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CANADA. PARLIAMENT. SENATE.  
STANDING COMMITTEE ON FINANCE.





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Second Session—Twenty-sixth Parliament

1964

# THE SENATE OF CANADA

PROCEEDINGS  
OF THE  
STANDING COMMITTEE  
ON

## FINANCE

To whom was referred the Estimates for the fiscal year  
ending March 31, 1965.

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The Honourable T. D'Arcy Leonard, *Chairman*

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Tuesday, May 26, 1964

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No. 1

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WITNESS

Mr. G. G. E. Steele, Under Secretary of State

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ROGER DUHAMEL, F.R.S.C.  
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY  
OTTAWA, 1964

THE STANDING COMMITTEE ON FINANCE

The Honourable T. D'Arcy Leonard, *Chairman*

The Honourable Senators

Baird,	Macdonald ( <i>Brantford</i> ),
Beaubien ( <i>Bedford</i> ),	McCutcheon,
Beaubien ( <i>Provencher</i> ),	McKeen,
Belisle,	Méthot,
Bouffard,	Molson,
Buchanan,	O'Leary ( <i>Antigonish-Guysborough</i> ),
Burchill,	Paterson,
Choquette,	Pearson,
Connolly ( <i>Halifax North</i> ) ( <i>Halifax-Nord</i> ),	Pouliot,
Crerar,	Power,
Croll,	Quart,
Denis,	Rattenbury,
Dupuis,	Reid,
Farris,	Robertson ( <i>Shelburne</i> ),
Flynn,	Roebuck,
Gershaw,	Savoie,
Grant,	Smith ( <i>Queens-Shelburne</i> ),
Grosart,	Stambaugh,
Haig,	Taylor ( <i>Norfolk</i> ),
Hayden,	Thorvaldson,
Hnatyshyn,	Vaillancourt,
Horner,	Vien,
Isnor,	Welch,
Lambert,	Woodrow,
Leonard,	Yuzyk (50).

*Ex officio members—Membres d'office*

Brooks,  
Connolly (*Ottawa West*) (*Ottawa-West*).

50 Members  
(Quorum 9)

50 Membres  
(Quorum 9)

## ORDER OF REFERENCE

Extract from the Minutes of the Proceedings of the Senate, May 20, 1964.

"Pursuant to the Order of the Day, the Senate resumed the debate on the motion of the Honourable Senator Connolly, P.C., seconded by the Honourable Senator Hugessen:

That the Standing Committee on Finance be authorized to examine and report upon the expenditures proposed by the Estimates laid before Parliament for the fiscal year ending 31st March, 1965, in advance of the Bills based on the said Estimates reaching the Senate; and

That the said Committee be empowered to send for persons, papers and records.

After debate, and—

The question being put on the motion, it was—  
Resolved in the affirmative."

J. F. MacNEILL,  
*Clerk of the Senate.*



## MINUTES OF PROCEEDINGS

TUESDAY, May 26, 1964.

The Standing Committee on Finance met this day at 10.45 a.m.

*Present:* The Honourable Senators: Leonard (*Chairman*), Beaubien (*Provencher*), Bélisle, Burchill, Connolly (*Halifax North*), Crerar, Flynn, Gershaw, Haig, Hnatyshyn, Isnor, Lambert, McCutcheon, Molson, O'Leary (*Antigonish-Guysborough*), Pouliot, Quart, Smith (*Queens-Shelburne*), Stambaugh, Taylor (*Norfolk*), Woodrow and Yuzyk. (22)

The Committee proceeded to the consideration of the Estimates for the fiscal year ending March 31, 1965.

The following witness was heard:

Mr. G. G. E. Steele, Under Secretary of State.

At 12.15 p.m. the Committee adjourned to the call of the Chairman.

Attest:

F. A. Jackson,  
*Clerk of the Committee.*



**THE SENATE**  
**STANDING COMMITTEE ON FINANCE**  
**EVIDENCE**

OTTAWA, Tuesday, May 26, 1964.

The Standing Committee on Finance, to which was referred the Estimates laid before Parliament for the fiscal year ending 31st March, 1965, met this day at 10.45 a.m.

Senator T. D'Arcy Leonard (*Chairman*) in the Chair.

The CHAIRMAN: Honourable senators, we have a quorum and it is 10.45. I think there are some copies of the Blue Book to be distributed to you as soon as the messenger is around, and when you leave the room would you please leave the estimates on the desk because there is a shortage of copies and I think you all have a copy in your room. These are for your convenience in the meetings and we will keep them from meeting to meeting.

Pursuant to the instructions of the meeting of the committee held last Thursday we have here today Mr. R. B. Bryce, Deputy Minister of Finance, Dr. George Davidson, Secretary of the Treasury Board, Mr. G. E. Steele, Under Secretary of State for External Affairs, and Mr. J. C. Allen, Director, Estimates and Administrative Procedures, Treasury Board.

Again pursuant to our instructions I shall ask Mr. Steele if he will lead off and give us the benefit of his knowledge and experience with regard to the estimates before us in this particular Blue Book.

Is that in order?

Hon. SENATORS: Agreed.

Mr. G. E. Steele, Under Secretary of State: Perhaps, Mr. Chairman, if you will permit me I will make one slight correction in the introduction. I do this in self-defence, because I might be expected to have some knowledge of foreign policy. I am not the Under Secretary of State for Foreign Affairs, just the Under Secretary of State.

The CHAIRMAN: I picked that up incorrectly, and I apologize.

Mr. STEELE: Mr. Chairman, from the meeting which we had with the steering committee of the Senate Finance Committee, I understand my own appearance here today is really to be addressed to the consideration of three things which the committee had agreed to be a good way of introducing the subject of the estimates. Firstly, to speak briefly about the process, the estimates process which result in the production of any year of the Blue Book which is tabled and then referred to for examination. Secondly, to speak briefly about the estimates for 1964-65 in total and under their main headings, and, thirdly, to discuss briefly some of the things that are happening to the estimates as a document, and as a tool for financial management in the service with reference to the recommendations of the Royal Commission on Government Organization, what the impact of this study has been and what is going on by way of thought and action with the Treasury Board and in the various departments in trying to give some effect to these recommendations.

I would like to start by talking about the estimates process, and I have prepared some notes which might be useful to leave with the members of the committee. I shall speak directly from the notes.

In speaking briefly about the process I would say that the estimates cycle is now virtually a continuous process these days, and the requirements of any given fiscal year interlock so closely with the year behind, and the year ahead of the one under review, that the Treasury Board is engaged in almost constant discussion with the various departments of government with regard to their financial plans.

The need for a broader time horizon than one fiscal year is now well recognized and much thought has been given and is still being given to techniques for the forecasting of future financial requirements of government. I refer to this important element of the estimates process at the outset because it impresses me as being one of the most difficult questions relating to public discussion and review of government expenditure requirements, namely how to examine and judge the estimates of a given fiscal period in the context of their future implications.

I can only raise this point today without offering solutions or suggestions for improvement in presentation and I propose to return to the "still photograph" or snapshot approach of what happens in any given fiscal period rather than to examine the moving picture which the estimates process really is.

