% of total entries to the FI group in 1974, 1975, and 1976 respectively. This excessive mobility, and the inexperience that accompanies it, could be reduced if the classification system were made more flexible and if greater emphasis were placed on the practical requirements of jobs. Only those positions that require accounting training should be classified in the FI group; all others should be placed in a new financial clerical group with salary scales that reflect the nature of the duties involved. We recommend that

13.8 the Secretary for Personnel Management of the Board of Management revise the classification benchmarks for financial and clerical positions to ensure that only those positions requiring formal accounting training are placed in the FI group; and that he ensure that all FI position descriptions accurately reflect the skills and duties required of the incumbent.

A number of initiatives have been taken recently to foster professional development in the financial community of the public service. Chief among these was the creation of a division within the Financial Administration Branch of the Treasury Board Secretariat responsible for professional development. As a result of negotiations with the division, the Certified General Accountants Association of Canada (CGA) and the Society of Management Accountants (SMA) have modified their training curricula to better suit the needs of candidates who wish to enter the public service. Little has been done, however, toward establishing a recognized certificate, diploma, or degree in public financial management from an independent educational institution. There appears to be little demand for this alternative because the amended CGA/SMA courses already exist, many private sector organizations recognize and require CGA and SMA qualifications, and a specialized degree would not be attractive to people who wish to keep their options for future employment open.

A further development is the establishment of courses in financial management at introductory, general, and advanced levels by the Public Service Commission. These have attracted substantial interest; in 1978 there was a 40% increase in the number of applicants to the courses. We have also been told that FIs participate in more training in non-specialized areas than do the members of any other group. The PSC courses do, however, leave something to be desired. First, they reinforce the outdated attitudes toward financial management so pervasive in the public service by concentrating on the *Financial Administration Act* and regulations, the Treasury Board "Guide on Financial Administration", and account verification, all of which emphasize procedural rectitude. While these elements are necessary to ensure a high level of probity, they do little to advance participation in departmental management. At the same time, they offer no instruction in key specialized fields such as systems, payroll administration, or financial analysis. Furthermore, course participants are not examined or graded on what they have learned. Courses are not passed or failed; regular attendance alone permits a participant to add the course to his credentials. We recommend that

13.9 the Secretary for Personnel Management of the Board of Management work closely with the Comptroller General to develop courses that meet both modern standards and finan-

cial management requirements in the federal government, and that satisfactory completion of such courses be appropriately tested and recognized.

The implementation of these recommendations will not achieve an instant transformation of the government's financial cadre. Nevertheless, with strong support from the centre and with a better appreciation of the importance and potential uses of financial management, deputy heads and senior managers will be able to fulfil their crucial role. They will, however, require appropriate tools to do their jobs; it is to these that we now turn.

ACCOUNTING AND AUDITING

In previous chapters, we have made recommendations calling on departments and agencies to provide relevant and accurate financial information in support of both plans and results, so that chief administrative officers can be held fully accountable for the activities of their departments. We have recommended reorganized management structures to facilitate the use of this information and have emphasized the need for appropriate financial training. Given these improvements, two important changes remain to be made. The methods for assembling and presenting financial data must be modified before senior financial officers can assume the role we recommend for them. In addition, internal audit systems must be improved so that departmental managers will know when things are going wrong and how to put them right. The problems we treat in this chapter can be traced to the incomplete implementation of recommendations made by the Glassco Commission. While responsibility for financial management was transferred from the centre to departments, control of the tools needed to make it effective was not.

Accounting

Methods The hodge-podge of accounting methods used in assembling the financial statements of the Government of Canada and the accounts of departments and many agencies defeats the four principal purposes for which financial information about governments, and other non-commercial organizations, is required. These

purposes were defined by the Financial Accounting Standards Board of the United States in May 1978, in its *Research Report on Financial Accounting in Nonbusiness Organizations*, as follows:

- *Cost of services provided* "In most organizations the amount of spending for various programs is important information to users. Citizens are interested in how much their government spends for recreational facilities as compared with roads"
- *Management performance* "Management's responsibility is greater than merely complying with the rules. Management is fundamentally responsible for spending money wisely. Thus, users are interested in how well the money was spent, to the extent that accounting can shed light on this"
- *Fiscal compliance* "The Management of a nonbusiness organization ordinarily must comply with a number of spending mandates, such as budgetary constraints in government. Users want assurance that these mandates have been complied with and that resources have been used for the intended purpose" and,
- *Financial viability* "Information that indicates the organization's ability to continue to provide the services for which it exists".

Accounting methods used in departments and in most agencies result in both inaccurate estimates of the cost of implementing a proposal and inaccurate reports of the costs of carrying out the activity. In addition, these program costs cannot be reliably compared on a periodic basis with the relevant benefits or outputs. These two shortcomings have a significant influence on efforts to obtain value for money by running government programs economically, efficiently, and effectively. They also frustrate attempts to achieve satisfactory assessments of management performance.

Deficiencies in accounting systems and methods are the reason for inaccurate cost estimates. There is no comprehensive and consistent system to ensure that all costs incurred by one department on behalf of another are promptly and accurately identified and then charged to the second department. For example, the Department of Supply and Services charges other departments for the approximate cost of procuring supplies and services on their behalf, and for DSS management consulting and auditing

services, but DSS makes no charge for accounting, payroll, and cheque issue services rendered to all departments, although their costs are substantial. The Department of Public Works reports the cost of leased accommodation provided to departments but does not charge departments for the use of Crown-owned buildings. Nor do systems make sufficient allowance for substantial costs in excess of basic salaries; these arise from such fringe benefits as vacation pay, termination benefits, and government contributions to health insurance and pension plans.

A further anomaly of government accounting systems is that costs are charged to programs with little regard to when the costs actually contributed to program output. For example, the cost of equipment and supplies is charged to programs at the time they are paid for, not when they are used. Thus, the price of an expensive piece of machinery acquired to reduce labour costs is charged to a program before the equipment is brought into service, instead of being charged to the program over the useful life of the machine. Furthermore, costing systems make no allowance for the use of money; if, for example, government procured supplies at off-season discount prices and stored them for many months, there is no means of determining whether resulting savings are offset by extra interest charged on money borrowed to accommodate the early purchase.

Furthermore, departmental accounting systems fail to provide reliable calculations of the cost of personnel and financial administration and other overhead costs. For example, we were unable to assemble sufficient data on which to base a reliable estimate of the total cost of all internal audit activities within the government. Without satisfactory costing systems, departments are unable to make wise decisions regarding the use of the resources with which they are entrusted. Among the fundamental decisions that would benefit from the existence of satisfactory costing systems are the following:

- whether government should undertake a project internally or contract it out to the private sector
- what charges should be made to provincial governments and others for services
- how well government performance compares with that in other jurisdictions or in the private sector

- when, and in what amounts, accommodation, equipment, and supplies should be acquired

The information on which to base answers to these questions can be obtained through an accounting system, but only if the system first captures all costs on an accurate and timely basis and second has integrated with it a satisfactory costing system for analyzing the data thus obtained. Cost estimates require ready access to reliable historical data; neither the proposals containing these estimates nor subsequent evaluations can be based on fragmented information assembled and analyzed on an ad hoc basis.

Some tentative steps have been taken toward establishing accurate costing in government departments. The evidence that this can be done is found in the accounting systems used for the revolving funds to which we referred in Chapter 6. Because these funds are intended to be wholly dependent on their revenues, and not on annual appropriations, all expenditures relating to the activities financed by the funds are charged to them. The cost of equipment and supplies is charged as they are used, not when they are purchased. Thus, the cost of labour-saving machinery would be charged against the program throughout the period during which the labour-saving benefits were realized.

Armed with comprehensive and accurate cost information, responsibility centre managers can confidently prepare periodic cost statements for activities and compare program outputs with the cost of producing them. In such circumstances, employees respond by performing their tasks economically and efficiently. They have the information they need to ensure that their programs are effective. Accounting systems used for revolving funds supply information that meets the purposes we cited earlier in this chapter and encourage improved financial management. For example, the Auditor General commented in his 1978 report on the efficiency of the Passport Office, which has reliable information available to tell Parliament and the taxpayer that the cost of issuing passports and other appropriate travel documents to Canadian citizens in the fiscal year ended March 31, 1978 was \$8,685,364. The same cannot be said for most services provided by the government.

As a general rule, the managers of revolving funds are able to cost their activities fully and accurately. We have been unable to find a convincing reason why the same should not be true else-

where in departments and agencies. The recommendations of the Glassco Commission and the Treasury Board Secretariat's own *Study of the Accounts of Canada* in 1975 both emphasized the need for cost-based accounting. Yet neither the Financial Administration Branch of the Treasury Board Secretariat nor departmental managers took any serious steps to achieve it. The introduction of a proper cost-based accounting system is not a complicated task; nor should it cause additional expense since it should enable departments to dispense with commitment controls that are, at best, incompletely exercised anyway. The benefits of introducing cost accounting would include a dramatic improvement in the information base on which to assess proposals and measure subsequent performance. It would thus contribute greatly to reducing inefficiencies and waste. We recommend that

14.1 comprehensive cost-based accounting systems be developed and used in all federal departments and agencies, and that these systems meet the criteria of capturing all costs on a timely and accurate basis and be integrated with costing systems capable of analyzing the data thus obtained.

Another weakness of departmental accounting systems, and one not shared by revolving funds, is that they do not provide independent financial control over the non-cash assets in the department's custody. There is no independent assurance that equipment and supplies are purchased and delivered when and where they are required, that they are bought in economical quantities, that they are used for the purposes intended, or that they have not become redundant or obsolete. In the private sector, such controls have been part of integrated management systems for decades. They permit an accurate determination, in financial terms, of the value of goods purchased and used to accomplish objectives, or stored, destroyed, or lost. They supply an automatic, independent, internal check over purchasing agents, stores managers, and production employees. They provide the information needed to establish insurance claims, and to calculate the taxable income of an enterprise on a consistent and acceptable basis.

Because of their need to match costs with revenue accurately, revolving fund managers have set up financial controls over non-cash assets that should detect abnormal transactions automatically. While the responsibility for safeguarding equipment and sup-

plies is now normally held by matériel management personnel, control over these valuable assets should also be exercised independently by financial officers through departmental accounting systems. We recommend that

14.2 accounting systems in departments and agencies incorporate independent financial control over all non-cash assets, and particularly over fixed assets and inventories.

Policies and Practices An account is a statement made about money held in trust and should provide, in financial terms, a report of the trustee's conduct. On the basis of the account, the trust can be renewed or, if there has been abuse, the trustee dismissed. In either case, the decision must be based on accounts drawn up in accordance with principles that are either generally accepted or, at the very least, mutually agreed upon before hand. If an auditor is relied on to provide an assurance that the account is properly drawn up, that auditor should have some standard against which to judge the practices in question. Many of the government accounts submitted to Parliament have been prepared using practices that are not generally accepted. Furthermore, some of these practices are not even conceptually justifiable in the circumstances. While the Auditor General has repeatedly drawn attention to a number of unacceptable accounting practices, we have concluded that unless firm action is taken by Parliament, the accounts it receives will continue to lack integrity, to be complicated rather than straightforward, and to be presented in a manner inconsistent from one year to the next.

With regard to the Financial Statements of the Government of Canada, the Auditor General expressed serious reservations concerning the accounting practices used to draw up the accounts for the year ended March 31, 1978. In consequence, he was unable to state, as he is required to do under Section 6 of the *Auditor General Act*, that these statements were presented fairly. Net recorded assets shown in the statement of assets and liabilities totalled \$40.4 billion. If the government's stated accounting practices had been followed, the amount of these assets would have been reduced by at least \$3.1 billion, comprising assets that do not represent realizable financial claims. They would be reduced by a further undetermined amount if the value of loans and investments to some Crown corporations, where these represent items such as capital expenditures, had been charged to budgetary expenditures,

as they should be under the government's stated accounting policies. In addition, inadequate allowance had been made for the possibility that some of the \$3.8 billion loaned by the government would not be repaid. These reservations are so serious that they raise the question of whether the budgetary deficit of \$10 billion for the year ended March 31, 1978, and the accumulated budgetary deficit of \$39.6 billion at that date are any more than rough approximations.

The financial statements of the Government of Canada contain financial information about some government entities but not others; what is included depends on the way that divisions, branches, agencies, and corporations are classified under the schedules to the *Financial Administration Act*. The Auditor General has commented on the inappropriateness of this criterion for inclusion; the implementation of our recommendations regarding the classification of departments and agencies should eliminate this concern. The criterion also has a significant effect on the budgetary surplus or deficit, and because of the accounting policies and practices employed in the calculation of the surplus or deficit, on the calculation of revenues generated and expenditures incurred by the individual departments and agencies.

The budgetary revenues and expenditures set out in the financial statements include some items of revenue and expenditure but not others. Furthermore, they include items that are particular to the government. Similarly, assets and liabilities have their own special definition. Assets are defined as the financial claims acquired by the Government of Canada on outside organizations and individuals as a result of events and transactions prior to the accounting date. Liabilities are defined as financial obligations to outside organizations and individuals as a result of events and transactions prior to the accounting date.

As a result of government accounting policies and practices, however, and in accordance with the provisions of the *Financial Administration Act*, some financial claims and obligations are not reported in the annual statement of assets and liabilities. The most important financial claims not reported are the accounts receivable for both tax and non-tax revenue. Financial obligations not reported include accounts payable for goods and services received in the year but not paid within 30 days from the end of the year; accounts payable related to statutory appropriations; accrued liabilities for some retroactive salary and wage settlements, for

unpaid overtime, annual vacation and unused sick leave, and for benefits payable upon termination of employment; and actuarial liabilities arising from the indexing to the cost of living of pensions and annuities.[†] The statement of assets and liabilities does include, however, the balances of some accounts internal to the government; these will continue to be reported until parliamentary authority to delete them from the accounts of Canada has been obtained.

The Financial Statements of the Government of Canada appear to be straightforward, but in fact they must be read in conjunction with a long list of notes and observations, detailing explanations, exceptions, and inconsistencies. Even with this supplementary information, it would be difficult for anyone but a skilled accountant familiar with the organization of government to determine the exact amount of the budgetary deficit. This is a far cry from the private sector where the law demands a high standard of accounting. In the private sector, over a period of about one hundred years, the accounting profession and business have, at government urging, developed a series of accounting principles used in the preparation and presentation of financial information. These principles are intended to ensure that financial information presents a view of operations, expressed in financial terms, that is consistent from year to year, and that is as true and fair as can reasonably be established. These generally accepted accounting principles have been adopted in many countries of the world, with accepted variations to meet the peculiarities of the industry concerned, or circumstances such as high rates of inflation. In most countries, the adoption of these principles is required to comply with national legislation concerning limited liability and the requirements of stock exchanges and regulatory bodies. These principles are usually the basis for calculating taxable income for corporations of all sizes. We believe that the principles applied to the accounts of government, the largest trustee of all, should be no different. Government should use accounting principles and practices that are generally accepted or, if unique, justified by the special circumstances within which it operates.

