Regional Economic Expansion and a province, a management committee, composed of representatives of both governments, is responsible. Thus it appears that the chain of responsibility from the Comptroller General through Internal Audit to the Auditor General may not operate with the same degree of assurance that it would in the case of a purely federal program.

Effective monitoring rests upon clear statements of objectives, terms and conditions. Intergovernmental agreements pose particular difficulties for monitoring because of their negotiated nature. Clarity of objectives and precision in the statements of terms and conditions may be compromised as the price of agreement, according to Treasury Board officials. Nevertheless the Committee considers that where the federal government is contributing large sums of money to joint programs, both the provinces and the federal government have a responsibility to see that the objectives agreed to are actually being achieved.

The Committee suggests, therefore, that the Treasury Board provide a statement which outlines the major types of monitoring processes used in intergovernmental agreements. This should include provisions for monitoring contained in an agreement, the actual mechanisms to be used as well as an assessment of the strengths and weaknesses of provisions and mechanisms in practice. The *Established Programs Financing Act* and subagreements within the Department of Regional Economic Expansion General Development Agreement Program would be of particular interest to the Committee as cases in point.

PETRO CANADA

Following substantial discussion of the financial outlook for Petro Canada the Minister stated that he would provide the Committee with certain financial information if the Committee felt that it would be helpful. Such information, in the view of the Committee should include: the amount invested to date; the value of loans and loan guarantees and letters of comfort, if any; grants; current value of the assets and estimated cash flow for the next ten years or until such time as the cash flow is positive, and return on investment.

ACCOUNTS OF CANADA

The Minister expressed his concern that the accounts of Canada do not quantify contingent liability in that letters of comfort, such as the $350 million in letters of comfort to banks on behalf of Canadair, are not specified, an amount which is, proportionately, twice the $1.5 billion requested of the United States government by Chrysler.

ESTABLISHED PROGRAMS FINANCING ACT

The programs funded under this act, which include Medicare, Hospital Insurance and Post Secondary Education, were formerly cost shared with the provinces. The advent of the *Established Programs Financing Act* of 1977 changed the means of financing from cost sharing of expenditures to a combination of federal tax points transferred to the provinces and cash contributions, the combined value of which is guaranteed not to fall below a specified amount. Thus if, as has happened, the estimated value of the transferred tax points is below the predicted value, the federal government must increase its cash payments.

The Committee's attention was drawn to a legal aspect of the Act with significant financial implications. Under the Act the agreement cannot be re-opened unilaterally before March 31, 1983. Consequently the prospect of significant unplanned for an uncontrollable cash expenditures exists for three more fiscal years.

Treasury Board officials informed the Committee that at the time the provisions incorporated into the Act were being negotiated the economic assumptions made by the Department of Finance regarding the potential value of the tax points to be transferred were not reviewed by the Treasury Board. The Committee was informed that it is not Treasury Board's responsibility to do so in spite of the major financial implications involved. Nor is it their responsibility to do so for the annual Estimates of the value of the tax points.

The President of the Treasury Board indicated that in budgetary presentations, the government would provide four to five year economic overviews "... which will show the trends we are heading into if expenditure levels are not halted." Dr. Ostry presented estimates of such trends to 1985 based on present programs and anticipated economic developments over the next five years. Dr. Ostry suggested that, "If the present tax and transfer payment system, and the present federal provincial fiscal arrangements continue, the federal government will continue to run a deficit in the order of $12 billion year after year to 1985 ... even if unemployment were to decline to 5.5% ... " Dr. Ostry concluded that the federal government had "lost almost all of its room to manoeuver in terms of stabilizing the national economy," and urged that a number of steps be taken regarding government finance including possible reformation of the Revenue Equalization Program in light of the strains imposed by rapidly rising energy prices, and a re-evaluation of the *Established Programs Financing Act* as soon as possible. This latter suggestion was also made by the President of the Treasury Board. The preliminary reaction of the Committee is that such evaluations would be desirable, and the Committee will be considering these problems as part of its ongoing examination of the progress of the economy into the medium term future.

Respectfully submitted,

D.D. Everett,
Chairman.