The first fact of significance is that departments are required by the exigencies of time to anticipate their financial requirements at least 18 months ahead of the event. It is usual practice to issue an instruction from the Treasury Board around July 1 of the preceding year requesting that estimates be submitted. For the last several years this request has been accompanied by instructions also to request additional staff or other changes in establishments at the same time. Because the establishment review is part of the financial plan and is a logical prelude to other financial decisions, it is necessary to reach these decisions before the estimates are made up. Although other considerations have intervened for the last two years, it is still part of the standing instructions to all departments that the establishment changes must be reviewed and agreed in a period of roughly two or three months subsequent to the July 1st starting date. Departments are required to submit both their establishment plans and their estimates requests to Treasury Board by approximately November 1 in any year, or some six months prior to the new fiscal year so that the real work of estimates analysis extends through November and December in any year.

An estimate is a request to spend money for a particular function or service. The votes in a rough way, therefore, describe how the various departments and branches of government are organized for the spending of money. Taken together, the estimates are the financial plan of the Government. They account not only for all of the operating and capital costs of government but also distinguish between what sums must be specifically authorized by Parliament and what sums are continuously authorized by statute. Additionally, they include sums which Parliament is asked to authorize by way of loans or advances for many purposes where the purpose is usually the creation of revenue producing assets.

Departments are always requested to take account of every known contingency and not encouraged, therefore, to look forward to the possibility of additional or supplementary provision in the course of the same fiscal year. The departments are also instructed to include provision only for those programs which have had prior approval, either specifically or as a result of a broader agreement in principle as to a particular course of action. As an example of the latter I might mention what could be a long-range program for schooling or housing for Indians where the only concern would be about the scale or pace of this activity in a given fiscal year.

Departments prepare the estimates on what I have earlier referred to as the "moving picture" theme. The given year is an event in a sequence. There-



fore the record of the several preceding years is set out. Budgeted amounts are set against performance both in total and by specific categories of cost. There is a comparison made of the expenditure record of the past against these items. The anticipated future levels are also set out now stretching three years ahead of the year in question so that not only the future year cost of present programs but also the likely onset of completed, new programs is foreshadowed. Then the estimates are prepared.

Discussion, argument and negotiation take place vigorously between all levels of Treasury Board staff and departmental staff over a period of roughly one month and for most major spending departments or spending areas, these discussions conclude with a meeting or meetings between the deputy head of the department or agency concerned and the Treasury Board secretary.

By the time these meetings are under way, it is usual for the Minister of Finance to have discussed with his senior officials in a tentative way the sort of budgetary problem he envisages for the ensuing year. If serious difficulties are foreseen which require a particular attitude to be adopted in the estimates review, then this viewpoint is communicated immediately to departments, sometimes in writing, sometimes by means of top level exchange between Treasury and departmental staff. For example, I have noted that since it is the stated view of the Government at the present time that the Minister of Finance will strive to achieve a smaller net deficit position between revenue and expenditures, it is vital that departments discuss the phasing of their plans so as to avoid what we call a peaking up of the expenditures particularly at this time.

It is equally vital over all to seek to absorb the inevitable and unavoidable growth in some areas by the conscious postponement or outright cancellation of some programs of lesser priority. This type of general intention in the context of the Minister of Finance is shown by the way the board has responded to this in recent months.

The achievement of this range of priorities and the fitting of the total to be broadly stated budget objective is the main work of the ministers of the Treasury Board when they meet in December and conduct an intensive review of the estimates. It is usual for this process to be spread over two to three weeks and it inevitably results in a spirited discussion and exposures and differences between the ministers who appear as suppliants for their particular areas of responsibility and the committee of the Treasury Board.

In presenting the material to the Treasury Board, the staff of the board assumes responsibility for summarizing the issues, relating the results achieved by official level discussion and informing ministers of the principal points of priority which seem to be present in the review.

When these vital discussions and decisions are concluded, it is part of the process that the results are submitted to cabinet where last-minute reviews may be undertaken. When cabinet approves the work of Treasury Board, instructions are issued to prepare in final form the document which appears in public.

There is one goal throughout all of this process which it is essential to keep uppermost, and that is to handle the mass of detailed information in such a way that the broad outlines of policy objectives are not blurred or submerged. A fair degree of success has been achieved here by the manner in which synoptic and summary information is prepared for ministers and for senior staff consideration. Since it is just not possible to achieve this same result in the printed document at the present stage of development, an equal effort should be devoted to improving public understanding of the policy objectives set forth in the printed estimates. The detail can be consolidated, additional information can be added, votes may be merged into

broader headings and eventually a new type of functional or activity breakdown of estimates can be achieved. I can mention several things which are going on by way of illustration.

Efforts are also needed to achieve a position where departments actually conduct their financial management substantially in accordance with the way in which the information is made public. These are the principal observations I would make on the main estimates process.

I would, perhaps, add a word about supplementary estimates. Since by definition the main estimates are designed to cover all requirements capable of being foreseen at that time, supplementary estimates should be confined to unforeseen things, overruns or lapses from the previous year and new government policies are clear cases in point. This is the range of things which one would expect to take account of in supplementary estimates.

In recent years there has been a tendency to rely rather more heavily on the supplementaries to resolve policy discussions which perhaps were not capable of resolution at the time of main estimates or to achieve through the estimates a variety of legislative objectives. It is still an important principle of financial management, however, I would assert, that a willingness to consider supplementary requirements favourably does tend to weaken the fabric of good, sound financial management in departments, and this is still the view which is propounded by the Treasury Board in its dealing with departments.

That is all I propose to say on that aspect. Would you wish me to go on to talk about the substance of the estimates? I am in the hands of the committee.

The CHAIRMAN: Would you like Mr. Steele to proceed with the second part dealing with the structure of the estimates, or do you want to ask him some questions as to the principle at this stage?

Senator CRERAR: I would like to ask one question while the matter is fresh in my mind. The witness stated that the supplementary estimates are usually confined to provide for unforeseen expenditures when the main estimates were prepared. I know that has always been the theory. He used the words "should be confined". Does that mean they are not confined to unforeseen expenditures?

Mr. STEELE: I really wasn't attempting to comment on the practice as we have observed it in the last two or three years. But it is a fact that the supplementary estimates have tended to be larger in recent years. I was speaking from the point of view of the relationship between the supplementary and the main estimates, and the theme of the main estimates is that this should cover the foreseen financial requirements of government in any year.

Senator CRERAR: You mean for 1964-65?

Mr. STEELE: For any year.

Senator CRERAR: For 1963-64 you have \$311 million in supplementaries. Then in 1961-62 you had \$355 million, and for 1962-63 you had \$181 million. Then for 1960-61 you had \$169 million; for 1959-60, \$86.1 million, and for 1958-59 you had \$144.8 million.

Mr. STEELE: They are actually higher than that. You are reading the column marked "Supplementary Estimates" whereas you should read the column to the right of that, "Final supplementary estimates".

Senator CRERAR: Yes, I am sorry.

Mr. STEELE: I have added them together myself. I am going back over the years.

Senator CRERAR: The point I am making is this. When you prepare these estimates for submission to Parliament, all the items are provided for except those things which could not be foreseen. I think this is a very important point, and has been a very important point ever since I entered Parliament 47 years ago. The practice then was that the estimates would not be used to sort of soothe the public by a submission of the main estimates, lower main estimates, and then make up the difference by supplementaries as you go along. Supplementaries were confined to absolutely unforeseen things. I am sorry we have departed from that practice, and got into the situation where now the supplementaries are used to make up the main estimates. For example, in 1962-63 the total was \$281 million.

The CHAIRMAN: You have to add them together; it is worse than you think.

Senator CRERAR: This is interesting. You have \$462 million for supplementaries, which is more than what the total estimates were in 1937. That is correct?

Mr. STEELE: I would say it is correct, sir.