Since the government as a whole fails to deal with its financial statements as it should, it is not surprising that a number of individual departments and agencies follow suit and present their

[†] From *Public Accounts of Canada*. 1978, V.1, p. 2.10.

accounts in a similarly casual manner. The financial statements of 50 boards, agencies, funds, and corporations shown in the Public Accounts at March 31, 1978, were prepared following generally accepted accounting principles and audited by the Auditor General. He was able to state without reservation or exception that these principles had been consistently applied in preparing the accounts of only 22 of these organizations.

Some of the deficiencies in the accounts of Canada were recognized in a study carried out by the Treasury Board Secretariat in 1975. This *Study of the Accounts of Canada* made a series of recommendations that would have gone part way to restoring integrity to the accounts, had they been implemented. Action has been forthcoming, however, on only a few. In the same way that there has been no central direction to encourage the appropriate use of generally accepted accounting principles, there has been no driving force to ensure that accounting policies and practices were changed to take account of the report's recommendations. The attitude this reveals influences financial management across government and is, in part, responsible for the inaccurate and inadequate costing information we described earlier in this chapter.

We believe that the problem of government accounting policies and practices in Canada today is urgent, but it is not peculiar to Canada. In the United Kingdom there has recently been severe criticism of accounting standards at the municipal level. In the wake of the New York and other municipal funding crises, the United States Securities and Exchange Commission and the American Institute of Certified Public Accountants have focussed on the essence of the problem by asking why generally accepted accounting principles are not, by their very definition, acceptable to non-business organizations, including governments. The Canadian Institute of Chartered Accountants, on its own initiative, set up a Task Force on Government Accounting in 1975 to determine whether accounting and reporting standards for the governments of Canada and the provinces should be established. The Task Force concluded that they should, and recommended that, as a first step, a study group be created to catalogue the existing practices with respect to legislative accounting, financial reporting, and auditing, and to review the objectives and concepts underlying them. A study group was set up to consider the possible objectives of governmental reporting and auditing and to identify the main

issues for future consideration. The group was to include the following topics in its study:

- 1) Form and nature of appropriation authorities.
- 2) Accounting entity covered by summary financial statements of governments.
- 3) Manner of reporting on accounting entities controlled by or owned by governments and not incorporated in their summary financial statements.
- 4) Manner of reporting on government assets and liabilities, including such matters as:
 - cash, including funds in transit
 - investments in or advances to government controlled organizations
 - advances to other governments
 - accounts receivable, inventories and other similar assets
 - fixed assets
 - accounts payable
 - deferred charges and accrued expenses
 - assets and liabilities expressed in foreign currencies
 - unmatured debt
 - contingent assets and liabilities
 - the excess of liabilities over assets.
- 5) Manner of summary reporting on government receipts and disbursements.
- 6) Manner of summary reporting on results for the fiscal year, including such matters as:
 - cut-off of revenues and expenditures
 - treatment of inter- and intra-governmental transactions
 - consistency between fiscal years
 - consistency between actual and authorized amounts
 - treatment of non-recurring or prior year's transactions.
- 7) Manner of reporting on revenues, expenditures, assets and liabilities and other matters related to the detailed disclosure of specific financial transactions or groups of financial transactions.
- 8) Auditing practices including:
 - form of short-form report, including qualifications and disclaimers
 - materiality as it affects audit reports
 - field work
 - independence.

We believe that the study together with our own recommendations could launch a process that would result in accounting standards that would be recognized and accepted by the federal and provincial governments. We feel, however, that governments must commit themselves to establishing these standards and should now take the lead. The next stage in the study should be conducted, not by the Canadian Institute of Chartered Accountants, but by a joint task force set up by the federal and provincial governments. This task force should include accountants and auditors from both levels of government as well as members of the professional, business, and academic communities noted for special accounting skills and competence. We believe that such a task force, supported by qualified staff, should be able to report within three years. We recommend that

14.3 the federal government take the lead in setting up a joint task force with the provincial governments to determine the accounting standards that should be recognized, accepted, and used in the presentation of government financial information.

We would expect the Comptroller General to ensure that the federal government provided a high level of support for the task force, and to be responsible for the follow-up.

Systems In order for transactions to be recorded in the central accounting system of the Government of Canada they must reflect payments from, or deposits to, the Consolidated Revenue Fund. The minister responsible for this Fund is the Receiver General. His duties are at present performed by the Minister of Supply and Services. As a result, responsibility for issuing cheques and depositing cash, and for the central accounts of Canada are centralized in the Department of Supply and Services. As payment and deposit documents are processed, the department records on them other information identifying the department, region, program, or other cost centre concerned with the transaction, and the nature of the expenditure. Daily, weekly, monthly, and annual summaries of all transactions are prepared. These permit the Receiver General to fulfil his responsibilities relating to the operation of the Consolidated Revenue Fund, the provision of the information they require to the Bank of Canada and the Department of Finance, and to inform departments of the status of their various appropria-

tion accounts. There is no major shortcoming in this aspect of the system. The system does, however, fail to provide the relevant, accurate, and timely financial information essential to the management of departments and agencies. Our investigations indicate that no department is fully satisfied that it is provided the information it requires in a useful format, despite the extensive use of computer systems that should make this both practical and economic. Furthermore, departmental managers do not believe that the Department of Supply and Services will ever satisfy departmental financial management requirements.

There is a reason for this. The Department of Supply and Services has developed a government-wide accounting system designed to meet the requirements of its Minister as Receiver General, and this takes priority, ahead of the needs of departments and agencies. The system, therefore, is designed to meet requirements of the centre and not those of many departments and agencies conducting diverse activities in many locations. This has implications for the accounts used by departments.

With few exceptions, all payments by the Government of Canada are made in the form of over 120 million cheques issued annually by the Receiver General from the Ottawa headquarters of the Department of Supply and Services or from its regional offices. Cheques are issued by the Receiver General on the request of the various departments. Departmental authorizing signatures are checked for authenticity on a random sample basis; however, the Department of Supply and Services usually does not have on hand a fully up-to-date list of such authorizing signatures, nor does it ensure sufficient funds are available in appropriations before cheques are issued. Documents supporting requests for payment are filed and later stored in the Public Archives on behalf of the Receiver General. Nevertheless, to cope with the vagaries of the system, some departments maintain their own accounting records and one or more copies of all the supporting documents. These copies help to provide key information that cannot otherwise be obtained quickly. There are no estimates of the costs that this complicated process of duplication generates, but obviously they must be substantial. Given that this dual system does not even provide comprehensive information on the balance of unexpended appropriations or systematic verification of the authenticity of cheque requests, we question its value.

Notwithstanding the creation of the Department of Supply and Services and its central accounting system, and the hope that future generations of computers would enable that system to meet the needs of all, it is doubtful that a single accounting system could meet that requirements of both the government and its individual departments and agencies. This observation is borne out by the substantial number of departments in which senior managers have, partly out of frustration, created partial internal accounting systems, though this development has been actively discouraged by the central agencies on the grounds that it leads to duplication and unnecessary expense.

What has not been explored in depth is the concept of encouraging all departments to maintain their own accounting records and to provide the necessary information to the Receiver General as a product of their own systems. This would place the onus for producing accurate and timely information on departments, where it is needed, and still permit the exercise of central control. It would also be akin to the methods used by most large corporations where financial data are fed upwards from the lowest levels of responsibility to corporate management, with each higher level using only that information pertinent to its own requirements.

Departmental accounting systems would not conflict with our recommendations in Chapter 7 giving the Comptroller General responsibility for the central accounting system and the preparation of the Public Accounts of Canada. We would require that he assess departmental systems with respect to their ability to meet government-wide requirements and departmental needs. We recommend that

14.4 departments be fully responsible for the design and upkeep of their own accounting systems; that

14.5 departmental accounting systems be designed to provide the information required by central agencies accurately and promptly; and that

14.6 departmental accounting systems, and any subsequent changes therein, be formally approved by the Comptroller General before being brought into use.

All departments need not have their own bookkeeping machines or computers. Departments must design accounting systems that will provide the information they need in the form and at the time they

require it. Whether the systems are operated by the departments or by a service agency, possibly the Department of Supply and Services, is a matter of economy and efficiency to be decided internally by departmental management. One of the considerations in this decision must be whether the financial staff possesses the technical competence necessary to fulfil this additional responsibility economically and efficiently.

Payroll Systems

The 120 million cheques issued annually by the Receiver General include salary cheques for about 330,000 government employees. The Auditor General's last four reports referred to the weaknesses in controls over payrolls in both the central pay system and in departments, and other concerns have been raised with respect to personnel management and industrial relations. The question is whether so large a system can be managed so as to give satisfaction to so many managers and employees conducting diverse activities in many widely separated locations.

Many of the shortcomings were addressed in a Treasury Board circular on pay administration issued in July 1977. This circular clearly established that the responsibility for pay administration rests with individual departments and that the role of the Department of Supply and Services is one of service. It recognized the limits of the present computer system and the need for improved responsiveness to departmental and employee requirements. If the course charted in the circular is followed, if departments and agencies acquit themselves of their responsibilities, and if the Department of Supply and Services does provide the services required, the problems we identify will gradually diminish in number. If this does not occur, another remedy must be found. In this event, the Government might wish to consider making major labour-intensive departments responsible for their own payroll systems.

Internal Audit

The most visible audit in government is the Auditor General's. His reports have focussed parliamentary and public attention on

major inadequacies of financial management and contained excellent suggestions for improvement. The *Auditor General Act* of 1977 clarified existing duties with respect to the legality, probity, and prudence of expenditures, and expanded the role of the Office. The Auditor General's additional reporting obligations now include cases where, in the words of Section 7 of the Act, "money has been expended without due regard to economy or efficiency; or satisfactory procedures have not been established to measure and report the effectiveness of programs, where such procedures could appropriately and reasonably be implemented."

The Auditor General's reports represent only a fraction of total audit activity and can cover only a small portion of all government programs. The audit of the remainder, and the follow-up to it, should be a part of internal departmental management. The cost of auditing government programs is enormous. So broad is the range of these activities that we have not been able to determine their total cost with any degree of accuracy, although estimates in the \$50 to \$60 million range provide a reasonable approximation. We would not dispute the necessity of spending these amounts if the services provided met the highest standards of economy, efficiency, and effectiveness. They do not.

Auditing within government falls into two major categories, central agency compliance audits and departmental and agency internal audits. Central agencies conduct a series of audits to ensure that the regulations and procedures they have laid down are being complied with by the departments and agencies. The extent and standards of internal audit vary considerably from one department to another, depending in large measure on whether departmental management views internal audit as a management tool or simply as something imposed by the centre or by the Auditor General. Where the latter view is held, internal auditing consists largely of the verification of the arithmetical accuracy and the legality of payments. It amounts to no more than a mechanical check by one group of people on detailed transactions recorded by another group. The results of such audits are rarely of use to senior management. In only a few departments does internal audit go beyond these limits to include some aspects of operational auditing, such as the assessment of the economy and efficiency with which programs are being conducted, an examination of the validity of performance indicators, and the review of compliance with administrative procedures. Departmental internal audit

groups tend to establish their own standards and, in the absence of direction from senior departmental managers, determine the nature and scope of their own audit programs. Some departments contract with the Audit Services Bureau of the Department of Supply and Services to conduct their internal audit. In such cases, the Bureau has tended to set its own standards, acting in much the same way as an independent external auditor would.

There is a lack of co-ordination of these various central and internal audits, with the result that the same activities are audited at different times for different purposes. An activity could be subjected in one year to audit by as many as five different groups: its own internal departmental auditors or a team from the Audit Services Bureau; the Public Service Commission Audit Branch; and three divisions of the Treasury Board, the Office of the Comptroller General, the Administrative Policy Branch, and the Personnel Policy Branch. The result is that the time of many deputy heads and other senior managers is overburdened by the need to respond to these auditors. The absence of co-ordination in the initiation and conduct of audits also has other implications. The effect of weaknesses found by one group on a program or activity being audited by another is rarely examined. Audit reports are received at different times and at different levels in departments. Action based on these reports is not co-ordinated.

As the first step toward improving the effectiveness of internal audit we believe that existing audits should be consolidated. Because internal audit must be a management tool, the expanded audit responsibility resulting from this consolidation should be located within departments and agencies. Furthermore, we believe that the internal audit staff of the Audit Services Bureau should be transferred to those departments and agencies whose audit staff is insufficient at present. We recommend that

14.7 the internal audit responsibility of departments and agencies be based on a comprehensive approach to all financial, operational, and management auditing, and that it therefore cover adherence to all centrally-prescribed financial, personnel, official languages, data processing, and other administrative policies and procedures, as well as the economy, efficiency, and effectiveness with which resources are used.

A further reason for the ineffectiveness of internal audit is that direction of the activity has been inadequate. In some departments, the internal auditor reports to a senior financial officer, in others to one or more senior committees. While audit programs have not been comprehensive, their scope has been subject to the influence of program managers; in particular, auditors have been asked to solve problems relating to systems and procedures not related to their normal duties. Audit standards have not been established and monitored by departments, nor have reports received the follow-up attention they merit. If the responsibilities of auditors are to be broadened as we recommend, comprehensive programs must be approved before they are launched, standards of audit must be monitored, and the observations, weaknesses, and recommendations contained in audit reports must be reviewed and followed up. The best vehicle for carrying out these tasks is the *Audit Committee*.

Recent amendments to Canadian corporate law require that most large companies establish audit committees of their boards of directors. Among its other tasks, an audit committee works closely with the company's internal auditor as well as with the independent external auditor in a number of areas. The committee reviews and approves the standards, scope, and timing of the audit program. It reviews audit findings and recommendations along with the views of those concerned, and appraises the quality and effectiveness of the audit techniques used. The committee reports periodically on its work to the board of directors. Usually, the committee can approach its work with a degree of objectivity because the majority of its members are directors who have no responsibilities for the day-to-day operations of the company. In addition, these outside directors bring with them a wealth of experience and knowledge applicable to the problems revealed and the solutions proposed in audit reports.

We believe that carefully chosen audit committees would provide a useful stimulus to the improvement of management practices in the public service, particularly if internal auditors are given the increased responsibilities we have recommended. Central management could cede these responsibilities in the knowledge that audit activity was being monitored by an objective observer.

While many government departments and agencies already have audit committees, their members do not have the qualities of objectivity and external experience; most audit committees are

simply sub-committees of the departmental management committee. Even senior executives from other departments or agencies could not provide these qualities, since management styles across government tend to be similar. Moreover, some government-wide problems are too readily accepted as insoluble, and the sense of community among senior public servants could inhibit frank criticism. These considerations did not receive sufficiently careful examination by the Treasury Board in its recent publication "Standards for Internal Financial Audit".

