

unpredictable and substantial charges beyond the already huge amounts paid to the operating railways for services rendered. These additional post year-end invoices have had serious effects upon VIA's ability to plan, and indeed to show profitability, and will continue to do so if the current billing structure is retained.

While the amounts of these 13th and 14th bill charges have not so far been very large in terms of percentage points per annum, this has still amounted to very substantial sums of money. For example, in 1980, the so-called 13th bill or charge from CN was in the neighbourhood of \$11.1 million. CP Rail's charges will be approximately \$3.1 million. In addition, it came to light in the course of the Committee's hearings, apparently for the first time, that there are going to be 14th bills submitted for 1979 involving a payment of approximately \$1.2 million to CP and a little over \$2 million to CN Rail.

While these percentages are small portions of VIA's total budget, it has, in the view of the senior management of VIA, and in this the Committee concurs, the effect of creating serious problems for budgeting and planning for that company. No enterprise, be it private, public or quasi-public, can function effectively without being able to control costs to the extent that this is commercially feasible. The presentation of considerable charges in the millions of dollars two and three years after the fact can only have serious detrimental consequences on the company charged with paying them. The Committee feels that the system allowing for 13th and 14th bills is not one which should be looked upon with favour for the future. The development of VIA will not be enhanced by this type of arrangement.

The Committee favours the development of a contractual arrangement between VIA on the one hand and CP and CN Rail on the other in the form of a fixed price, or fixed cost contract. This would mean that VIA would be charged a specified amount for each particular service for which it had contracted. Adjustments beyond the presentation of these billings would not be permitted. This would have two positive effects in the Committee's view. Firstly, it would establish a more reasonable commercial relationship between VIA and the operating railways which would in turn permit more rational and effective financial planning for the national rail passenger carrier. The absence of unanticipated cost adjustments beyond the corporation's fiscal year would greatly enhance its ability to conduct its affairs in a more orderly fashion.

Secondly, such an arrangement would provide a substantial incentive for the operating railways to keep their own costs down. As it stands now, the operating railways have little incentive to reduce costs incurred through inefficiencies or unprofitable procedures in that any losses are effectively passed on to VIA which, for the most part, must make good the increased charges. After all, VIA can hardly take its business elsewhere. Under a fixed cost arrangement, if a particular service could be provided at a cost lower than that set in an operating agreement, the opportunity for increased profit would presumably provide a valuable incentive in reducing railway operating costs throughout the system without entailing higher costs to VIA.

4. The Committee recommends that future contractual agreements between VIA and CP Rail and CN Rail incorporate a fixed charge for each service provided and eliminate post year-end billing except for cases of demonstrable errors or oversights as found and authorized by a CTC audit.