Senator CRERAR: What does this mean? Why do we get it in this way? Is it a carelessness on the part of the departments in estimating their expenditures, or is there this attitude of mind on the part of government generally, and it doesn't matter which party is in power because I think they are both equally guilty. The feeling is we must not shock the people too much with the main estimates, and therefore we moderate the main estimates and make up the deficiency in the supplementaries. Is there anything of this kind or do you suspect anything of this kind in the preparation of the estimates?

Mr. STEELE: I would have to say no.

Senator CRERAR: Of course you would.

Mr. STEELE: I would like to comment on that.

Senator CRERAR: I should not have asked that question. I am sorry I asked you that question.

The CHAIRMAN: Perhaps the witness expressed his view in his statement when he said there has been a tendency to rely rather more heavily on the supplementaries to resolve policy differences which were perhaps not capable of resolution at the time of the main estimates.

Senator CRERAR: I am sorry, I was a little late in arriving, and I missed that.

The CHAIRMAN: Yes.

Senator CRERAR: I think this is a matter, Mr. Chairman, that should engage our attention very closely. I can add from my own experience, if I will not be injecting a personal note, that for ten years I sat on the Treasury Board, and one job of the Treasury Board is to reduce expenditures of the different departments, where possible. There were departments at that time which expected a cut when their estimates came to the Treasury Board. The ministers accepted what the situation was, and the main estimates were submitted to the Treasury Board with the expectation that there would be a cut. I do not know if that exists in the more virtuous age in which we live. Perhaps that has all disappeared. I do not know. However, Mr. Chairman, there is nothing more important than this business we are considering here now.

Senator LAMBERT: Would this increase not be due to a good many of the readjustments that have taken place with the provinces?

Mr. STEELE: No, sir. I would not single that out as the particular reason for larger supplementary estimates. However, where you get discussions which are going on over a period of months and which cannot be neatly

brought to a head by the time of the main estimates, that causes the reliance on supplementary estimates to adjust these things. I would mention another case, like the programs of works which have been put into the Department of Labour—the municipal winter works program. It has become the pattern to have them appear in the supplementary estimates, because that fits better in the time of the year when you can make a judgment of how much you want for that purpose. You cannot do that 18 months before, because it is a question of providing short-term employment projects for winter. This and other items of this type have tended to come into supplementary estimates.

Senator BURCHILL: You mentioned 18 months. Is that between the time the estimates are considered and when the money is spent?

Mr. STEELE: The period over which they have to spend it, that is right.

Senator BURCHILL: It is exactly six months—

Mr. STEELE: Nine months.

Senator BURCHILL: But the estimates are being prepared in November; did you not say that?

Mr. STEELE: They are submitted to the board in November.

Senator SMITH (*Queens-Shelburne*): For the last two years we have the total amount of supplementaries and final supplementaries. Can you use them as examples and indicate from memory what items went into those sums of \$463 million in one year and \$479 million in the year previous for 1961-62? It related to policy changes and the important things that happened over which there was no control in making up the estimates. You did mention municipal works, and one of the questioners mentioned payments to provinces. Were there other policies involved in those two specific years?

Mr. STEELE: We could deal with that quickly, if we had the details of those supplementaries here. We will get the supplementaries together, sir.

The CHAIRMAN: I think the committee would be interested in a little more information on what is going into supplementary estimates.

Senator CRERAR: I have one question more. I was interested in the amount of money being spent on the Indians and Eskimos, amounting to about \$200,000 now. That is in two departments, one being the Department of Citizenship and Immigration. The amount required for Indians and Eskimos is segregated in the amount of about \$60 million. The other big part is in the Department of Health and Welfare. Apparently what is spent on health and welfare for Indians and Eskimos is combined with all the other expenditures of health and welfare. I was wondering if it is possible to have that item segregated, so that the committee could have the actual amounts spent in health and welfare on Indians and Eskimos alone; because they are the responsibility of the federal Government particularly.

Mr. STEELE: Yes.

Senator CRERAR: Could that be done?

Mr. STEELE: Yes, sir. There are actually three departments. You have mentioned the Department of Health and Welfare, where you have the health costs. There is provision in the Department of Northern Affairs and National Resources for the Eskimo, and in the Department of Citizenship and Immigration for the Indian. But we can get for you the accumulated expenditures or estimates in 1964-65, by drawing these together, and we will produce that.

Senator CRERAR: It is news to me that there are three departments now.

Mr. STEELE: The cost of education and welfare of the Eskimo appears and has appeared in the Department of Northern Affairs for quite a number of years.

Senator ISNOR: Mr. Chairman, I had made a note along similar lines to the question asked by Senator Burchill in regard to the time of making up the estimates. I understood Mr. Steele to say that actually it was covered by a period of about 18 months. I was wondering if it might be helpful to the Treasury Board to cut down that period of time. Then, to go on to the second point I had in mind: what is the difference in percentage, roughly, of the estimates of the ministers presented to the Treasury Board, and the ministers' final decision when it comes back to you?

Mr. STEELE: What percentage reduction?

Senator ISNOR: Roughly yes.

Senator HNATYSHYN: Is there a reduction?

Mr. STEELE: There are always reductions. I will speak to the first part of your question, if I may, Senator Isnor, on the subject of the time. We are always in this dilemma of fighting the deadline that exists in the preparation of this material. The experience of the departments is that the earlier we ask them to prepare the material the less accurate it is likely to be. If we ask them, for instance, to submit their estimates by September 1 for the next fiscal year, rather than November 1, as they do now, they will submit to us, and we would agree with them that this compounds the difficulties of forecasting more accurately their cash requirements; and we are anxious to get as accurately as possible what the cash requirements are. On the other hand, the later we leave it, the more difficulty we are in from the Treasury Board's point of view in providing enough time for analysis, and for ministers to meet on it, and then to produce the actual book itself; because there is a considerable mechanical job involved in getting all of the decisions recorded and reflected and producing the book. It takes about six weeks really after the last decision is taken to get the thing cast in a form ready to be tabled. So we certainly get this kind of problem each year; and we would like more time to work on the estimates with the departments, but they tell us we are just making it less meaningful from their point of view.

I will now speak to the other point briefly, if I may. The policy objectives which the board is trying to seek will to some extent move the way in which the reductions are sought by ministers. I have indicated this simply because it is quite clearly public knowledge on the part of the Minister of Finance that the objectives he is seeking are to narrow his budgetary deficit situation. In terms of the impact of this on Government spending from time to time, we have been pretty ruthless in new spending programs, and at the time of the review last year there were some considerable cut-backs. I do not know whether it would be appropriate for me to mention a percentage or absolute amount, but I assure you that they were pretty significant in terms of what the departments put to us. It is not at all unusual in estimates for the Treasury Board operation to result in a reduction of \$100 million from the submissions put up by a department. A lot of this admittedly comes from areas of new capital intentions, for instance.

Senator HAIG: Mr. Chairman, as a matter of practical application, the Government has decided to make a grant or gift to the disaster fund at Nanaimo. Where does it come from?

Mr. STEELE: It will have to be voted by Parliament. It will appear in the supplementary estimates.

Senator BURCHILL: Is there any section of the Department of Finance, or any other department, that attempts to make a forecast of expenditures for years ahead?

Mr. STEELE: The various departments which have an interest in this are just now beginning to do more effective work in this area. The Treasury Board is interested in this and makes this type of forecast, in terms of trends,

of what a particular percentage increase on a year-to-year basis is likely to produce, say, five years ahead. Agencies like the Economic Council, which has now come into being, and work of certain royal commissions in recent years have focused on this type of problem. The Department of Finance is certainly doing more work in the forecasting area than we have done heretofore.