To meet these objectives, and to respond to the need for objectivity and varied experience, departmental audit committees should include representatives of the senior ranks of the Canadian business community. This proposal would also respond to the need to enhance mutual understanding between business leaders and senior public servants. Since audit committees would meet only four or five times a year we do not believe that the demands of time would constitute a major obstacle to finding the right people to serve on the committees. Indeed, we believe that major Canadian corporations would welcome the opportunity to have their senior officers participate in a forum where they could make a valuable contribution.

In the private sector an audit committee would normally be chaired by a director without other corporate responsibilities. We believe, however, that departmental audit committees should be chaired by the deputy minister. Committees should be small enough for efficiency and effectiveness, but large enough to allow for a comprehensive review of issues. A committee of three or four members, two of whom are outsiders, would meet these requirements. The fourth member could be drawn from the public service, either from the department itself or from another unit of government. All appointments to these committees from outside government should be made by the Governor in Council on the recommendation of the President of the Board of Management after consultation with the minister and the deputy minister. Appointments should be for a term of three years, with the possibility of re-appointment for a further three years. Modest honoraria and expenses should be paid to those from outside government for each meeting attended. Appointees should be briefed by the deputy head prior to taking up their duties to introduce them to the activities of the department.

While chief internal auditors should submit their reports to the audit committee through the deputy minister and should attend its meetings as required, they also should be free to raise issues with individual committee members. Careful minutes should be kept of all meetings and submitted to the minister. Copies should also be sent to the Comptroller General and the Auditor General. We recommend that

14.8 *Audit Committees* be formally created in all departments and that they comprise at least the deputy head and two members from the ranks of senior executives of major corporations and organizations in the private sector.

Apart from the introduction of an outside perspective on audit activities, the additional responsibilities we recommend will place internal auditors under increased pressure from central agencies, departmental program managers, and the Auditor General. The quality and scope of their work must, therefore, correspond to some prescribed standard and their adherence to this standard must be regularly monitored by someone qualified to do so. The establishment of standards and the assessment of technical performance should be the responsibility of the Comptroller General who should also review all departmental audit committee reports. He must verify that financial systems and procedures are in place to ensure maximum economy, efficiency, and effectiveness in government, and he must be confident that satisfactory audit procedures are monitoring the operation of these systems. Recommendations concerning the Comptroller General's role in watching over departmental and agency audit activities were made in Chapter 7.

Consolidating internal audit, introducing minimum audit standards, and establishing audit committees would enhance the accountability of deputy heads. Internal audit is a management tool to which accountable managers must have ready access at all times. While audit committees would ensure that audits are correctly conducted and that reports are followed up, the everyday direction and guidance of internal auditors must remain the responsibility of deputy heads.

PART IV

CROWN AGENCIES

THE ISSUE OF CLASSIFICATION AND ACCOUNTABILITY

One of the distinguishing features of government at the federal level in Canada is the large number of policies and programs that are administered by a wide variety of non-departmental bodies which our mandate refers to as "Crown agencies" and which are set apart from the conventional departments.

The extensive resort to Crown agencies is a legitimate response by government to the problem of developing alternative instrumentalities to cope with the demands imposed by the assumption of new roles that require independent sources of policy advice, regulation of important sectors of the economy, objective determination of rights, and outright government ownership and operation of numerous business-like undertakings. Crown agencies serve a necessary and useful purpose in lightening the burdens on ministers caused by the growth of programs and added responsibilities within conventional departments. The pervasiveness of these non-departmental hybrids has compounded the confusion with respect to the management and accountability problems that we have considered in dealing with regular departments.

The number and variety of functions as well as organizational models that characterize Crown agencies pose two major issues. The first is the identification and classification of Crown agencies. The second is the clarification and rationalization of the arm's length relationships of Crown agencies with Government and Parliament. This effort is necessary in order to establish appropriate accountability for management and for the implementation of public policy in accordance with mandates.

The Problem of Identification and Classification

In our Progress Report, in a preliminary effort to identify Crown agencies, we suggested that they were a group of entities that have a different relationship to government and a different form of accountability than the conventional department. This formula for distinguishing Crown agencies from departments constitutes only a starting point for the task of identification. A number of supposed Crown agencies, under the existing framework for management and accountability, do not differ significantly from departments in their relations with Parliament and the Government. Many are now categorized as “branches designated as departments” or as “departmental corporations” and some we propose leaving in the departmental category. However, there are many with unique tasks that warrant a special arm’s length relationship to Government that requires their assignment to a new category, *Independent Deciding and Advisory Bodies*. At the opposite pole from departments there is another group of Crown agencies whose relationships with the Government differ little from those maintained by organizations in the private domain. These we classify as *Shared Enterprises*. Finally, there is a group of wholly-owned governmental undertakings which we assign to the category *Crown Corporations*.

We attach much importance to the issue of identifying Crown agencies for, unless we understand the basis for resorting to non-departmental entities, we cannot properly undertake their classification. Lacking clear categories, both Parliament and the Government will flounder in trying to fulfil their responsibilities for ensuring the accountability of those agencies as organs of public purpose.

In the re-ordering of Crown agencies that we undertake in the next chapter there are at least five criteria which, in varying combinations, we believe must be invoked to distinguish the essential qualities of a Crown agency from a conventional department or from an organization in the private sector. One distinguishing criterion is the **nature of the task** to be performed—a criterion that becomes important in distinguishing one category of Crown agency from another. **Ownership**, as a second criterion, is helpful but not altogether conclusive in distinguishing Crown agencies from private bodies. The same applies to a third indicator, the

source of funds. Fourth, while their **organizational forms** vary, Crown agencies have one common structural feature—collegiality, which distinguishes Crown agencies from hierarchical ministerial departments. Finally, **delegation and autonomy** are the concepts most crucial to distinguishing a Crown agency from a department and, in turn, differentiating one type of Crown agency from another.

Thus, by invoking the criteria of delegation and autonomy, we define Crown agencies in the following terms:

Crown agencies are distinct entities established as instruments of public policy that have been directly delegated by Parliament, the Government, or another Crown agency specified continuing responsibilities and decision-making powers that assure them a degree of autonomy from Parliament and the Government in the pursuit of their tasks.

From this definition it follows that the accountability of Crown agencies differs from that of departments because the tasks are directly assigned to the agencies and not to ministers of the Crown, who must account to Parliament for the exercise of continuing responsibilities and managerial powers.

In the next chapter we elaborate this definition in order to display the extraordinary number and variety of governmental entities radiating from the departmental system at the core to outer fringes, where public and private organizations meet and blend into a grey area where perceptions of distinctions may require the aptitude of a clairvoyant. Building on this detailed analysis we propose to amplify and clarify the classification system now in force.

The extensive and increasing resort to Crown agencies has revealed serious deficiencies in the system which, if left unattended, will only add to the existing state of confusion concerning the status and accountability of the large number of Crown agencies now comprising virtually a second public service.

The Problem of Accountability

While the re-ordering of Crown agencies which we undertake in the next chapter is desirable and overdue, it is for us a necessary

basis upon which to establish the appropriate degrees of autonomy for, and to clarify the policy and management relationships of, Crown agencies with the Government and Parliament. Without such re-ordering, accountability cannot be complete or fully understood and accepted by all who are involved.

The present framework within which Crown agencies are managed and held accountable has evolved slowly over the years, punctuated occasionally by efforts to classify these agencies in general terms so as to cover their relationships with Parliament and the Government. We describe the major elements of this framework in a subsequent chapter, but our conclusions are that the framework is not sufficiently comprehensive to embrace either many of the recent additions to the list or many of the variants of the Crown agency form; that for those agencies it does cover its application has been inconsistent; and, that the régimes of accountability are tied primarily to financial management arrangements, while larger issues of accountability to Parliament for mandate, and to the Government for policy, have not been adequately covered.

The consequence of this inadequacy and fragmentation in the framework for accountability is a decline in confidence in the Crown agency as a valid instrument for the implementation of public policy objectives. Within the last three years, specific events have provided a focus for a rising concern over the adequacy of the existing régime for Crown agencies. These events included the revelation by a Commission of Inquiry of unorthodox practices within Air Canada with respect to the establishment, operation, and reporting of subsidiaries; Polysar's purchase (when it was Polymer Ltd.) of an interest in Sentrachem of South Africa; the contradictory advice from auditors as to invoicing practices in a more recent and highly publicized Polysar affair; the inquiry into claims of separatist influence in CBC programming; AECL's cost overruns and payments to sales agents; and the complaints by certain ministers that they had lost control of the regulatory agencies and Crown corporations in their portfolios.

The gravity of the situation has been underscored by the wide-ranging criticisms and recommendations of the Auditor General and the Public Accounts Committee of the House of Commons. Their reports and proposals have focussed on two concerns: the appropriate role of Parliament and the Government in the

financial management and control of agency and proprietary Crown corporations, and the policy responsiveness of these corporations and of the major regulatory agencies. Those concerns are relevant to the wider problems of defining and scheduling government corporations, setting objectives for them, and holding them accountable for their performance.

Sharing in these concerns, the Government has addressed the specific problem of the policy responsiveness of Crown corporations in the Blue Paper on Crown Corporations. In addition, as part of our mandate, we were asked for our views and recommendations covering not only Crown corporations but the entire array of Crown agencies.

Later in this Report we describe the positions and proposals of the Auditor General, the Public Accounts Committee and the Government as set out in the Blue Paper, and offer our own analyses and recommendations. We do not disagree with most of the analyses of specific problems made by these contributors to the continuing debate on the restructuring of the framework of the relationships among Parliament, the Government and Crown agencies. However, our own study has led us to the conclusion that the Crown agency dilemma cannot be viewed simply as a collection of specific problems of political direction and financial management. The essential need is to restore the integrity of the Crown agency system and to re-establish confidence in it. When there is clear need to do so, Parliament and the Government must be able to turn with confidence to Crown agencies and, in particular, to Crown corporations and other quasi-public bodies.

We believe that Crown agencies are a valid response to the demand for appropriate means to handle tasks analogous to those of the private sector, to form partnerships with groups and individuals from the private sector, or to serve at arm's length in an advisory, deciding, or adjudicative role.

We are strongly opposed to any set of solutions to the problems of management and accountability of Crown agencies that tends to reduce responsibility by emphasizing tighter control by Government and Parliament as the sole answer to shortcomings in policy direction, management, and accountability.

In our view there are four elements present in varying degrees in any accountability régime. Each must be fixed in different degrees within a classification framework for Crown agencies so that any particular mix of elements is appropriate to the specific

task, management needs, and policy context pertinent to any particular category.

The four elements of an accountability framework are

- **Mandate**
- **Direction**
- **Control**
- **Evaluation and reporting**

Mandate includes a rigorous definition of tasks, purposes and objectives assigned to an agency and a clear delegation of the powers and managerial authority necessary to accomplish them. It is essential to the evaluation of the long-term performance of Crown agencies and to their accountability.

Direction relates Crown agencies to the public interest. It requires a clear statement of the specific powers that Parliament and the Government reserve to themselves with respect to each category of Crown agency and of the conditions under which they can be used. Government must be in a position to monitor the broad directions taken by Crown agencies for it cannot abrogate its ultimate responsibility for seeing that mandates are not exceeded or varied, and that the plans and policies being developed or implemented by Crown agencies are consistent with the Government's over-riding responsibility to Parliament for the public interest.

While direction is primarily concerned with the first part of the mandate, the tasks, purposes and objectives of a Crown agency, **control** relates to the second, the delegation of powers and managerial authority. Control involves the use of a number of instruments which the Government must choose and apply selectively and discriminately. It is in this area that the Government must find that delicate balance between excessive control—which would frustrate the purpose of a Crown agency, and no control—which would be a denial of the Government's involvement and responsibility in the enterprise.

Once the first part of the mandate has been established, instruments of control should be selected so as to affect the delegation of powers to, and managerial authority of, the Crown agency at three distinct stages. The first stage, antecedent to the agency's operations, involves the clear assignment of powers and

duties, vigilant attention to direction, and the power to appoint, evaluate, and change the members of boards or commissions. The second stage of control relates to the on-going activities of a Crown agency where undue emphasis on day-to-day governmental controls runs the risk of pre-empting the advisory, adjudicative, or managerial capacities of an agency. The use of this kind of control calls into question the whole rationale for the existence of semi-autonomous agencies and further confuses the lines of accountability.

At the third stage, subsequent to the operations of a Crown agency, are controls which we believe warrant special consideration as a key element of any accountability régime. These are **evaluation and reporting**. Information generated within Crown agencies should be available for internal governmental evaluation and, as appropriate, for external scrutiny by Parliament. More complete and comprehensible disclosure of information will go a long way toward assuring the Government that Crown agencies are complying with their mandates, provide Parliament with better means of executing its surveillance functions, and induce the Crown agencies to pay careful attention to the tasks confided to them. After all, paying attention, and thus better performance, is what accountability is meant to achieve.

Our recommendations in succeeding chapters are aimed at a clearer identification and more comprehensive classification of Crown agencies, together with the establishment of clear accountability relationships commensurate with delegated responsibilities. Although the régimes we are recommending focus, necessarily, on accountability, as an added bonus they also provide the Government and Parliament with necessary and appropriate instruments of direction and control.

A PROPOSED RE-ORDERING OF CROWN AGENCIES

Until recently, the only useful guide to the ordering of Crown agencies was to be found in the schedules to the *Financial Administration Act* and in the Authorities Manual issued by the Treasury Board Secretariat. Schedule A lists government departments while schedules B, C, and D list 54 Crown corporations divided into three types: "Departmental", "Agency", and "Proprietary". The Authorities Manual lists an additional 43 "Branches Designated as Departments" for the purposes of the Act.

In May 1977, responding to the Auditor General's criticism that there appeared to be no central agency taking responsibility for maintaining a complete list of such entities, the Treasury Board Secretariat published a list of what it described as "Government-owned and Controlled Corporations". This added an astounding 310 agencies to the 54 listed Crown corporations and, with the 43 branches designated as departments, brought the total number of Crown agencies to 407. As of January 1979 the official count was 426.

The variety of mandates, structures, and tasks of these agencies is impressive and bewildering. The list of 43 Branches Designated as Departments comprises a most disparate mix, reflecting, among other things, an enlargement of the regulatory, adjudicative, and investigative functions of government and a spill-over of self-contained tasks from the conventional departments into quasi-departmental units. This group includes regulatory agencies, administrative or deciding tribunals, temporary bodies such as royal commissions, servants of Parliament like the Auditor General, operating agencies like the National Film Board, and central agencies.

All the remaining agencies on the Treasury Board Secretariat's list are organized under variations of the corporate form. The 14 "Departmental Crown Corporations" encompass such different entities as advisory and granting councils like the Medical Research Council, regulatory agencies such as the Atomic Energy Control Board, and a number of organizations which are effectively parts of departments, like the Director, The Veterans' Land Act.