Senator BURCHILL: For a five-year period?

Mr. STEELE: That is as far as you can go ahead and sustain any accuracy.

Senator SMITH (*Queens-Shelburne*): When you use the phrase "Treasury Board," do you mean those members of the cabinet named to Treasury Board?

Mr. STEELE: Yes.

Senator SMITH (*Queens-Shelburne*): And you are not referring at all to civil servants who are in a position to advise those members of Treasury Board as to what their action may be? In other words, you, as civil servants, in the past have had no influence on whether or not a department should go ahead with a capital expenditure. You might assist the various ministers—am I stating the thing correctly?

Mr. STEELE: Yes.

Senator SMITH (*Queens-Shelburne*): —in making a decision, for larger reasons, which would be accepted by his colleagues. That is the technique and the operation, is it?

Mr. STEELE: Yes. We would certainly do two or three things in discussing estimates with departments. We would certainly feel it was part of the job of advising ministers to look at the specific proposals they are putting up and to make judgments as to whether or not they seemed to come within what we understood to be the policy of that department. When I said the estimates are supposed to be submitted for approved programs, it would be part of our job to examine the estimates submitted to see whether this is in fact the case. It would also be part of the job we would undertake to interpret in broad terms the directions the Minister of Finance has given, for example, to achieve certain policy objectives by way of expenditure controls in the new year; to interpret this to the department when they put their submission up. If it seems, with the best will in the world, what they are putting up is not likely to be approved, simply because of its magnitude, we would advise them to this effect and bring it up in discussions with the minister. When I am talking about Treasury Board I am talking about the ministers, and our role is advising.

Senator SMITH (*Queens-Shelburne*): The way I put it and the way you put it is not the general public understanding of it. They believe that horrible civil servants are denying ministers the opportunity to spend money in the public interest.

Senator FLYNN: The last column of Table I gives the total approved estimates for a given year. Is there any significant difference between this amount and the actual amount spent?

Mr. STEELE: Yes, there is. Perhaps you would permit me to refer to that point when I come to the analysis, because the difficulty is a real one of relating estimates to expenditures.

The CHAIRMAN: Shall Mr. Steele go ahead?

Hon. SENATORS: Agreed.

Mr. STEELE: I am talking about the estimates which you have for 1964-65, and I thought I should at the outset use the same words of caution which the Minister of Finance used when he tabled the main estimates in the House of Commons. His statement at that time indicated that the estimates totalled

\$6,703,000,000. He noted that to compare this with the total of estimates at that time for 1963-64 which was \$6,619,000,000—and these figures are used in his statement—would be misleading. This was so because the 1963-64 figure did not include the final supplementary estimates, and the figure for the new year did not include any of the supplementary requirements for that year. He therefore indicated in his statement that an accurate or reasonably accurate comparison of expenditures between the two fiscal years should await his budget presentation.

The Minister of Finance, when he delivered his budget statement on March 16, 1964, indicated to the house that the final expenditure total for 1963-64 would be approximately \$6,892,000,000. This is the figure contained in his White Paper. Also he indicated that the main estimates for 1964-65, which stood at \$6,703,000,000 would no doubt be added to by a number of items. He referred to the additional expenditures under the equalization payments to the provinces. He referred to the usual provision for municipal winter work, for winter house building payments, and other housing items, for subsidies to the railways, including a consideration of the recommendations of the Royal Commission on Transportation. He referred to the usual losses in the agricultural stabilization account and the operating deficit of Canadian National Railways. All of these items will, if they come to pass, appear in the supplementary estimates. When you take these into account, along with the normal provision for other costs and the lapsing amounts in the appropriations, he indicated that the total budgetary expenditures for 1964-65 would be about \$7,125,000,000.

Senator CRERAR: May I interject a question? To get the total picture you have to include the old age security payments?

Mr. STEELE: These are non-budgetary, but as for cash, you are quite right, you add the payments out of the Old Age Security Fund. They have to be added to that. In the next year that will represent something in the neighbourhood of \$800 million. This would be an increase of about \$233 million. These totals I am talking about—the \$6,800 million as against the \$7,100 million—represent an increase of about \$233 million, or some 3½ per cent over the expenditures for the previous fiscal year.

Senator Flynn, this is the relationship of tying expenditure figures forecast in his budget back to the estimates.

Senator CRERAR: That will not include the extra payments to the provinces as a result of the Quebec conference at the beginning of April?

Mr. STEELE: He has anticipated some of that in his \$7 billion.

If one now turns to the tables which were prepared and included with the statement of the Minister of Finance on tabling the main estimates, I think it is possible to refer quickly to the areas which account for the aforementioned increase. If I may refer first to the summary of the estimates of statutory expenditures—this is Table II which appears in the presentation—you will note the increase in this area is \$260 million; that is to say, more than the total increase which the minister expects in the new fiscal year. The explanation of the difference, of course, is that other programs have decreased substantially. By far the largest of the statutory increases is the provision for public debt charges. Here again the Minister of Finance did note in his press statement that the true increase on an actual expenditure basis was only \$52 million, but we have here on an estimate comparison a difference of \$156.9 million. The difference relates primarily to an under-estimate which appeared in the estimates for 1963-64.

The basis of calculation of debt charges has been changed in the new year and is now a more comprehensive indication of the likely costs, including the new refunds and other issues which they expect will be required, all of these

calculated on the interest rates prevailing just before the estimates were printed. One of the difficulties of analysis is indicated here right away, namely, that the tables to which I refer are all estimate-to-estimate comparisons rather than estimate-to-expenditure comparisons which the minister uses in his budget presentation. The other significant increases in statutory costs include \$35,000,000 under the Hospital Insurance and Diagnostic Services Act. They include an increase of \$10,000,000 under the Trans-Canada Highway Act and there is an item which appears for the first time, the payment to the Canadian Corporation for the 1967 World Exhibition of 17.9 million dollars.

These, with a number of other changes, make up the total increase to which I referred. There is no doubt that the statutory changes between the two fiscal years explain in large part the over-all increase. However, if one turns to a comparison of the Estimates on the basis of operating capital and other costs, some other relationships are brought out. The tables which were prepared reflect a Main Estimates to Main Estimates comparison—that is to say, the Main Estimates for 1963-64 and the Main Estimates for the new fiscal year—and although they take no account of the supplementary estimate effect they do indicate the orders of magnitude.

Perhaps they are most useful in looking at the capital and operating costs of the Government because these do not tend to be changed very much by supplementary estimates. I am referring to the normal operating costs.

You might note that the operating costs are expected to increase by \$145.8 million in the civil area of government. This total figure covers a wide range of departmental changes, some of which are perhaps noteworthy—for example, the new Department of Industry, \$10 million, and I have mentioned the Canadian Commission for the World Exhibition, \$17.9 million.

There is a large increase of \$18.5 million for Public Works which, in large measure, results from a transfer of costs to this department from the defence area, resulting from the transfer by Defence of responsibility for facilities at Churchill, Manitoba and the Northwest Highways System. So, a good part of that seemingly large increase in Public Works is because of this sort of transfer.

Senator ISNOR: What is the net difference because of that transfer?

Mr. STEELE: Offhand I would think that \$14 million of that \$18.5 million is accounted for by the transfer of Defence costs to Public Works on those two accounts.

The CHAIRMAN: Does that answer your question, Senator?

Senator ISNOR: Yes.