Schedules C and D of the *Financial Administration Act*, dealing with Crown agencies, reflect the growth of the federal government's role in the economy through the creation or acquisition of a large number of wholly-owned Crown corporations with varying degrees of commercial orientation and financial self-sufficiency. The 19 "Agency Corporations" include marketing agencies such as the Canadian Saffron Corporation, a number of corporations conducting business for the government such as Defence Construction (1951) Limited, and a smaller number operating in a wider market like Atomic Energy of Canada Limited. The 21 "Proprietary Corporations" are mainly engaged in commercial operations, for example, Air Canada and Via Rail Canada Inc., but also include financial guarantee and insurance concerns like the Export Development Corporation and the Farm Credit Corporation.

The first group of omissions from the schedules are listed by the Treasury Board Secretariat under "Other Government Corporations". They number 27, seem to have few common characteristics other than the fact that they have been purchased, created, or sponsored by the federal government, and range from the Bank of Canada through The deHavilland Aircraft of Canada Limited and the Standards Council of Canada to the Belleville Harbour Commission.

Under the heading, "Mixed Enterprise Corporations" are listed 24 enterprises ranging from the Canada Development Corporation to the Blue Water Bridge Authority. These are share capital corporations owned or controlled jointly by the federal government and other governments, organizations, or individuals.

The lists also set out the categories "Subsidiary Corporations and Their Subsidiaries", which are share corporations that are majority-owned or controlled by Crown or other government corporations, and "Associated Corporations", in which the Government, either directly or through another corporation, has a minori-

ty interest. These two categories account for 260 of the more than 380 entities making up the complete Treasury Board Secretariat list. They represent a vast stew of large and small corporations and include such important organizations as Polysar Limited, Panarctic Oils Limited, and Texasgulf Incorporated.

Finally, there is a list of 18 organizations labelled "Other Entities and Associates" which includes a wide variety of quasi-public corporate bodies, many of which are non-profit organizations like the Vanier Institute of the Family and The Forest Engineering Research Institute of Canada. Many have been created within the last ten years, reflecting the growth of the role of the state, through sponsorship and financial support, to encompass tasks previously left to private institutions.

Merely to parade this motley contingent of Crown agencies is enough to suggest the difficulty of finding a way to restore order to the ranks. Nevertheless, such an exercise must be undertaken if we are to engage in the even more essential task of clarifying the lines of accountability and the nature of the relationship to be established between Parliament and the Government on the one hand and each of these Crown agencies on the other. It is simply not possible to rely on the present schedules to the *Financial Administration Act*, which cover such a small number of the agencies and where the criteria for classification are minimal and inconsistently applied. Nor are we much better off in having an apparently complete register of such bodies, such as the Treasury Board Secretariat list, without any indication of accountability relationships or of how the Government should relate to its agencies.

Identifying a Crown Agency

Three fundamental issues have to be settled if we are to arrive at a re-ordering of departmental and non-departmental organizations with the ultimate objective of establishing appropriate accountability régimes for each category.

The first concerns the trailing end of the procession of putative Crown agencies. Essentially, the issue is how to separate public or governmental organizations from private organizations. To say that the distinction lies in a definition of governmental tasks as against private sector tasks is no help whatsoever, for a

task becomes governmental simply by government assuming it. Is the distinguishing criterion the matter of ownership? Only in part, for even when a Crown agency is not involved as owner, it can have a membership, management, or policy relationship with an organization that would tend to give that organization a governmental character. Moreover, in an increasing number of instances the Crown is sharing ownership either on a majority or minority basis with other governmental and/or non-governmental partners. Can it be said that the source of funding enables us to distinguish between governmental and non-governmental entities? Only if a body receives no funds whatsoever from the federal government and is not qualified to receive loans or appropriations to finance its activities would funding provide a clear indicator as to whether or not a body was a Crown agency.

In our proposed classification scheme, for those entities categorized in the Treasury Board Secretariat list as "Other Government Corporations" and "Mixed Enterprises", we suggest a single category, *Shared Enterprises*. In Chapter 20 we make proposals and recommendations for the special régime of accountability we consider to be appropriate for those Crown agencies that march at the outer limits of government, and draw attention to the need for further examination of the group on the Treasury Board list designated as "Other Entities or Associates" to which we apply the title, *Quasi-public Corporations*, but for which we see no justification for categorizing as Crown agencies.

The second issue to be addressed in this re-ordering exercise carries us to the front end of the procession, where the problem is in distinguishing a department from a Crown agency. Once again, a distinction based upon the substantive tasks to be performed is not particularly helpful. Why, for example, should the operation of airports be entrusted to a conventional department while the provision of an air carrier service is the responsibility of a separate Crown corporation? Why should some regulatory tasks be undertaken by departments when others have been assigned to semi-autonomous regulatory boards or commissions? Why should certain granting or adjudicative activities reside in departments while in other instances they are enshrined in non-departmental bodies? Such questions simply multiply as one seeks to employ "task" as a distinguishing criterion.

The Government's own criteria for establishing the distinctions between departments and Crown agencies are equally

unsatisfactory. In the first instance, an organization becomes a department when Parliament, through legislation, so constitutes it. Beyond that point the situation becomes confused, for the Governor in Council is empowered to declare an organization to be a department for the purposes of particular acts, notably the *Financial Administration Act* and the *Public Service Employment Act*. But the Governor in Council has not uniformly designated organizations as departments for both pieces of legislation. The definitions section of the *Financial Administration Act* identifies as "departments" not only the major group of portfolios listed in Schedule A but also any other division or branch of the public service so designated by the Governor in Council. These include commissions under the *Inquiries Act*, the staffs of the Senate, the House of Commons, and the Library of Parliament, and any "Departmental Crown Corporation" in Schedule B to the Act. The *Public Service Employment Act* defines "departments" to include the Schedule A group and any branch or division designated by the Governor in Council for the purposes of that particular Act.

While this method of grappling with the classification problem tells us whether an organization is a department or a Crown agency, we are still left without an answer to *why*. In seeking an answer to this question we think that three criteria must be invoked: the nature of the delegation of authority to the organization; the form of the organization itself; and the special character of the managerial and decision-making processes essential to the most effective fulfilment of the assigned tasks.

The Nature of the Delegation Elsewhere in our Report we have examined the roles and responsibilities of ministers and deputy ministers in the conventional departmental form of organization. For ministerial departments, Parliament, through legislation, establishes the department, provides for a minister, and entrusts the mandate to the minister and not to the organization. The minister is specifically assigned the "management and direction" of the department. The deputy receives his authority in accordance with the *Interpretation Act*, by being empowered to do anything which the Minister is empowered to do save for the making of regulations. Finally, the deputy receives by way of direct delegation, without reference to the minister, substantial authority over financial and personnel matters from the Treasury Board and the Public Service Commission.

Crown agencies, by contrast, are established by or in accordance with permissive clauses in parliamentary enactments and are directly assigned their mandates and powers. This initially direct delegation is qualified and constrained, however, by the various kinds of controlling powers exercised by designated ministers, other ministers such as the Minister of Finance or the President of Treasury Board, and the Governor in Council. It is in the variances created by the permutations and combinations of such controlling powers that the real dimensions of the arm's length relationship that the Government has conferred on each of its Crown agencies can be established. In subsequent chapters we examine these variances in detail because they are the vital elements in the accountability régimes we are recommending for Crown agencies. At this stage it is sufficient merely to point out that the relationship between Government and its organizational units becomes less constraining as one moves away from the conventional departmental form. From a situation where the delegation to the Crown agency is so constrained by accompanying controls that there is scarcely any discernible difference between the Crown agency and a department, one can move to a situation where the delegation is so unconstrained as to raise doubts about the agency's proper accountability, or, indeed, the propriety of treating it as part of the public sector at all. Between these two ends of the continuum are Crown agencies. Their relatively unsystematic relationships with ministers, the Cabinet, and Parliament epitomize the ambiguity that results from initial delegation being affected or confused by countervailing powers of direction and control held by ministers, central agencies, and the Governor in Council.

The Organizational Form It is obvious that criteria additional to that of delegation must be employed in order to resolve the problem of differentiating Crown agencies from departments. We consider organizational form to be highly relevant to this issue. Measured against this criterion, the resort to Crown agencies can be seen as a type of administrative devolution designed to relieve the conventional departments of an overload problem. This has been accomplished by identifying certain self-contained activities which, if they had been placed in a regular department, would have made awkward or burdensome bedfellows, and for which a special arm's length relationship seemed appropriate. Usually, the process has led to the creation of an administrative form charac-

terized by some type of collegial leadership that is in marked contrast to the hierarchical departmental form where responsibility ultimately resides in a minister.

The alleged or assumed merits of the collegial form of organization are, first, that it visibly symbolizes the Government's intention to establish an arm's length relationship, providing a "buffer" between the operation and the Government, where the nature of the task is thought to be politically sensitive or else requires that decisions be made in an impartial environment. Second, collegial leadership provides a flexible means of adapting structure to the particular requirements of an assigned task. Third, collegial direction and control over management appear to be advantageous, particularly where it is considered useful to the decision-making process, to draw on outsiders' experience, expert advice, regional or interest group representation, or even the representation of other levels of government.

Boards and commissions may all require autonomy but may require it for different reasons. In some instances they may require it because of their deciding or adjudicative role, akin to that of the courts. In other instances a board may be primarily an investigative and advisory body. Finally, a board may be an operating entity, combining collegial policy-making with collective supervision of management. Here, the obvious model is the board of directors of the private sector corporation operating financial, commercial, or industrial undertakings.

Were all Crown agencies organized in board or collegial form, our search for the criterion to distinguish departments from Crown agencies would be ended. Unfortunately, in the group collectively referred to as "Branches Designated as Departments" there are many that do not have this characterizing feature. Even in the Schedule B "Departmental Corporations" group there are two "corporations sole", the "board" having but one member. These are the Director, The Veterans' Land Act and the Director of Soldier Settlement.

The Character of Managerial and Decision-making Processes

The third criterion that could be employed for segregating departments from Crown agencies is the character of the managerial and decision-making processes essential for the most effective fulfilment of the assigned tasks. Once again, use of this criterion is extremely helpful when we address the issue of differentiating one type of Crown agency from another, a problem to which we shall

return. However, its application to the problem of determining when an organization is, or is not, a department still leaves a large question mark over that mixed group of "near-departments" either designated as departments for purposes of certain acts or scheduled as departmental corporations.

Our conclusion has to be that just as there is some doubt about the "governmental" nature of organizations on the outer fringes where public and private concerns meet, so too there must remain doubt at the margins between departments and Crown agencies.

As well, there may be valid reasons for maintaining a category into which may be slotted organizations that are singular and so exceptional that they warrant neither the full status of a ministerial department nor the special arm's length status of a Crown agency. A number of statutory offices, such as the Auditor General, the Commissioner of Official Languages, and the Chief Electoral Officer, appropriately fit this category. In addition, we have no difficulty, for instance, with according special status to organizations that are clearly temporary.

We have more difficulty in determining an appropriate category for several important organizations such as the Canadian Penitentiary Service, the Royal Canadian Mounted Police, Statistics Canada, the National Library, and the Public Archives. These five organizations have one common feature. Their respective heads receive by statute directly delegated authority for management under the direction of a minister. In that rather formal and somewhat limited respect, they stand outside the hierarchy over which the minister and the deputy together preside; they report directly to their designated ministers. In all other respects, except for the forces of the RCMP, they are subject to precisely the same controls by central agencies as is any department. Therefore, the régime of accountability we have outlined elsewhere for the departments should apply to these entities. We do not propose to place them under the rubric of Crown agencies.

The Governor in Council requires flexibility to adapt the general laws that have specific application to departments to meet the idiosyncratic needs of certain entities now designated as departments. There should, however, always be clear disclosure to Parliament of the variances in control and accountability relations created by the special provisions made for such agencies. The need for flexibility may be important in particular cases, but prescribed

exceptions should be strictly limited; otherwise, the clearly defined and common legal framework of accountability we are seeking will be subverted.

Among the "Branches Designated as Departments" there is an important group made up primarily of regulatory and advisory bodies for which we would propose Crown agency status. Allocation to a new category, *Independent Deciding and Advisory Bodies*, will give them the special arm's length relationship they should have.

The foregoing extended exercise has been undertaken in order to establish the boundaries within which Crown agencies lie. While our criteria for establishing the distinguishing features of this group still do not give us knife-edge separation, either at the outer margins between public and private organizations or at the inner margins between departments and non-departments, these ambiguities will not present problems as long as a "border guard" is maintained to ensure against illogical or unwarranted trespass. Should the Government, in exercising its unquestioned prerogative to initiate organizational changes, decide to shift an entity from one category to another, this decision should be tabled in Parliament.

Distinguishing Among the Crown Agencies

Our major concern now is the identification of all Crown agencies; we must distinguish among the Crown agencies themselves. In addressing this issue we invoke the same three criteria to which we have already resorted: the nature of the delegation, the collegial form, and the particular or most pervasive attribute necessarily attendant to the proper performance of the task. The first two criteria have already been considered, but the third requires elaboration because of the importance we attach to it, in combination with the other two, for differentiating between two broad groups of Crown agencies. These we propose to categorize respectively as *Independent Deciding and Advisory Bodies* and *Crown Corporations*.

The roles of the Canadian Government as regulator of the economy, distributor of benefits to individuals, and owner and operator of various types of business undertakings are not new.

What is new is the extension of these roles and their growing impact on individuals and the economy. The evidence for this expansion is found in the enormous growth of programs, personnel, and expenditures within the conventional departments of government. It is also found in the proliferation of Crown agencies. The aggregate of resources and manpower they command has become almost as formidable as that of departments.

Whether the role is regulatory, adjudicative, policy advisory, investigative, or entrepreneurial, Governments have seen fit to establish Crown agencies with these kinds of roles at one or more remove from the hierarchical departmental structures over which ministers preside. An arm's length relationship is deemed desirable for reasons that vary with the special policy and managerial requirements of the task. For this reason we believe it is important to make a distinction between two categories of Crown agencies.

In the case of the first group, *Independent Deciding and Advisory Bodies*, the reason for according some degree of autonomous or special status is to ensure impartiality and objectivity in adjudication, and experience and representational attributes in the rendering of policy advice. It is an important secondary consideration that the board, commission, or council form for collegial decision-making, almost invariably adopted, is seen to be the most appropriate instrumentality to perform deciding and advisory tasks that warrant a degree of independence. These tasks should be directly delegated. Another important distinguishing attribute for these bodies lies in the nature and terms of tenure for members of the board. In order to signal their independence, board members in many cases are, and in all instances should be, appointed for term and subject to removal "for cause".

The requirement of autonomy for decision-making does not apply with the same force to the administration or management of these agencies. Here we observe that the chairman or head is usually given in law, and should be unvaryingly given, the "care and management" of the agency. In this respect, for all financial and personnel management matters, the head of the agency, as chief executive officer, has a relationship with the central agencies akin to that of a deputy minister of a department. The board or commission in this instance plays no part in the management of the agency.

For the second group of Crown agencies, which we categorize as *Crown Corporations*, there is the same requirement to establish

an arm's length relationship with government, but the reasons for claiming separate status are quite different from those we have identified for *Independent Deciding and Advisory Bodies*. Here the pervasive feature is not so much adjudicative or determining activity, but managerial and operational functions akin to those found in comparable private sector entrepreneurial undertakings in a market setting. The collegial form is once again a common feature, but the board in this instance has an entirely different orientation from that found in our first group. Like the boards or commissions in the other category, the board of a Crown corporation is collectively mandated its tasks, but in contrast to the specific delegation of management authority to the heads or chairmen of *Independent Deciding and Advisory Bodies*, the care and management task, an essential component of the corporation's mandate, is conferred on the board collectively. The need for autonomy is not related to adjudicative and advisory activities, as is the case for the other agencies, but to securing for the corporate board the benefits of operating without the usual constraints imposed on departments. As well, a diversity of experience and judgement can be brought to bear. In short, the desire is to approximate as closely as possible the working environment within which the private sector corporation operates.

We have no illusions that the public sector corporate model can be a precise replica of its private sector counterpart, or even a very close parallel. Neither must we lose sight of the fact that, however the funds may be provided for a Crown corporation, they are administered in trust for the Canadian taxpayer. After all, Crown corporations are as much public or governmental entities as are conventional departments. We are conscious, however, of the possibility that government may lose the benefits of resorting to this non-departmental form for implementing public policies by re-introducing so many constraints on operating autonomy as to negate the original purpose, diminish the sense of responsibility on the part of members of the boards, and further confuse the lines of accountability to Government and Parliament. In short, resort to this form of Crown agency control does not preclude the real possibility that we may get the worst of both possible worlds. We hope that, in the detailed proposals for specific accountability régimes for each of the categories of Crown agencies, and most particularly for those in the *Crown Corporations* category, we have avoided this trap and thereby addressed the dilemma of

Crown agencies. In our Progress Report we described this dilemma as "how to fix responsibility and achieve the degree of special status essential to the performance of their tasks and yet, at the same time, maintain an adequate measure of accountability consistent with their status as instruments of government."

While issuing this cautionary note, which we address as much to ourselves as to the government, we would also call attention to another source of confusion which we expect our categorization to obviate. It would appear that, in recognizing the obvious merits of the board form of organization, government has frequently taken the route of incorporation to secure a board without first determining whether this model will allow for the development of a board and an organization which is appropriate to the particular nature of the task in question. Boards, as we hope we have made clear, operate in two very different ways, depending upon the requirements of their assigned tasks.

The Blue Paper on Crown Corporations implies that the same obligations should be imposed on the members of all Crown agencies as are imposed by legislation on the members of the boards of private sector corporations. In our view, not to make a distinction in this respect between the members of boards and commissions of deciding and advisory bodies and the directors of Crown corporation boards would be singularly inappropriate. The fact that the Blue Paper proposals carry forward and relate to the existing classification is one of that paper's most significant shortcomings because of the consequences for recommendations concerning direction and accountability that are set on such an incomplete and unsuitable foundation.

Finally, we realize that when it comes to placing a Crown agency in one of our proposed categories there may be, in a few instances, uncertainty concerning the major features of the tasks and that, indeed, the tasks of an agency may entail *both* deciding and managerial roles as is the case, for example, with marketing boards. For such agencies, although we are prepared to categorize them by applying the criteria we have developed, we are less concerned that the choice be identical with ours than that it be made in accordance with some such set of established reasons as it has been our purpose to elaborate in this section.

Accordingly, we recommend that

16.1 the Schedules to the Financial Administration Act be replaced by a more comprehensive set of schedules in accordance with four categories:

- 1) *Ministerial and Other Designated Departments***
- 2) *Independent Deciding and Advisory Bodies***
- 3) *Crown Corporations***
- 4) *Shared Enterprises***

and that when any re-scheduling occurs such decisions be tabled for the information of Parliament.

Our proposed classification of departmental and non-departmental bodies according to these categories is set out at Appendix A. We have also listed in that Appendix entities that do not meet our definition of Crown agencies, but which we have chosen to call *Quasi-public Corporations* because of the special nature of their relationship with government. We deal with these in Chapter 20.

ACCOUNTABILITY FOR CROWN AGENCIES

The justification for re-ordering Crown agencies goes beyond a desire to achieve logical tidiness for, as we have observed, classification is a necessary prelude to harmonizing and rationalizing the management and accountability relationships that should be in place for each group of Crown agencies. Present arrangements, which have evolved piecemeal and have been only partially consolidated in general enactments, justify a fresh effort to come to grips with the issue. To this end it is imperative that we have a clear view of where we have come from and where we are with respect to the accountability of Crown agencies.

Present Management and Accountability Framework for Crown Agencies

Until the end of World War II, no general legislation specifically addressed itself to the administration of even a segment of the Crown agency group. The degree of "special status" an agency enjoyed and the nature of its accountability relationships with the Government and Parliament were dictated, with a few exceptions, by the provisions of its constituent act. During World War II over thirty Crown companies were created by letters patent under the *Dominion Companies Act*. This placed the designated minister in the effective position of sole shareholder and defined his, and, therefore, the Government's powers in relation to the companies in terms of the powers provided to a shareholder under the Companies Act. As Parliament had delegated to the Government, under

the *War Measures Act* and the *Munitions and Supply Act*, the power to create Crown companies by letters patent, it was not actively involved in the accountability of Crown companies during this period.

The *Government Companies Operation Act* of 1946 represented the first effort by the Government and Parliament to spell out a general framework for the management and accountability of one group of its Crown agencies. The framework set down for Crown companies was far from comprehensive, however, in that it dealt largely with matters of financial management and disclosure.

Pursuing the logic of this act, the *Financial Administration Act* (FAA) of 1951 established a general framework for the government, Parliament, and almost the entire spectrum of Crown agencies with respect to financial management and reporting. In fact, only seven government corporations (the Bank of Canada and its subsidiary the Industrial Development Bank, the Canadian Wheat Board, the Eastern Rockies Forest Conservation Board, the Halifax Relief Commission, the Fraser Valley Dyking Board and the Greater Winnipeg Dyking Board) were left outside the new classification system in the schedules of the FAA, and were thus dependent entirely on their constituent acts to spell out the nature of their relationship with the Crown.

Designed essentially to bring order to the governmental approach to financial management, the FAA has proved in recent years to be unsatisfactory as the foundation of more comprehensive management and accountability relationships involving the Government, Parliament, and Crown corporations. As a result the Government has made occasional efforts to improve the terms of the relationships. To the direction and control powers available to it under the various constituent acts, and under the FAA, and, to a much lesser extent, the *Public Service Employment Act*, the Government has, by revising some constituent acts, accorded itself an explicit power to issue policy directives to certain Crown corporations and regulatory bodies. There has also been an internal effort to have Schedule C and D corporations co-operate in a more comprehensive planning and budgetary process and, with its emergence as a department, the Treasury Board Secretariat has joined the Department of Finance in playing a major role in the allocation of resources to Crown agencies. The limited powers accorded to Parliament to be informed through reports, to approve budgetary appropriations, and to take part in the establishment of

the mandates of those agencies created by statute have not been augmented since 1951.

An equally significant change since 1951, a result of the growth in the number of Crown agencies and the failure to include them in the Schedules, is the weakening of the FAA as the cornerstone of the management and accountability relationships among Parliament, the Government, and the semi-autonomous agencies. With the proclamation of the FAA, almost all the agencies in which the federal government was involved were explicitly classified in its Schedules or designated as departments for the purposes of the Act. Therefore, almost all were covered by its provisions except where those provisions conflicted with constituent acts. Since that time, a large number of government corporations such as the Canada Development Corporation, the Canada Council, and The deHavilland Aircraft of Canada Limited, have been created or acquired without being scheduled under the FAA. As a result, provisions for their accountability to the Crown are essentially idiosyncratic, founded either on the provisions of their particular constituent acts or on the powers available to the Crown under the general corporation law under which they were incorporated. The existing management and accountability framework, therefore, is fragmented in its coverage, affecting no two groups of Crown agencies in precisely the same manner.

Most "Branches Designated as Departments" and "Departmental Crown Corporations" operate in budgeting, financial, personnel, and administrative matters under the same framework of management and accountability as conventional departments. Under their constituent acts, however, several of these agencies have a measure of freedom from policy direction by a designated minister because of their task (e.g., deciding, policing) or because of their direct relationship with Parliament. Similarly, the members of most deciding tribunals are appointed for term and subject to removal only for cause in order to reduce the possibility of Government interference in quasi-judicial or regulatory decision-making processes. Under the constituent acts of most Schedule B departmental corporations, by contrast, the Government has the power to approve bylaws and to appoint and remove directors, board chairmen, and agency heads. In addition, the Government has the power to issue policy directives under the constituent acts of two Schedule B corporations.

The management and accountability relationships of "Agency" and "Proprietary" Crown corporations to the Government and Parliament are largely founded on the financial control provisions of the FAA. These include Government power to approve annual capital, and for agency corporations operating, budgets and resulting contracts and major expenditures; appoint auditors; prescribe the form of budget submissions; regulate reserves, bank accounts, and the treatment of surplus funds; require the submission of annual and other reports; and, dictate the form and content of financial statements and the reporting requirements for auditors. The FAA also imposes an obligation on the designated minister to table in Parliament the approved capital budgets and annual reports of the corporation, including the auditor's report. In addition, the Government has the power to approve bylaws and to appoint and remove the directors, board chairmen, and chief executive officers of most agency and proprietary Crown corporations. Moreover, the constituent acts of some corporations, including the Central Mortgage and Housing Corporation, Air Canada, and Petro-Canada, provide the Government with the power to issue directives to the agency. For the Crown corporations that operate under Schedules C and D and for those that were established by letters patent under predecessors of the *Canada Business Corporations Act* (CBCA), the designated minister, as the sole trustee shareholder, would appear to have the power to issue policy directives in the form of unanimous shareholder agreements. These corporations include Atomic Energy of Canada Limited, Loto Canada Incorporated, Eldorado Nuclear Limited, and the Northern Transportation Company Limited.

The framework for management and accountability within which "Other Government Corporations" operate is dictated entirely by individual constituent acts or articles of incorporation under the CBCA or its predecessors. These corporations are not scheduled under the FAA. Similarly, for the 24 "Mixed Enterprise Corporations" in which the Government has a controlling interest, the management and accountability relationship of the agency with the Government and Parliament is dictated by the shareholder/corporation relationship established under federal or provincial corporation law. Only the Canada Development Corporation and Telesat Canada have constituent acts that define the relationship, and in both acts the definition is largely through reference to the CBCA.

The management and accountability relationships of the Government and Parliament to "Subsidiary or Associated Corporations" of Government-owned or controlled corporations has never been defined and would appear, at this time, to be almost entirely limited to the Government's and Parliament's relationships with the parent corporations.

It is extremely difficult to give a capsule summary of the connection between the Crown and the "Other Entities and Associates" group on the Treasury Board Secretariat list. All of these are corporate bodies that have been created through their own constituent act or letters patent under the *Canada Corporations Act*. With some, like the Vanier Institute of the Family, however, there would appear to be little or no relationship with Government, and the presence of the entity on a list of Government-owned and controlled corporations is difficult to explain. Others would appear to be related to the Government in a variety of ways but do not seem to have been delegated a continuing public responsibility that would demand a direct accountability link. Still others, particularly those operating under a constituent act like The International Development Research Centre, seem to have a more easily discernible relationship based entirely on the act itself.

This summary of the present management and accountability frameworks for all those non-departmental bodies listed by the Treasury Board Secretariat, clearly suggests that the relationships among Parliament, the Government, and the entities commonly thought to be Crown agencies are frequently vague, confusing, and in need of reform.

Inadequacies of the Framework In 1951 the management and accountability framework for Crown agencies arising out of the FAA, the constituent acts, and general corporation law was both comprehensive and appropriate to the needs of the time. However, over the nearly 30 years since, this framework has become fragmented and outmoded in terms of the demands of contemporary government.

The fragmentation of the framework, signalled by the establishment of a large number of management and accountability relationships outside the direct influence of the FAA, is largely a result of the increase in the numbers and, more particularly, the variety of instruments that Parliament and the Government have

felt necessary to employ in supporting government involvement in new public policy areas. However, even when the FAA is used as the major legal building block of the relationships among differing entities, Government, and Parliament, there is a tendency on the part of the participants to establish the connections on the basis of informal mechanisms, such as consultation. These informal means have been considered more appropriate than financial management processes to the needs of policy co-ordination. If the FAA-based framework is seen to be unsuited to modern policy demands, it is also widely viewed as inadequate even as a basis for financial management.

The result has been a significant decline in confidence in the adequacy of the FAA as a suitable foundation for harmonious and productive relationships. If this situation is not corrected, it is bound, in time, to cast doubt on the validity of employing non-departmental entities as vehicles for the implementation of public policy objectives. We would regard such a consequence as unfortunate.

The existing framework for management and accountability has received a number of critical blows over the last several years. The Glassco report pointed out several problems that were not being adequately handled under the existing régime and we have found that they have remained largely uncorrected to this day. That report drew attention specifically to the lack of clarity in the establishment of corporate mandates and the delegation of responsibilities and powers to ministers and agencies. It pointed out the dangers associated with allowing government corporations to incorporate subsidiaries without the involvement of Parliament and the Government. The need to guard against abuse of the general directive power was cited and the inadequacy of the approach to corporate board and chief executive officer appointments was indicated. The Glassco report discussed the financing practices employed with respect to corporate entities and the abuse of the corporate form by its use in inappropriate settings as well as the use of the form to mask a departmental-type organization. Finally, it pointed up the lack of consistency in the status, form, and procedures of deciding tribunals. While that Commission did not generally condemn the FAA-based framework, its criticisms reflected a growing awareness in 1963 of the shortcomings of that framework for the management and accountability of non-departmental entities.

Recently, questions have been raised concerning the adequacy of the existing Crown agency régimes in the context of specific events that seemed to illustrate a particular failing of the management and accountability relationships between the Crown and the agencies, or to cast doubt on the wisdom of giving significant degrees of autonomy to the managers of Crown agencies.

The Government addressed the specific problem of the policy responsiveness of Crown corporations in its Blue Paper which contains a draft Crown Corporations Bill designed to update the provisions of the FAA and provide a framework for the policy co-ordination of Crown corporations. Its major premise is that all Crown corporations are instruments of public policy and as such must be responsive to the Government's overall priorities. The Blue Paper concludes that

while a few Crown corporations may no longer be instrumental in the achievement of broad policy objectives, the vast majority of Crown corporations are instrumental in the achievement of such objectives and are, accordingly, a vital part of the Government of Canada. The Government proposes, therefore, that the forthcoming Crown Corporations Bill contain a declaratory statement indicating that those Crown corporations that are now wholly-owned by the Government of Canada and are to continue to be wholly-owned are constituted as instruments for the advancement of the national interest.[†]

The Government contends that Crown corporations have not been living up to this responsibility, and that the Government under the existing framework for management and accountability, does not have the mechanisms at its disposal to force Crown corporations to act as instruments of public policy. The Blue Paper notes that

it is the Government's view that means must exist whereby governments may, on a continuous basis, communicate broad policy objectives to the corporations and whereby the corporations must account to government and Parliament for the achievement of those objectives. The Government has over the past years endeavoured to use annual corporate budgets and reports in this fashion. Yet, for reasons that will be explored in greater detail, budgets and reports have at times proven unduly cumbersome and less than effective.[†]

[†]Canada. Privy Council Office. *Crown Corporations; Direction, Control, Accountability. Government of Canada Proposals*. 1977. p.22, 23.