Mr. STEELE: I would not regard the other changes in operating costs in any way significantly different in this year from previous years. In fact, the base figure of \$1,200,000,000 for civil operating costs seems to bring an annual increase of some \$100 million by reason of the normal growth in the costs of government.

I think I should perhaps refer to the levelling off of the National Defence costs which has had a stabilizing effect on the growth in general operating costs in the last two or three years. When one turns to the capital costs one notes that taking both civil and defence costs together they show that in this area there is a decrease of \$55 million between the two fiscal years.

The CHAIRMAN: But the total decrease is in national defence?

Mr. STEELE: Yes, I guess all of it is in national defence.

The CHAIRMAN: All of it, and perhaps some more?

Mr. STEELE: Yes.

The CHAIRMAN: The decrease is \$17 million, and the total decrease is \$55 million.



Mr. STEELE: Yes, that is right, and it hides an increase of \$20 million in the civil area.

The CHAIRMAN: Where would that decrease start? Would it start as a matter of the policy of the minister of the department when the estimates are originally submitted?

Mr. STEELE: It depends. The Defence Estimates for 1964-65 as concerns Defence are entirely due to the fact that some of their major re-equipment programs have now gone past their peak points. I should mention, perhaps, the CF-104 re-equipment program for the air division. At this point in time nothing has come along to replace it. In other words, some of the new programs that will come along as the White Paper is given effect have not yet made their impact on the Defence Estimates.

Senator McCUTCHEON: It has been indicated pretty clearly that capital expenditures are not expected to be permanently decreased.

Mr. STEELE: No. I think they fell, as a matter of policy, that they are too low now in relation to their total costs, so the figure for 1964-65 is lower, perhaps, than it will be again for some time.

I have mentioned a number of areas of increase, but these have been entirely offset by other decreases to produce the result indicated. The area entitled "Grants, Subsidies and Other Items" encompasses in large part the statutory costs which were brought out in the other table so that there would seem to be no need to refer specifically to this heading again.

Although we do not include in the tabled material other information on a more detailed basis, I could, perhaps, refer briefly to the additional summaries which are considered by a treasury board when reviewing the main estimates. For example, it is usual to present a breakdown of the estimated expenditure under the so-called standard object headings. I think it is noteworthy that the largest item in the operating costs of government is that for salaries and wages. The civil salaries and wages component of operating costs, including civilian allowances, is expected to increase by \$14 million in 1964-65. That is, by far, the largest and most significant of the operating costs increases. As the size of the Government service grows the proportion of operating costs devoted to the salaries and wages bill is a factor of major significance.

Accompanying this is the presentation made of the establishment requirements for the new fiscal year, and it was indicated to the Treasury Board this year that there would be an increase of some 3,000 man-years of additional establishment over the previous fiscal year. Here, again, the largest new item is some 800 man-years required for the new Department of Industry and the expanded functions of the Department of Defence Production.

The Department of National Revenue, specifically the Taxation side of that department, shows a large increase, mainly due to the additional work in the processing of provincial returns, and the work which they are doing in conjunction with the Unemployment Insurance Commission in preparation for the administration of the new Canada Pension Plan. A lot of the preliminary work in this area is reflected in the staff requirements of these two agencies.

The Post Office Department shows an increase of over 600-man years. This reflects directly the growth in the work load which that department experiences on a year to year basis, and it can be pretty directly calculated on the volume of mail moved and the revenue from the postal areas.

These increases when coupled with our expectations about salary changes account for the increase in the Salaries and Wages bill.

Although this is far from being a complete review of the details of the Estimates changes, Mr. Chairman, I think it does give the committee some

indication of the type of information which is available to the Treasury Board when it considers the Estimates. It indicates also what the principal considerations were when the Estimates for 1964-65 were reviewed.

Perhaps I could turn briefly to the other subject to which I have been asked to refer, namely, the changes in the form of the Estimates and how these relate to the recommendations of the Royal Commission on Government Organization. Perhaps I could complete this, and then come back to questions on the structure.

In the press statement of the Minister of Finance on tabling the estimates he referred to the fact that the Estimates for 1964-65 contain only 230 voted items, and that this compared with close to 500 or more in previous years. This reduction was achieved by consolidating a large number of items formerly in the Vote section of the Estimates, but the consolidation has been done in such a way as to preserve the same amount of information in the details section so that there will be no loss of information available to the house or to the Senate when they review the estimates. These changes were endorsed by the Public Accounts Committee of the House of Commons last December, and were put into effect in the new fiscal year.

It is believed that the larger votes will provide for a better discussion of Estimates in the house, and also that this will facilitate the improvement in the quality of financial management in the Public Service which the Glassco Royal Commission was seeking. However, it is intended that the first recommendations of the royal commission be studied with a view to their implementation. The most important consideration here is the ultimate presentation of the Estimates on a functional or program basis, so that the manner in which the expenditures are actually controlled by departments will be the way in which the information is presented publicly for consideration.

Perhaps I could refer briefly, Mr. Chairman, to the main recommendations of the royal commission in this area. They recommended firmly that the number of Votes in the Estimates be reduced, and that all cost elements for individual programs be consolidated within the same Vote. They recommended that departmental estimates be prepared on the basis of programs of activity, and not by the traditional standard headings. They recommended also that the establishment review be undertaken as part of the overall review process, and that more objective standards for analysis and comparison be developed and employed, not only by senior departmental management but also by the Treasury Board in its reviews.

I would say without qualification that in all respects some aspects of these proposals have either been implemented or are currently under study. For example, one of the other recommendations in this area refers to the need for long-term plans of expenditure requirements, and the preparation of an overall forecast of government expenditure on a five-year basis, this to be kept up annually.

The staff of the Treasury Board are currently engaged in a deep study of forecasting techniques. I did refer to the fact that we are having discussions and working with such agencies as the Economic Council, which is concerned with making projections in the public sector. As part of the estimates process, it has been required of departments for the last two years that they submit a forecast looking two or three years ahead, when making their estimates. We currently plan to extend that to five years, and the process of reviewing programs for the future should be based on this longer look.

I now turn briefly to the presentation of estimates and the development of more objective standards of analysis. It will be recognized that this is a problem of some significance and complexity.

Some months ago the Government agreed that the best way to carry this forward would be to undertake pilot studies in several departments of Govern-

ment and to have these studies done by departmental and Treasury Board officials in conjunction with the use of management consultant services engaged specifically for this purpose.

After some study, it was agreed that these examinations would be carried out in the Departments of Agriculture, Northern Affairs, Transport and Veterans Affairs. The first three months of this examination has now been completed and preliminary reports have been submitted to the managements of these departments, recommending what seem to be the suitable breakdowns of programs or activities around which not only the estimates but the whole accounting and financial reporting systems within the departments would henceforth be built.

Senator ISNOR: What do you mean by "we"?

Mr. STEELE: When I say "we" here I am rather loosely referring to the collection of officials carrying on these studies which have not yet been presented to the Government.

Senator ISNOR: That is what I want to have clear—whether it is the Treasury Board or whether it is the financial advisors.

Mr. STEELE: I am now in an area in which the future plans and studies here are not yet referred back to the minister or Parliament for consideration; so I am really unfolding what the method is for looking at some of these studies.

We are testing the recommendations of the royal commission to see whether they can be applied in a Government setting. The Treasury Board staff are co-ordinating this, but it is being done closely with the departments concerned.

Senator ISNOR: I see. That is it. It is the Treasury Board advisors.

Mr. STEELE: Yes, sir, they are co-ordinating these studies.

What is envisaged here is that upon completion of these studies and in collaboration with the departments concerned, the Treasury Board will undertake to consider converting the existing pattern of estimates and accounts to this new format.

Furthermore, it is hoped that on the basis of these studies it may be possible to extend the concepts developed to other departments of Government. It would not be realistic, however, to expect that these changes can be implemented in time to affect the estimates for 1965-1966 and there is some doubt whether the work would be sufficiently advanced to be incorporated even into the succeeding fiscal year. However, the studies are under way and within the next two or three years I would expect that the Government, if it carries forward with this, would be presenting to the House, recommendations based on these studies, which would have a significant effect on the way in which the estimates are presented for study.

Mr. Chairman, I have now reviewed briefly the three main areas which you asked me to cover.

Senator ISNOR: The only reason I asked the question as to the meaning of "we" was to establish who was giving this good advice; and the credit naturally should go to the Board.

The CHAIRMAN: He was a little modest about accepting it.

Mr. STEELE: I am anxious to make it clear that this is all the work of officials and has no significance other than that. It has not been conveyed to the ministers at all.

Senator BURCHILL: You indicated that a large portion of the increases between the two years, for various items, was due to the labour content. There is a forecast of increased wages—that is correct, is it not? Take the case of

the Department of Industry; there is an increase from \$14 million to \$24 million. They are all of that character.

What about the number of people who are on the Government payroll? That leads it back, does it not, to the cost of Government? Is not the number of people employed by the Government increasing every year?

Mr. STEELE: I would say it has increased pretty steadily over the past 10 years but that the effect of a pretty severe curtailment of departmental plans in the last two years has brought a pretty significant levelling off, and in fact some of the decreases in certain areas have completely offset increases in civilian areas. We have a considerable change in the civilian support staff of the Department of National Defence, perhaps by as much as 2,000 positions. There has been growth in other departments but in absolute terms there has been a considerable levelling off in the last three years, I would say.

I brought this up as being of some significance. In 1964-65 there is going to be a forecast increase of some 3,000 man years for various reasons. One was the onset of a new department and some other programs.

Senator BURCHILL: I think that the growth feature is one we should take into consideration in the future—or, you say, it has been levelling off?

Mr. STEELE: Just in total, sir.

Senator BURCHILL: I would like to see the figures, because we have an idea that this is growing and growing all the time. That is in contrast very much to what is happening in industry today, where they work in the opposite direction. They watch very closely so as to keep labour costs down in relation to other costs. With governments, of course, it is an inverse ratio.

Mr. STEELE: Government is what is known as a labour-intensive operation. Industry has enjoyed the impact of automation and system improvement to a far greater extent than Government has so far, or that perhaps Government can, because of the nature of the operation.

Senator SMITH (*Queens-Shelburne*): I wonder if Mr. Steele would comment on the present status of the Civil Service freeze.

Mr. STEELE: It has been unfrozen, sir.

Senator SMITH (*Queens-Shelburne*): What is it?

Mr. STEELE: In terms of control, it has been unfrozen. In terms of the ability of departments to engage staff, we have instructed them—when I say “we” here I should say the Board—and in considering the estimates for this year, the Board has agreed to permit departments to go back to original establishments, provided that in engaging additional staff, they live within the sums of money which appeared in the main estimates. This was an undertaking that we would take off the arbitrary holding of establishments and return to straight financial control, by and large, over this area of cost. So we are now reviewing these departments, to see the additional establishment requirements.

Senator BELISLE: Mr. Steele, you mentioned a while ago that there was an estimated increase of \$40 million in salaries. What was the increase last year? Is it because the salary has been unfrozen, that the \$40 million has occurred?

Mr. STEELE: To some extent, it certainly is higher than it has been in previous years, because of growth. I mentioned the Department of Industry, Defence Production and the Post Office.

The year 1963-64 compared with the previous year in the provision for Civil Service salaries and wages, and as a result of the full effects of the freeze there was practically an even situation. In other words, we expected at

the time of the main estimates when we were considering them in 1963-64 that Civil Service salaries and wage costs would be heavy. We would have to turn to the actual expenditure record to see whether that was the case, but we certainly didn't have any increase like \$40 million. The effect of the freeze was to contain in that year at least salaries and wages.

Senator BELISLE: What will be the comparative percentage with respect to the \$40 million? Will it be 25 per cent?

Mr. STEELE: Before we had this period we had been going through where we had been holding down staffs and costs, the actual salaries and wages would increase \$25 million to \$30 million in a year. So if I say \$40 million next year, which in fact is what it is, it will be perhaps, or could be, 33½ per cent increase. I think we should produce more accurate information than just guessing, but we will look this up.

Senator ISNOR: What comment have you to make, Mr. Steele, with regard to the installation of automated machines enabling departments to operate with less manpower?

Mr. STEELE: Well, they certainly, with a great deal of difficulty, have been trying to put into effect an automatic sortation system, for example, at the terminal post office stations. In fact, they have automated quite a lot of their central terminal post office stations; but there is no substitution for the man delivering the mail as yet. That is the point I am making.

Senator CRERAR: I should like to get this pinpointed a little. Could you give us a comparison between the total number of civil servants, say, at the end of March this year? That is the end of the fiscal year, is it not?

Mr. STEELE: Yes, sir.

Senator CRERAR: Can you give us a comparison of that with what it was the year before?

Mr. STEELE: Yes, we can produce this for you. I do not know that we have it quite readily at hand, but we can get it.

Senator CRERAR: While you are doing that, I suggest that you might include revenue postmasters. They do not appear on the salary roll?

Mr. STEELE: No.

Senator CRERAR: They deal with the sale of money orders and postage stamps and that sort of thing, but nevertheless they are taxed; they are in the total roll of civil servants. What is rather surprising to me is the growth in the expenditures for the administrative processes of government as revealed in the months required to cover a period. Personally, Mr. Chairman, I would like to probe into that a bit. I recall at the outbreak of the war in 1939 the total number of civil servants in the Government was about 46,000 or 47,000, and the total payroll at that time was in the order, I think, of about \$90 million, more or less. Of course, that was 25 years ago. Today on a comparative basis, I believe there are over 200,000 civil servants, with a total payroll of perhaps \$700 million.

Mr. STEELE: \$800 million. I think that total is closer, sir.

Senator CRERAR: It would be interesting to know why this has happened. I base some of my thinking on my experience of over 10 years. I know the pressures there are for expansion in various ways. Considering the somewhat appalling total of expenditures for this year, I think that would be useful information. Also, I should like to get data from the other departments on Indians and Eskimos, so as to get the total sum put together.

Mr. STEELE: On native costs?

Senator CRERAR: What are we spending on that?

Mr. STEELE: We are spending about \$200,000 on Indians and Eskimos.

Senator McCUTCHEON: Mr. Chairman, my question is supplementary to the request made by Senator Crerar with regard to a comparison, as I understood it, of the situation at the end of the fiscal year 1963 with that of 1964. Could Mr. Steele give it to us at the end of 1965?

Mr. STEELE: In exactly the same areas?

Senator McCUTCHEON: On the establishment, and so on.

Mr. STEELE: On the establishment. We can do that.

The CHAIRMAN: The only difference is between manpower and the other, the temporary employment.

Mr. STEELE: The man years is designed to be both for the time staff and the temporaries as well, so it reduces it, in other words, to this common denominator.

Senator McCUTCHEON: All I want is to see two actual comparisons. What is the trend in that line. Is it going up more rapidly at this stage as a result of unfreezing the physical positions and imposing the financial control which Mr. Steele refers to?