Effectively, then, the Government is admitting that it does not have the capacity to give policy direction to Crown corporation. A similar claim is made with respect to the major regulatory agencies. For regulatory agencies, the Government's solution is simple. It intends to amend the constituent acts of the major regulatory agencies to include a provision allowing the Cabinet, through the designated minister, to give a formal policy directive to the agency.

In regard to Crown corporations, instead of focussing on one mechanism, the Government argues that the policy relationships between it and "Agency" and "Proprietary" Crown corporations need to be completely revised. The budgetary approval process and annual reports, which under the FAA and most constituent acts have been the central opportunities to communicate objectives and check on progress, are to be changed. Under the Blue Paper proposals, the budgetary approval process described in the FAA will be replaced by an approval process involving a 3-5 year "rolling" corporate plan, annual corporate budgets, and supplementary corporate budgets. It is expected that the proposed planning and budgetary cycle in concert with improved annual reports will contribute to an upgrading of the accountability linkage with respect to policy performance. In addition to a new government-designed planning and budgetary process, the Government also proposes that its potential for direction of Crown corporations be increased by the addition of powers to approve the creation and acquisition of subsidiary corporations and to issue policy directives.

Two of the major participants in the debate concerning the financial management and control practices of Crown corporations have been the Auditor General and the Public Accounts Committee of the House of Commons. Much of their analysis has been aimed exclusively at those corporations whose books the Auditor General audits. The Auditor General's most comprehensive statement on the state of financial management and control in Crown corporations came in his 1976 report, which contained the results of his two-year study of the issue. In large part, the Public Accounts Committee's "Crown Corporations Report" of April 1978 echoes the Auditor General's views and reinforces his recommendations. The Government, in the Blue Paper, also expresses general support of the Auditor General's criticisms, and its reform proposals place emphasis on the need to forge a new management relationship between the Government and all Schedule C and D Crown corporations. It is suggested that such a new relationship

will lead to improvements in financial management and control within the corporations themselves.

The general thrust of the Auditor General's report was that financial management and control in the Crown corporations that he audited were weak and ineffective, and that co-ordination and guidance of these practices by the Treasury Board were virtually non-existent.

The result has been an unacceptably low level of accountability for the expenditure by corporations of public funds. The Auditor General's analysis started with first principles, pointing out that the collapse of the FAA as a useful base for classification was responsible for the disintegration of the comprehensive régime for financial management in Crown corporations. By contrast with the Government's approach to classification, which requires full Government ownership, the Auditor General recommended that all government-owned and controlled corporations should be scheduled in the FAA and subject to its provisions. He also pointed out deficiencies in the coverage of the Estimates and Public Accounts, and recommended that all Crown corporations dependent on appropriations be included in the Government of Canada accounts.

The Auditor General expressed dissatisfaction with the budgetary approval process, but he did not lay the blame for its ineffectiveness, as did the Blue Paper, at the feet of the Crown corporations. He argued that the informal methods adopted by the government to advise the corporations of broad government objectives were deficient. He wanted the Treasury Board to provide fuller instructions to what were identified as "non-commercial" Crown corporations concerning the form and content of Program Forecasts, Estimates, and capital and operating budgets. For the benefit of Parliament, he insisted on the necessity of integrating budgetary and Estimates information into one package.

Another major area dealt with by the Auditor General was reporting and disclosure. He pointed out the failings of the financial statements of Crown corporations and the unsuitability for Parliament's purposes of their presentation in the Public Accounts. He also expressed the view that the use of generally accepted accounting principles and the integration of financial statements with departmental data would be suitable solutions to these problems. By contrast, the Blue Paper proposed that the Treasury Board be given the power to determine governmental accounting standards for Crown corporations. In addition, the Auditor Gener-

al recommended that annual reports be improved as a mechanism for performance monitoring.

The Auditor General also had reservations about some of the practices used by the Government to finance Crown corporations, the level of budgeting control by the Treasury Board and within the Crown corporations themselves, and the apparent lack of concern about the entire financial management and control problem. The Auditor General's view was that both the Treasury Board and the agencies had to adopt a more positive approach to financial management and control but that the responsibility for ensuring that improvements took place lay with the Treasury Board. In this latter thesis, and for most of his analysis and recommendations, the Auditor General received the support of the Public Accounts Committee and the Government. Both agreed that the Government had to take the initiative with respect to financial management, and that a much higher degree of Government control over procedures and processes was the key to the problem.

The Public Accounts Committee tended to go farther even than the Auditor General as a result of its hearings on the Polysar affair and the Government's Crown corporation proposals, placing on the Government the responsibility for developing commercial practice guidelines and monitoring compliance with them. In addition, the Committee recommended that developing guidelines and procedures respecting the manner in which Crown corporations dealt with foreign subsidiaries should be the responsibility of the Government. The Public Accounts Committee also argued that the Auditor General should have access to the audit reports of those corporations for which he is not the auditor.

Elements of an Accountability Framework for Crown Agencies

The foregoing review of measures taken or proposed for placing Crown agencies under clearer and more consistent régimes of accountability and control reveals how difficult it is to fit these non-departmental entities into a "mutually compatible management system" upon which we were expressly directed to focus our

attention. The problem would be difficult enough if there were only conventional departments to cope with; the existence of a second public service comprising such an assortment of non-departmental agencies exacerbates the problem.

The existing framework for accountability of Crown agencies falls short of what is required on several grounds. Far too many agencies are excluded. For those covered, the framework is inconsistently applied or does not differentiate sufficiently among the various categories. The framework relates almost exclusively to financial management. These shortcomings become of major concern when we perceive that both the Government's and the Auditor General's proposals for reform and improvement are couched in terms that imply acceptance of the existing framework set out in the *Financial Administration Act* and its Schedules. Accordingly, while we are in agreement with many of their specific proposals, we wish to address the same issues in the context of the more comprehensive classification framework which we recommend and endeavour to apply in the chapters that follow.

Before embarking on this necessarily detailed and technical exercise it will be useful to return to the four basic elements of the management and accountability régimes for each of the proposed Crown agency categories. In brief, we have asserted that an appropriate accountability régime must comprise a mixture of variants of elements we have identified as mandate, direction, control, and evaluation and reporting. Each of these elements, in turn, relies on the use of certain instruments to make its contribution to the accountability régime. Parliament, ministers, central agencies, and Crown agencies control or share in the use of these various instruments. The attributes of the special status that define the nature of the arm's length relationship that should most appropriately pertain to each Crown agency in our proposed categories is derived from the variations in the application of these instruments.

Beginning with **mandate**, we observe that the essential instrument is a legal enactment setting out certain purposes, tasks, and powers and devolving these to a Crown agency or, more specifically, to the board or commission collectively. The formulation of the mandate is the beginning of accountability, for it should define what must ultimately be answered for by the board. This is Parliament's instrument, which it wields by giving legislative

sanction to both the creation of the agency and its objectives. However, some Crown agencies, particularly Crown corporations and their subsidiaries, operate without their own constituent acts. For these a supplementary instrument must be available in the form of letters patent which should be tabled for the information of Parliament.

The second element for an accountability régime is **direction**. For a conventional department the minister is vested with this responsibility which he carries out within the limits imposed by the policies and programs assigned to him by Parliament, and amplified by Governor in Council orders. For Crown agencies whose mandates are directly received from Parliament, the role of the designated minister and the Governor in Council is less clear. Nonetheless, because Crown agencies are instruments of public purpose, just as are departments, ultimately the doctrine of individual and collective ministerial responsibility must be preserved. We stress the word "ultimately" to emphasize the fact that ministerial responsibility for Crown agencies is not immediate or direct as it is for the hierarchical organization over which a minister presides. Rather it is rendered remote by virtue of the initial conferral of power and authority on the board of the Crown agency. This mode of delegation carries with it the potential that the Crown agency's interpretation and implementation of its public policy mandate may be at variance with the minister's and the Government's views. Since, in the last analysis, the policies being implemented are those of the Government, which must bear responsibility for them, there must be an instrument available to the Government to resolve the inherent tension that may develop between it and the Crown agency. We believe that instrument is to be found in the *ministerial directive*, an instrument that should be used only sparingly, publicly, and with clearly specified conditions attached to its use. Given the quite different nature of the tasks assigned to the two major groups of Crown agencies we have defined as *Independent Deciding and Advisory Bodies* and *Crown Corporations*, the conditions we proposed to attach to the use of the directive will have to be varied in each instance in a fashion we explain in the next two chapters. We do not believe such an instrument is either necessary or desirable in the cases of those Crown agencies we have designated as *Shared Enterprises* and of those entities we have identified as *Quasi-public Corporations*.

For such agencies and entities the involvement of the Crown is not so total and direct that it would warrant a preferred position over other participants that would be expressed through the capacity to issue a directive. We would look to the protection of the rights of shareholders designated by the *Canada Business Corporations Act* or similar legislative enactments to ensure accountability of the organization for proper implementation of its mandate.

Turning to the third element of an accountability régime, **control**, we find the most serious problems in achieving the desired balance between autonomy and accountability for Crown agencies. The reason is obvious. Every control, externally imposed, in some measure does violence to the independent status originally assigned to the agency. Carried to extremes, externally imposed controls would divest the agency of any real authority, with an accompanying dissipation of that sense of responsibility upon which genuine accountability relies. On the other hand, a total absence of external controls over Crown agencies would create the equally undesirable prospect of such bodies losing their public or governmental orientation.

The problem of finding the right balance between autonomy for the agency and governmental control is particularly acute in the case of *Crown Corporations*, whose boards are vested with the care and management of their respective enterprises. Excessive control exercised by the minister, Governor in Council, or central agencies would debilitate the board and make it difficult to attract people of the highest calibre to directorships. Neither is it an ideal solution to impose on directors rigorous responsibilities, such as are to be found in the proposals contained in the Blue Paper, if at the same time directors are subject to a régime of external control that makes it unrealistic for them to accept such responsibilities.

For the members of Crown agencies in the category *Independent Deciding and Advisory Bodies*, whose autonomy is predicated on their need to preserve objectivity and impartiality in their decision-making processes rather than their management tasks, the problem of finding that nice equilibrium between control and autonomy must be addressed in a different way. It is primarily for this reason that we have segregated, so as to vary, the accountability régimes for each group.

Just as there are varying degrees of control that must be determined for each group of Crown agencies, so too there are various instruments of control that depend for their effect on the

timing of their application. That is to say, controls can be imposed in advance of, during, or after the event.

Controls that are imposed in advance should be aimed at shaping or influencing the direction or path to be followed by the agency. With respect to *Crown Corporations* we agree with the Blue Paper proposals that a major instrument here will be the corporate plan. But for all Crown agencies we believe the most potent instrument in the hands of the designated minister or Governor in Council is the power to appoint and change boards. For *Independent Deciding and Advisory Bodies*, we endorse the present mode of appointment, but emphasize the fixed term and assured tenure of such appointees as a guarantee of the independence they require to perform their adjudicative and/or advisory roles. For the directors of *Crown Corporations*, as well as the chairmen of boards of directors, we recommend appointment by the Governor in Council for fixed terms with staggered expiry dates to achieve continuity. By the same token, to underline both the authority of board of directors over management and the separation of management from the Ministry, we are recommending that the chief executive officer be appointed and removed by the board subject to confirmation by the Governor in Council. In contrast, for Crown agencies in the *Independent Deciding and Advisory* group, we recommend generalization of the already prevalent practice whereby the chairman is designated by statute as the chief executive officer and has the direction and management of the agency.

On-going controls over the direction and management of a Crown agency relate to staff and budgets. For *Independent Deciding and Advisory Bodies* we do not see the need for varying the controls exercised by the central agencies, as modified by our recommendations, with respect to departmental management of financial and personnel resources. In so far as our recommendations are designed to clarify the responsibilities of both central and departmental managers with a view to imposing more direct accountability throughout the departmental system, we find no serious violation of the autonomy of Crown agencies where the intent is the protection of the integrity of the decision-making processes rather than managerial autonomy.

The real problems arise when on-going controls over the management of people and money are imposed on Crown corporations. The most persistent and persuasive rationale for resorting to

this non-departmental form of organization has been the alleged necessity, if the enterprise were to be efficiently managed and operated, of escaping from the controls to which departments were subjected. We believe that our recommendations with respect to rationalizing the system of external controls over departments will go some distance in helping both to free departmental managers and to make them more accountable, thereby removing some of the concerns that Crown corporations have had with respect to preserving their autonomy in these areas. Nevertheless, the interposition of a corporate board with a specific mandate between managers and the central agencies does create a need for other controls than those we have proposed for ministerial departments. In general, we believe that the Government should reinforce and use more effectively the instruments of pre-control, through its capacity to scrutinize the corporate plan and through its appointment and removal powers, and by emphasizing the instruments of post-control, such as appraisal and review of performance against stated corporate objectives to which we refer presently. On-going controls should be minimized to leave the boards of directors and chief executive officers with the necessary freedom to get on with their assigned tasks.

No corporate board in the private sector would be disposed to settle for less than this degree of autonomy for on-going operations, but public sector boards have to reconcile themselves to some continuing surveillance and controls. With respect to freedom to manage their own personnel, the common but by no means uniform practice is to leave this important branch of management to the corporation which undertakes collective bargaining as an employer in its own right under the *Public Service Staff Relations Act* or the *Canada Labour Code*. We are recommending that for all *Crown Corporations* this element of managerial autonomy be confirmed but that all collective bargaining be conducted under the *Canada Labour Code*.

The most important prospective area for imposing on-going control is that of budgeting. In the pure theory of the public corporation, control in this area would not be possible, for the theory holds that such entrepreneurial ventures, like their private sector counterparts, would finance themselves from the revenues secured from the sale of goods and services. Unfortunately, practical experience testifies to the failure of the model to live up to these expectations. Nor could it be otherwise, given that most

Crown corporations were set up to implement some public purpose that, almost by definition, entailed the provisions of an essential service, with due regard to cost but regardless of whether or not it could be provided so as to be self-financed. Few public corporations are able to continue without either annual or sporadic resort to the public purse. Such resort may be based on a requirement for capital loans or advances or for initial block funding to create a revolving fund which, in turn, may require occasional "sweetening" by further public funding. Indeed, for some corporations, the bulk of operating budgets must be met out of annual appropriations as is the case for conventional departments.