The CHAIRMAN: Are there any other questions?

Mr. STEELE: Mr. Chairman, I should like to say something at this point so that we can serve the committee best. Part of the consideration which would affect what Senator McCutcheon is seeking would be better brought back to the committee two weeks from now, because the Treasury Board is just at the point of considering the 1964-65 supplementary requests.

The CHAIRMAN: We shall still be in business two weeks from now. Shall we adjourn at this time, or are there further questions?

Senator HAIG: I move that we adjourn at the call of the chair.

The CHAIRMAN: We cannot meet next Tuesday because there will be two other meetings held on that day. Also, Mr. Steele will be away next Tuesday. Shall we then leave it to the chair or the steering committee to decide, and probably we could meet on Tuesday morning a week from today, if we sit on the Monday evening?

Hon. SENATORS: Agreed.

The committee adjourned.



Second Session—Twenty-sixth Parliament  
1964

# THE SENATE OF CANADA

PROCEEDINGS  
OF THE  
STANDING COMMITTEE  
ON

## FINANCE

To whom was referred the Estimates for the fiscal year  
ending March 31, 1965.

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The Honourable T. D'ARCY LEONARD, *Chairman*

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TUESDAY, JUNE 2, 1964

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No. 2

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WITNESS:

Mr. G. G. E. Steele, Under Secretary of State

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ROGER DUHAMEL, F.R.S.C.  
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY  
OTTAWA, 1964

THE STANDING COMMITTEE  
ON  
FINANCE

The Honourable T. D'Arcy Leonard, *Chairman*

The Honourable Senators:

Baird	Macdonald ( <i>Brantford</i> )
Beaubien ( <i>Bedford</i> )	McCutcheon
Beaubien ( <i>Provencher</i> )	McKeen
Belisle	Méthot
Bouffard	Molson
Buchanan	O'Leary ( <i>Antigonish-Guysborough</i> )
Burchill	Paterson
Choquette	Pearson
Connolly ( <i>Halifax North</i> )	Pouliot
Crerar	Power
Croll	Quart
Denis	Rattenbury
Dupuis	Reid
Farris	Robertson ( <i>Shelburne</i> )
Flynn	Roebuck
Gershaw	Savoie
Grant	Smith ( <i>Queens-Shelburne</i> )
Grosart	Stambaugh
Haig	Taylor ( <i>Norfolk</i> )
Hayden	Thorvaldson
Hnatyshyn	Vaillancourt
Horner	Vien
Isnor	Welch
Lambert	Woodrow
Leonard	Yuzk (50)

*Ex officio members*

Brooks

Connolly (*Ottawa West*)



## ORDER OF REFERENCE

Extract from the Minutes of the Proceedings of the Senate, Wednesday, May 20th, 1964:

“Pursuant to the Order of the Day, the Senate resumed the debate on the motion of the Honourable Senator Connolly, P.C., seconded by the Honourable Senator Hugessen:

That the Standing Committee on Finance be authorized to examine and report upon the expenditures proposed by the Estimates laid before Parliament for the fiscal year ending 31st March, 1965, in advance of the Bills based on the said Estimates reaching the Senate; and

That the said Committee be empowered to send for persons, papers and records.

After debate, and—

The question being put on the motion, it was—  
Resolved in the affirmative.”

J. F. MacNEILL,  
*Clerk of the Senate.*



## MINUTES OF PROCEEDINGS

TUESDAY, June 2, 1964.

Pursuant to adjournment and notice the Standing Committee on Finance met this day at 10.00 a.m.

*Present:* The Honourable Senators: Leonard (*Chairman*), Crerar, Flynn, Grosart, Haig, Isnor, Molson, O'Leary (*Antigonish-Guysborough*), Quart, Reid, Smith (*Queens-Shelburne*), Taylor (*Norfolk*) and Yuzyk.—(13)

On request of the Honourable Senator Pouliot his Inquiries withdrawn from the Order Paper were referred to the Steering Committee.

On Motion of the Honourable Senator Haig it was RESOLVED to print the documents supplied by Mr. Steele as appendices to the proceedings of this day. ("A" and "B").

The Committee resumed the study of the Estimates for the fiscal year ending March 31st, 1965.

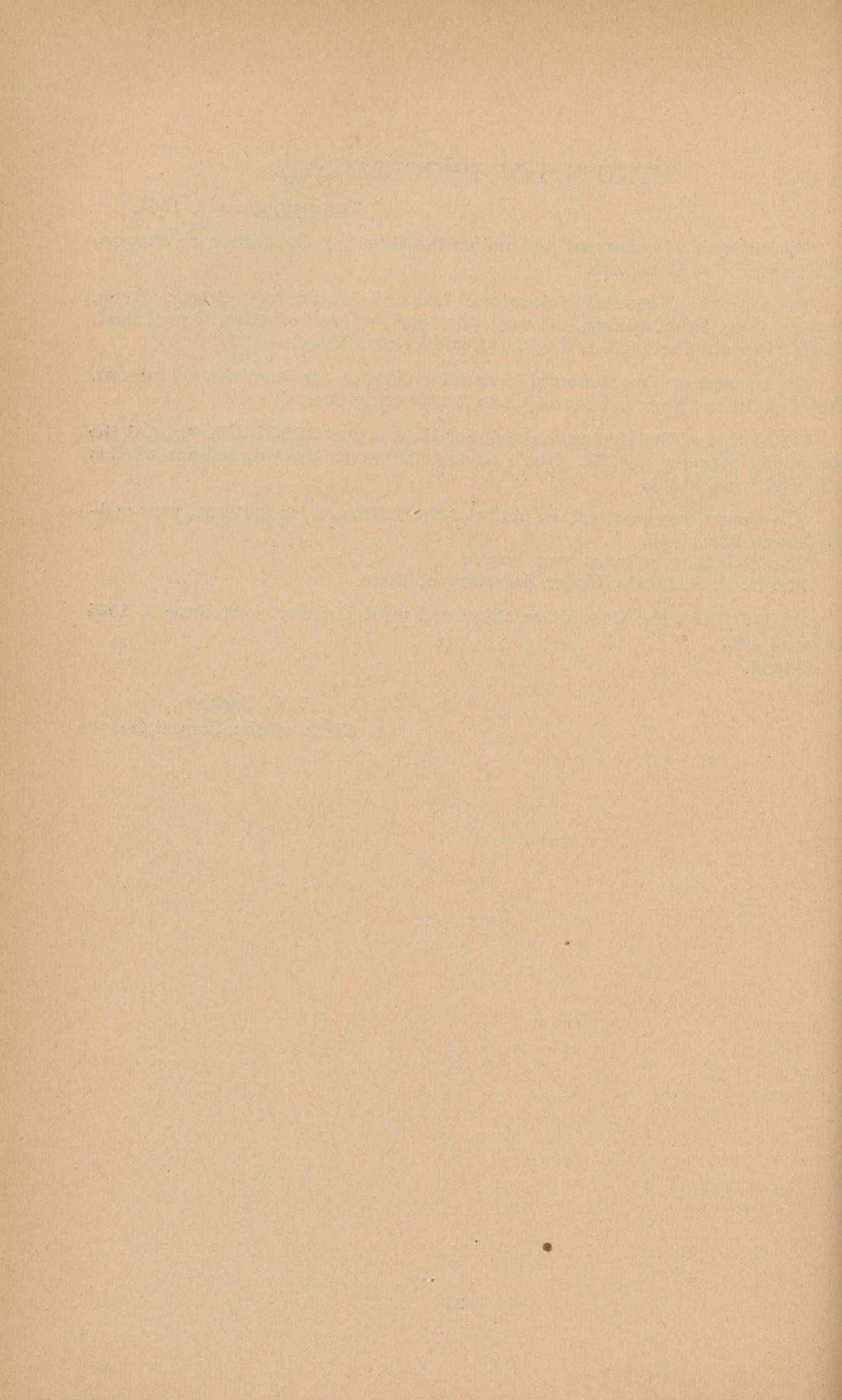
The following witness was heard:

Mr. G. G. E. Steele, Under Secretary of State.