All *Crown Corporations* should develop a *Strategic Corporate Plan* which would be prepared and approved by the board of directors and forwarded to the designated minister for information. Operating budgets that place no demands on the public purse would be approved by the corporation and referred to the designated minister for information only. After approval by the board of directors, all capital budgets, whether dependent on appropriations or not, and operating budgets requiring appropriations should be forwarded to the designated minister for governmental approval. The budgetary approval process should aim at striking the balance between autonomy for the corporate board and the needs of the Government and Parliament. We elaborate on this critical point in developing our recommendations on *Crown Corporations* in Chapter 19.

Turning, finally, to the third set of controls, those we have described as post-controls, we find there are four important instruments: appraisal, audit, review, and disclosure. Appraisal, which refers to the assessment of the performance of members of boards and their chief executive officers, has an important bearing on the application of the pre-control power of appointment. Recognizing that there must be a very large element of trust when the Government confers on Crown agencies important discretionary powers, it is imperative that due care be exercised, not only at the initial appointment stage, but also at the personnel assessment stage to ensure true accountability. We have more to say on this matter in subsequent chapters.

Audit in government has historically concentrated on checking the legality and probity of expenditures. More recently it has added a concern for efficiency, effectiveness, and value for money spent. The Auditor General has, on behalf of Parliament, exercised

this control over all departments and many of the Crown agencies. A number of Crown corporations are authorized to appoint their own auditors or have external auditors appointed for them. We make recommendations in Chapter 19 to give the Auditor General access to the reports of external auditors and we will also propose ways in which Parliament should prepare itself to deal more effectively with such reports.

Review relates to the total performance of the agency and can be undertaken only where mandates are clear and where Strategic Corporate Plans and budgets provide a basis for making judgments, after the event, on how closely the reported performance of the Crown agency measures up to its commitments as expressed in the plan and the budget. Review has both a governmental and a parliamentary dimension and in succeeding chapters we make recommendations on what needs to be disclosed in order to provide the minister, central agencies, and Parliament with information relevant to their review and surveillance responsibilities.

Disclosure is the end of the accountability chain, but what is to be disclosed, to whom, and with what consequences are questions to which a completely uniform response for all governmental bodies, departmental or non-departmental, cannot be expected. In succeeding chapters we spell out the variances in disclosure that we feel are consistent with the different degrees of arm's length relationship sought for various types of Crown agencies. In principle, our objective is to secure as full and meaningful disclosure to Parliament as is consonant with its surveillance role as the watchdog for the nation.

INDEPENDENT DECIDING AND ADVISORY BODIES

In Chapter 16 we developed the rationale for identifying the category of Crown agencies that we have named *Independent Deciding and Advisory Bodies*. Applying the criteria and characteristics that we believe these agencies should share in order to be brought into an accountability régime consistent with their tasks, we have identified thirty agencies. Although the membership of this category may appear to be heterogeneous and indeed highly disparate, we think that a common category is merited not only because of fundamental differences in activities as compared with those in other categories, but also because of attributes all members do or should share.

Grouping all such deciding and advisory bodies does not preclude the possibility of recognizing the special features and requirements of subgroups. As determined by the primary functions of the individual bodies, there are four clearly identifiable subcategories, three of which are different types of adjudicative or deciding bodies; the fourth is made up of advisory/research bodies.

The first subcategory consists of *regulatory* agencies whose primary functions are licensing, making rules and orders, and supervising activities in a particular industry or sector of the economy, all of which have profound impact on, and control over, the behaviour of individuals and corporations. In this group are found fifteen of the thirty *Independent Deciding and Advisory Bodies*. Included are such agencies as the National Energy Board, the Canadian Transport Commission, the Atomic Energy Control Board, and the Canadian Radio-television and Telecommunications Commission. The full list appears in Appendix A.

The second subcategory comprises those *deciding* tribunals that perform a specialized adjudicative function affecting individual rights. Examples of these are the Canadian Pension Commission, the Immigration Appeal Board, the National Parole Board, and the Tax Review Board.

The third subcategory, *granting* agencies, contains those bodies whose deciding function entails the adjudication of applications for public funds to conduct research or support cultural activities. There are six such agencies, the Canada Council, the Canadian Film Development Corporation, the International Development Research Centre, the Medical Research Council, the Natural Sciences and Engineering Research Council, and the Social Sciences and Humanities Research Council.

The fourth subcategory includes those bodies established to undertake *research/advisory* tasks, either on their own initiative or as requested by their designated minister, in areas of major public significance. The Advisory Council on the Status of Women, the Economic Council, the Science Council, and the Law Reform Commission are included in this group.

We recognize that the functions of all four subcategories are not unique to their members. Regulatory, adjudicative, granting, and research and advisory activities are also carried out within other Crown agencies and within departments and, as such, are governed by traditional norms of ministerial responsibility. Our research has shown, however, that in the most important deciding or advisory areas independent bodies have been created. In our view, when such responsibilities are delegated to Crown agencies, this independence provides a principle for classifying these bodies and ordering their relationships to politically accountable authorities.

This observation brings us to a comment that arises out of the difficulties we have encountered in discerning the rationale for the creation of some agencies. We think that agencies should not be established outside departmental structures when there is no apparent need for special non-departmental status. The creation of the Foreign Investment Review Agency appears to us to be a classic example of how the creation of an agency can unnecessarily confuse the lines of accountability. In its representations to the Commission, the Privy Council Office argued that FIRA should not be treated as a regulatory agency, as did the submission from the present Commissioner of FIRA. Notwithstanding popular

misconceptions, FIRA is not a decision-making body, but is solely an adviser to its designated minister and, through him, to the Governor in Council. As far as we can determine, no decision has been made as to where FIRA and similar agencies should be classified, but, in any case, the issue is not simply one of classification. It is accountability. Agencies should not be established without clear lines of accountability. As presently constituted, we believe that FIRA should be categorized as an *Other Designated Department*, so that both its status and the lines of political control and accountability are clear to all.

The Attributes of Independent Deciding and Advisory Bodies

The agencies grouped in this category have regulatory and rule-making authority, a capacity to determine individual claims, or a responsibility for rendering policy advice that has a pronounced impact on the economy at large or on the rights of particular individuals. For such agencies their adjudicative, decision-making, and advisory powers have an importance out of all proportion to the modest resources each requires to implement its mandate. Accordingly, in developing an accountability régime that is appropriate for such agencies, we see little need to vary the controls that we have proposed for the management of departments.

We are persuaded to adopt this position by the fact that in most, but not all, instances direction and management of the affairs of the agency are assigned specifically to the chairman or head of the agency and not to the members of the agency as a collectivity. He therefore should be accountable for his administration in the same manner as the deputy head of a department. On the other hand, the direct assignment of a special task to a collectivity, a board, commission, or council, is the common attribute of such bodies, reflecting Parliament's desire to see that the agencies perform their responsibilities in an independent, impartial manner and at arm's length from government. Thus, an important differentiating characteristic of these agencies is the collegial nature of decision-making with respect to the implementation of the mandate. This collegiality is in contrast to the individual

responsibilities of ministers and their deputies in so far as departments are concerned.

The second important distinguishing feature of this group of Crown agencies has an important bearing on the autonomy of members of such agencies. Unlike deputy ministers, who are appointed by and serve at pleasure of the Governor in Council, almost all members of these deciding and advisory bodies are appointed by the Governor in Council for a fixed term and subject to removal only for cause. In some instances removal requires confirmation by joint resolution of both Houses of Parliament.

An Accountability Régime for Independent Deciding and Advisory Bodies

As we have already indicated, the proposed accountability régime for this group of Crown agencies is predicated on two assumptions. First, the management of such agencies does not warrant a relationship between the agency and the Government differing from that of a department. Second, the adjudicative, deciding, or advisory roles specific to each agency do create a need for varying the accountability régime; the nature of the arm's length relationship between the agency and the Government with respect to the fulfilling of these roles should be clearly spelled out.

Turning to the first assumption, we observe that most of the statutes or other legal instruments establishing *Independent Deciding and Advisory Bodies* clearly designate one official as chief executive officer having the direction and management of the agency. There are some, however, such as the Canadian Transport Commission, the Canada Council and the Tariff Board, where there is no such position designated or it is ambiguous where such responsibility rests. We think it imperative that every agency have one official so designated. Such a position establishes for those both outside and within the organization one official who is responsible for its administration. Although we have noted that one of the prime characteristics of *Independent Deciding and Advisory Bodies* is the collegial nature of decision-making, such collegiality does not, and in our view should not, extend to administrative decision-making and accountability. Accountability for administration demands that responsibilities be clearly

assigned and that a chief executive officer of the organization be clearly recognized. We recommend that

18.1 every constituent act of an *Independent Deciding and Advisory Body* designate one official as chief executive officer who will be responsible for the supervision and direction of the work and staff of the agency and be held accountable for the administration of the agency.

Deciding and advisory bodies at present, although distinguished from departments by the independence granted to them for the performance of their responsibilities, are not, in general, distinguishable from departments with respect to managerial controls over such matters as staffing and budgeting. We see no reason to alter this situation and believe that the proposals made in this Report with respect to the management and accountability of departments will strengthen the managerial framework within which the chief executive officers of *Independent Deciding and Advisory Bodies* will be held accountable. These entities should be subject to Board of Management control with respect to matters of administrative policy, organization, and financial and personnel management. Although Board of Management supervision of such matters is necessary, there may be, and indeed there are, cases where such supervision needs to be circumscribed; exemptions should be granted only where clearly essential to the proper performance of an agency's responsibilities. We recommend that

18.2 unless specifically exempted in the constituent act, the authority of the Board of Management with respect to financial and personnel management in departments apply to Crown agencies in Category II, *Independent Deciding and Advisory Bodies*.

Although there is little available evidence to suggest that it is a common occurrence, some members of these agencies indicated some concern that the budgetary process provides an opportunity whereby the discretion and priorities of these bodies can be unduly influenced. Subtle pressures, it was argued, can be exerted by departments and central agencies on deciding bodies through the Treasury Board budget approval process. While we endorse the approval of budgets as an important part of the management and financial accountability process, we do not believe that the budget

approval process is an appropriate instrument for controlling the policies and direction of independent deciding bodies. We are especially concerned that the inappropriate use of such a process may impair their adjudicative function and call into question their independence. The government already possesses sufficient means, which we recommend be augmented, to exercise direction and control over these bodies where such direction and control is necessary and legitimate. Control by means of the budget for these ends is to be strongly discouraged.

The second assumption we have made with reference to establishing an appropriate accountability régime for *Independent Deciding and Advisory Bodies* is that the special nature of their tasks, assigned to the collectivity and not to a particular member of the agency, necessitates a clear articulation of the degree of independence to be accorded each agency. As we indicated in Chapter 17, attention should first be directed to the mandate which states the purposes and objectives of the agency, defines the duties, and assigns powers. In all instances, organizations in this group have received their mandates directly in a constituent act or indirectly by Order in Council.

For some of these agencies, the constituent acts are relatively clear and unambiguous and the boundaries within which they operate are fairly specific. For others, however, the constituent acts are neither clear nor unambiguous. This is especially true of the largest subcategory, regulatory agencies, which more often than not are given only the most rudimentary guidance to determine such matters as "public convenience and necessity" or "the public interest". Even when more extensive guidelines are provided, enormous scope for interpretation is granted to these agencies. In such situations the agencies, by virtue of the substantial discretionary authority delegated to them, can become primary policy-makers. Indeed, in developing and refining their mandates, they can play a role not unlike that of Parliament itself.

We think it imperative that the primary instrument for overseeing, guiding, and ultimately evaluating the work of all *Independent Deciding and Advisory Bodies* be constituent legislation approved by Parliament. For such acts to be effective control mechanisms, however, they must define clearly and as specifically as possible the purposes and goals of the agencies, their duties, and the public policies they are to implement. Parliament should not

grant these agencies a blank cheque to make policies. We recommend that

18.3 when *Independent Deciding and Advisory Bodies* are established, the goals and public policies they are to implement, or be guided by, be clearly set out in their constituent acts.

We recognize, of course, that it is not always possible to delineate public policies specifically in constituent acts. There are several obvious reasons. First, circumstances can change dramatically and unexpectedly, and these entities must be in a position to respond by interpreting their mandates to make them applicable to the new circumstances. Second, in many areas of activity, flexibility is needed to permit the adaptation of general rules to specific situations. Third, one of the reasons for creating such bodies is the need for specialized knowledge and judgement, and the constituent acts cannot be so detailed as to preclude the use of these in the decision-making process of such Crown agencies.

If we accept the need for some degree of flexibility and generality in the constituent acts and, therefore, the need to delegate a policy development role to specific bodies, we must still search for effective instruments by which those bodies will be accountable and subject to appropriate direction from the Government and Parliament. One such instrument is the control of regulations made under authority of the constituent acts. The power to make regulations, to define goals, establish standards, and prescribe rules by which the constituent acts will be implemented is commonplace in the acts establishing regulatory agencies and specialized adjudicative tribunals. For policy advisory/research agencies the breadth of discretion is not a matter of concern because the capacity to make decisions is virtually absent. Moreover, in the case of granting agencies, discretion is limited to individual cases and normally constrained by standards established by professional associations.

It is normal that such regulations be subject to approval by a designated minister or, more typically, by the Governor in Council. Indeed, an independent regulation-making power is highly exceptional in the Canadian parliamentary system; such a power would run counter to the principle that the Governor in Council is the principal regulation-making authority. This principle was

articulated by a Special Committee of the House of Commons on Statutory Instruments, which argued that "while independence is the hall-mark of the judicial branch of government, it should be quite alien to the executive branch. The government of the day should be fully responsible to Parliament, and through it to the people, for all subordinate laws which are made, whether or not the policy embodied therein was initiated within the existing departmental structure or elsewhere."[†] A similar defence of the requirement for governmental approval of regulations was advanced by the McRuer Royal Commission of Inquiry into Civil Rights in Ontario. Given this principle, we are concerned that the two regulatory agencies, the Canadian Radio-television and Telecommunications Commission (CRTC) and the Canadian Transport Commission (CTC), which the Government proposes to bring under greater control, possess independent power to make regulations and will continue to possess such powers even if the Government's proposed changes are enacted. The continued existence of such independent power is contrary not only to existing principles but to the Government's avowed intention to subject these agencies to more direct executive control. We recommend that

18.4 in cases where *Independent Deciding and Advisory Bodies* are authorized to make regulations, these be subject to Governor in Council approval before being promulgated.

Although better drafting of constituent acts and Government approval of regulations can do much to ensure that *Independent Deciding and Advisory Bodies* remain responsive and accountable to political authorities on policy matters, there will be situations where neither of these control mechanisms will be adequate. General issues of policy may arise that individual regulations cannot address and upon which the constituent act may be silent. Such issues may involve re-ordering the priorities of the agencies, an elaboration of the meaning of sections of their acts, or, on occasion, instructions to a body to heed a part of its mandate that is being ignored. These are matters for which the Government and Parliament must accept responsibility. They cannot be left to be settled at the discretion of the agency, no matter how independent it is intended to be.

[†] Canada. Parliament. *Third Report of the Special Committee on Statutory Instruments*. 1968-69, p. 34, 35.

While we would prefer that, when necessary, amendments to the constituent acts be the mechanism to accomplish these objectives, we recognize that the statutory amendment process has its own difficulties, especially in view of the already heavy demands made on the parliamentary timetable. Amending the acts may not always be a realistic alternative. In such circumstances, constituent acts should contain provisions allowing the government to issue directives to these agencies on broad policy matters.

The concept of a political directive to *Independent Deciding and Advisory Bodies* is not novel. The present constituent acts of regulatory agencies such as the CRTC and the Atomic Energy Control Board allow for some form of policy directive. Similarly, the acts establishing research and advisory bodies such as the Economic Council and the Science Council give the designated ministers authority to direct these bodies to study and report on matters within their mandate.

While the concept of political directives is not antithetical to the concept of *Independent Deciding and Advisory Bodies*, we think that certain safeguards must be established to protect these bodies against undue political interference in the performance of their responsibilities. We also believe that the present proposals of the Government pertaining to the CRTC and CTC regarding the directive instrument could undermine the integrity of these bodies. The Government's proposals are based on an assumption that these entities are simply extensions of the executive arm of government, an assumption we do not accept. These agencies are also creatures of Parliament, and, accordingly, Parliament should have some role to play in the directive process.

There are several safeguards necessary. We endorse the requirement in the Government's proposals that all directives be public, tabled in Parliament, published in the *Canada Gazette*, and that they not pertain to specific individual cases before deciding bodies but to broad policy matters. We believe that, in addition, there should be an opportunity for both the agency and the public to be consulted prior to the issuance of a directive.

The consultation that preceded them and the openness attendant upon the recent requests by the Government for reports from the CRTC and the CTC on the introduction of pay television and a preferred passenger rail plan respectively exemplify the model of the process that should be followed in the exercise of this directive power. We recommend that

18.5 the constituent acts of *Independent Deciding and Advisory Bodies* contain provisions allowing for policy directives from the Governor in Council; and that

18.6 prior to the issuance of a policy directive to an *Independent Deciding and Advisory Body*, the Government refer the matter to the agency, which may request public submissions thereon and shall make a public report within ninety days or such longer period as the Government may specify, and further, that such directives be published in the *Canada Gazette* and tabled in the House of Commons.

A régime that endeavours to lay down mandates in constituent acts, buttressed by Governor in Council approval of regulations, together with the use of the directive mechanisms we have recommended, should ensure that *Independent Deciding and Advisory Bodies* are subject to effective direction on matters of public policy without undermining the fundamental rationale for the creation of agencies with some degree of independence. If such instruments are in place, thereby establishing mechanisms for continuous surveillance and intervention on policy matters, we think that the time will come in the case of one subcategory, the regulatory agencies, to end an additional form of governmental control, appeals to designated ministers or the Governor in Council against individual decisions of these agencies. Such "political" appeals have been justified in the past primarily on the grounds that in a parliamentary system, elected officials must be ultimately responsible for the determination of public policies. We think the mechanisms we have recommended satisfy this need. Indeed, the Government has in part recognized the logic of this argument by proposing the abolition of appeals to the Minister of Transport from decisions of the CTC. The defence of political appeals on the grounds that they have been resorted to only occasionally fails both because it is irrelevant and in light of the fact that resort to them has increased dramatically in the past few years.

It has been argued, and we share such concerns, that the political appeal process suffers serious procedural defects with respect to matters such as notification to affected parties, their right to file arguments, and the need for a fair and impartial statement of the issue in question to the Cabinet. It has been

contended that these defects are serious enough to undermine not only the regulatory agencies, but the credibility of the regulatory process. Despite the fact that decisions are made in open hearings by the regulatory agencies, decisions on appeals are all made in private and subject to the requirements of Cabinet confidentiality. The result is that many of those involved and interested in the appeal process feel that they have been denied fair treatment. The integrity of these agencies will be undermined, as would the integrity of the courts, if the principle of open and impartial proceedings is not applied to the appeal process.

It is highly doubtful that an appropriate set of procedures to govern "political appeals" could be developed that would protect the integrity of the regulatory process without unduly adding to the burden on the Cabinet. Moreover, if such appeals are ended, departmental officials will be able to intervene on behalf of their ministers before these agencies in regular hearings of cases involving policy questions. The present appeal provisions seem effectively to preclude such intervention. The abolition of political appeals, of course, will in no way affect the continuation of appeals to the Federal Court and, with permission, to the Supreme Court on questions of law and natural justice. Accordingly, political appeals are not necessary to ensure procedural fairness. In the case of agencies in other subcategories where adjudication relating to individual rights or claims is involved, rather than regulation, there is an even stronger case for leaving judgements about "due process" in the courts. We recommend that

18.7 the right to appeal individual decisions of *regulatory agencies to designated ministers or the Governor in Council be abolished.*

There is one potential instrument for influencing the mandate of a Crown agency which, while it has been proposed for only one regulatory agency, we do not consider appropriate. The Government's proposals concerning the CTC include the idea that the Governor in Council should be empowered to transfer any power performed by the CTC, except its licensing and rate-controlling powers, from the agency to the Minister of Transport. There is no proposal for parliamentary approval of such transfers. We fear that such a power, without safeguards, could be employed to interfere with the functions and performance of the CTC, and

similar bodies, if this provision were used as a precedent, and could again serve to undermine the regulatory process. Parliament creates these bodies and assigns their functions, and parliamentary approval should be sought for any transferring of their functions. Under the *Public Service Rearrangement and Transfer of Duties Act*, Parliament has authorized the transfer by Order in Council of a branch or division from one ministerial portfolio to another. While such Orders in Council are not now required to be tabled in Parliament, we believe that, at least where a major function or power is being removed from an *Independent Deciding or Advisory Body*, Parliament should be given the opportunity to approve the Government's decision. We recommend that

18.8 without abrogating the powers granted to the Governor in Council in the Public Service Rearrangement and Transfer of Duties Act, the transfer to a department or agency of government of any function assigned by statute to an *Independent Deciding and Advisory Body* require parliamentary approval.

As we stated in Chapter 17, the Government's power to appoint and remove members of Crown agencies is one of its most important instruments for influencing the direction of these entities. Given the importance of appointments to the performance of the responsibilities of the agencies, and given that these appointments are for lengthy, fixed terms, subject to stringent conditions with respect to removal, great care must be taken in the appointment of members. Such appointments should ensure that a balance of skills, knowledge, experience, and viewpoints is represented.

Of all the appointments made to these agencies, the position of chairman is by far the most crucial. The chairman is normally the chief executive officer of the body and, by virtue of that position, can exercise enormous influence and leverage over its work and its staff. Given the significance of this position, there should be some checks on the Government's exercise of its appointment and removal powers. The purposes of such checks should be to ensure that the appointment process is employed in a meaningful and appropriate manner to influence the goals and priorities of the agencies. One possible check is a public parliamentary confirmation process of senior appointments to these bodies, a concept which has figured in the recent proposals by the Government for

constitutional reform. While not unsympathetic to this approach, we are not prepared to recommend it at this time. Public confirmation could be useful in assessing the background and qualifications of nominees, in eliciting their views on policy, and in informing them of the perceptions, needs, and priorities of parliamentarians. Unlike the United States, where it has been an important check on the executive branch of government, Canada has had virtually no experience with a public confirmation process. There is a danger in the Canadian setting, that this process could become highly partisan and deter experienced and competent individuals from permitting their names to be put forward, thus reducing the already small number of outstanding individuals who are able and willing to serve their country in this capacity. Parliamentary committees, under the scheme we propose later in this chapter, would have the opportunity to question members of regulatory agencies following the tabling of their annual reports and Estimates, and could use this exchange to inform them of parliamentary perceptions and needs. For the time being, therefore, we would not recommend the introduction of a confirmation process; our recommendations concerning Parliament should provide a sufficient counterbalance to the Government's appointment powers to ensure its careful and considered exercise.

A further safeguard for preserving the autonomy of chairmen and members of *Independent Deciding and Advisory Bodies* should not be overlooked. There are special provisions that permit the removal of incumbents only where cause for removal can be established. Although in most constituent acts the tenure of appointment is indicated as a fixed term during "good behaviour" and/or subject to removal "for cause", there are some fixed term appointments where there are no provisions governing the removal of an incumbent before the end of his term. Not only should such provisions be applied to all members of Crown agencies in this category but we would also commend the provision that applies now to some regulatory agencies whereby removal for cause must be confirmed by a joint resolution of both Houses. Particularly for the large subcategory of regulatory agencies, we believe that this degree of parliamentary involvement would be preferable to an initial confirmation procedure. We recommend that

18.9 all constituent acts of *Independent Deciding and Advisory Bodies* clearly stipulate that members shall be subject to removal only for cause and that in addition, for *regulatory*

agencies, such action be subject to a joint resolution of both Houses of Parliament.

The Government's use of appointment and removal as an instrument for controlling Crown agencies can be refined and sharpened if care is taken to evaluate performance during the terms of members of *Independent Deciding and Advisory Bodies*. Many chairmen of such agencies indicated to us that, until recently, they were not aware of any systematic evaluation of their performance, although some of them do evaluate the other members of their agencies for the Privy Council Office. The purpose of such evaluations, however, was clear neither to those who undertook them nor to those who were evaluated. In the case of some regulatory agencies and specialized adjudicative bodies, such evaluations cannot relate to the salaries of incumbents for, pursuant to the *Statutory Minimum Salaries Act*, the Government may not reduce the salary of an incumbent or reward through remuneration one member of a commission or tribunal more than another. We commend the proposal now being considered by the Government to extend the provisions of this act to all quasi-judicial tribunals.

The question of performance evaluations of chairmen and members of *Independent Deciding and Advisory Bodies* arouses valid concerns that such evaluations may tend to be based on individual decisions taken by members of these agencies rather than on general performance. Thus, the evaluation process might be interpreted as an occasion to exercise improper influence over the decisions made or advice given by members of these bodies.

While we are in complete agreement that performance evaluations should not be, nor appear to be, in conflict with the required independence for decision-making of individual members, we also think that the performance of incumbents in all but the most exceptional of cases should be subject to a meaningful process of evaluation. Such evaluation, however, will have no meaning unless the individual involved knows of the evaluation. With respect to chief executive officers of *Independent Deciding and Advisory Bodies*, we think that evaluation can and should be related to the performance by incumbents of their executive responsibilities. Effective performance of these responsibilities is crucial to the satisfactory performance by these agencies of their functions. At present, chief executive officers of these bodies are

appointed as members for terms ranging from five to ten years and are designated as chief executive officer for the length of their term. We believe that the terms of individuals as members and as chief executive officers should be distinct.

While we accept the principle that membership on these bodies should be for terms ranging from five to ten years, we do not believe that terms of such length are necessary or appropriate for the position of chief executive officer. A three-year term as chief executive officer is more appropriate. Evaluation of the administrative performance of this officer then could be undertaken to determine suitability for re-appointment to this position, an arrangement that we would not preclude. Where such re-appointment did not take place the individual affected could remain a member of the agency. Evaluation of chief executive officers would be conducted by the Committee of Senior Officials on Executive Personnel (COSO) for Cabinet consideration and decision in the same manner as applies to deputy heads of departments. The results of their evaluations should be discussed with the chief executive officers. We recommend that

18.10 the members of *Independent Deciding and Advisory Bodies* designated as chief executive officers be appointed to such positions for three-year terms, subject to renewal, and that their administrative performance be evaluated by the Committee of Senior Officials on Executive Personnel and its reports be submitted to the Cabinet when it is considering re-appointment.

The responsibility for the evaluation of the performance of all other members of *Independent Deciding and Advisory Bodies* should rest with the chief executive officer of the agency. These evaluations should be undertaken annually to determine suitability to continue in the position or to aid in consideration for renewal or alternative appointment. Such evaluations should be discussed with the members and forwarded to COSO and the Cabinet. We recommend that

18.11 chief executive officers of *Independent Deciding and Advisory Bodies* undertake annual performance evaluations of the members of their agencies and that such evaluations be forwarded to COSO and the Cabinet.

Reporting is the final element in an accountability régime. Those who would demand from Crown agencies an effective accounting must possess the necessary knowledge and information with which to judge their performance and determine the needs of these bodies. Increased and improved parliamentary surveillance of Crown agencies closes the accountability loop.

At present, the primary, and generally the only, contact between *Independent Deciding and Advisory Bodies* and Parliament occurs during the annual approval of Estimates. It is apparent to almost all the parties concerned that the present process of Estimates approval is an unsatisfactory means for accomplishing general and overall surveillance. We are convinced that there is much to be gained by all the participants from a more general analysis of the activities of these bodies and a closer scrutiny of their operational performance.

We think that Parliament's role in holding *Independent Deciding and Advisory Bodies* accountable for the overall performance of their responsibilities could be significantly improved by regular parliamentary assessments. The appropriate standing committees of the House of Commons should review the implementation of the mandates of the bodies and regularly assess the effectiveness of these entities in achieving public policy goals. They should inform Parliament and, through Parliament, the public, about the activities of these agencies; provide Parliament with information to assist it in making informed judgements on policy matters; and, provide a counterweight for these bodies to offset possible excessive departmental interference in their activities.

The heads of these bodies should provide technical support to their designated ministers when they appear at standing committees to defend their estimates. In addition, they should also account before the Public Accounts Committee for the manner in which they have discharged the administrative responsibilities specifically conferred on them. Such an accounting would be similar in scope to that which we have recommended for deputy heads of departments.

In order to facilitate parliamentary assessments, annual reporting to Parliament should be improved. There should be statutory guidelines for the preparation of annual reports. If the assessment process is to be effective, annual reports should not be simply summary records of past activities. Reports must be for-

ward-looking documents describing the objectives and plans of the agencies, and outlining in some detail how the agencies intend to accomplish their objectives and implement their plans. We recommend that

18.12 the annual reports of *Independent Deciding and Advisory Bodies* be automatically and permanently referred to the appropriate standing committees of the House of Commons, and that they provide a thorough description of the activities of the preceding year including both achievements and problems, a record of reports issued and directives received, and plans for the coming year.

In addition to regular parliamentary assessments of these agencies, their constituent acts should be subject to a periodic review by both the Government and Parliament. Such a review of their functions and responsibilities should be comprehensive and systematic and should be a statutory requirement imposed on the designated minister. While such a review would not preclude the abolition of an agency, we do not believe that a universal, periodic, re-authorization requirement, as envisaged in so-called "sunset laws", is necessary for these agencies. A statutory requirement for a review and for the tabling of a report on this review in the House of Commons with automatic referral to the appropriate standing committee, will satisfy the need for a mechanism to force evaluations. Furthermore, such periodic reviews should be able to build on the regular parliamentary assessments conducted by the standing committees and supported by the more informative annual reports we have recommended. We recommend that

18.13 the designated minister be required to undertake a review of the functions and operations of *Independent Deciding and Advisory Bodies* not less than once every ten years, and further, that the results of such reviews be tabled in the House of Commons and be automatically and permanently referred to the appropriate standing committee.