At 11.55 a.m. the Committee adjourned until Tuesday next, June 9, 1964 at 10.00 a.m.

Attest.

F. A. Jackson,  
Clerk of the Committee.



**THE SENATE**  
**STANDING COMMITTEE ON FINANCE**  
**EVIDENCE**

OTTAWA, Tuesday, June 2, 1964.

The Standing Committee on Finance, to which was referred the estimates laid before Parliament for the fiscal year ending 31st March, 1965, met this day at 10.00 a.m.

Hon. T. D'Arcy LEONARD (*Chairman*), in the Chair.

The CHAIRMAN: Honourable senators, we have a quorum. Apparently 10 o'clock on a Tuesday morning seems to be a very good time for the committee to meet, so we will carry on with that precedent.

Last week we had before us Mr. G. G. E. Steele, Under Secretary of State; Dr. George Davidson, Secretary of the Treasury Board, and Mr. J. C. Allen, Director, Estimates and Administrative Procedures, Treasury Board. These gentlemen have returned to carry on. You may recall that a question was raised as to the expenses of the Indians and Eskimos, and the officials promised to obtain some information correlating the different expenditures in the various departments. That statement is now being distributed. You will have an opportunity of perusing it, and then we will decide whether to put it in the proceedings of the day.

Senator Pouliot, you may recall, had a motion on the Senate Order Paper dealing with the publications of the Printing Bureau. He withdrew the motion in order to refer the matter to this committee. Senator Pouliot would like to speak to that now. Is it your pleasure that we hear Senator Pouliot?

Senator MOLSON: Before we become involved in today's proceedings may I ask if there is available a copy of last week's minutes?

The CHAIRMAN: No, they are not ready yet.

Senator MOLSON: I think we should make sure that they are ready from week to week. Last week's minutes would be of great value to us today.

The CHAIRMAN: I was hoping that they would have been ready today. It is possible that they may be distributed today, but we will have them within the week. Shall I ask Senator Pouliot to speak to the matter that he suggested be referred to the Committee?

Hon. SENATORS: Agreed.

Senator POULIOT: Thank you, Mr. Chairman. Honourable senators, in the first place, the other day there was a sessional paper which contains interesting information tabled, but the information can be used only if the report is tabulated. It concerns the publications of various departments. There has been no answer from the Department of External Affairs, but nevertheless a tabulation could be made from what we have at hand. This is the first thing I wanted to mention, and if you agree, honourable senators, the chairman can give instructions to have this properly tabulated by the Bureau of Statistics or by another organization. No one of us has the time to do it. When it is done the information will be clear and concise, and we will understand what is contained in it.

The second thing I want to mention is that I had two questions together on the Order Paper, one was about publications to show the number of publications that come out of the Printing Bureau, on the one hand, and some information concerning translations, especially translations done outside of the Bureau of Translations by men and women who are engaged by the various departments to do them, on the other hand. The question was on the Order Paper nearly all of last session, and it has been on the Order Paper since almost the beginning of this session, and yet no answer has come from the Department of External Affairs. I can proceed to establish the importance of the Bureau of Translations only if I have, on the one hand, complete information concerning the Printing Bureau, and, on the other hand, information concerning all the translations done by men and women who are paid by the Government of Canada to do them.

This morning I will not keep you any longer. This morning I will get in touch with the Department of External Affairs and I will ask them to be diligent in answering the question concerning the translations made outside of the Bureau of Translation. There are many reasons for that. I mentioned that in the Senate the other day very briefly.

Now you have your agenda to proceed on and I thought that it was very wise to follow the course that we are following now. It will give you a bird's eye view of the management of the Canadian Government business.

I do not want to embarrass you or to delay you and if I have put questions on the Order Paper it is in order to have material available to you to give you the best possible opportunity to get some more details from those concerned.

If I do not get all I have been asking for it will be quite difficult to proceed this session on the questioning of the high-ups in the Printing Bureau and in the Bureau of Translation. I hope that you will support me in my insistence to get a complete answer to the question that I have put concerning translators from outside. Thank you.

The CHAIRMAN: Thank you, Senator Pouliot. With respect to your first suggestion as to the tabulation of statistics and your suggestion that we have the Bureau of Statistics do that, I anticipate we will be having a meeting of the Steering Committee this week with the Treasury Board officials. Will it be satisfactory to you if the Steering Committee takes up this question as to how these statistics may best be dealt with?

Senator POULIOT: If it is decided by you or by the Steering Committee, it is satisfactory to me.

The CHAIRMAN: As to the second point, as to the Bureau of Translation, do I understand that you are still going to endeavour to get the answers to your questions, or do you want the Steering Committee to do anything about that?

Senator POULIOT: There is a new Deputy and he is eminently qualified for the position and I have spoken to him. I will get in touch with him this morning and I will tell him that I brought the matter before the committee and that I explained the whole matter to you and that apparently I had the support of the committee to get an answer to those questions. It may be I will go too far in saying that but I need some support, you see, and all I want is information.

The CHAIRMAN: I take it, then, you will be in touch with the deputy minister; and then, if there is anything further you want to bring before the committee on that point at the next meeting, you can do so.

Senator POULIOT: I will tell him that I have an implicit power of attorney from the committee.

The CHAIRMAN: Is that agreeable?

Senator SMITH (*Queens-Shelburne*): I do not want to quarrel with my old friend of many years, but I do not think we want to involve ourselves until we learn the reasons why this information has not been produced. I understand the question has been on the Order Paper for some time. There must be some difficulty with regard to it. I suggest that the Steering Committee, or you yourself as chairman, try to get an understanding as to what is holding this up, before we as a committee take what I consider would be drastic action to direct them to produce information which it is difficult for them to produce, after all this time.

The CHAIRMAN: I wonder if it would be satisfactory if you go ahead to the deputy minister, without saying we have made a decision in any way but that you have brought it before us and that our action is pending, subject to what you will be able to obtain from the deputy minister.

Senator POULIOT: Yes—and what I have been speaking of did not carry blame for the Government at all.

The CHAIRMAN: No.

Senator POULIOT: I do not say that there has been anything wrong, except that it is very dangerous to ask people who are foreigners to translate secret papers. That is another point. To insist on an answer incurs no blame. I take it that I will surely tell him, if I am to phone to him, I am sure to tell him that I mentioned the matter before the committee and the committee was anxious to get the answer.

Besides that, Mr. Chairman—and this is my last word—I do not want to put you to the trouble to telephone him. I am ready to do that. It is my question and I follow the question just the same as anyone would follow a child on the street. I follow the question and sometimes I have to walk a long while, but I follow the question just as closely as I can.

The CHAIRMAN: This is the first time it has come before this committee. I do not think the committee should really come to any conclusion at the moment. If you will pursue your efforts, we will have the matter before the Steering Committee; but if it is necessary to do anything by the committee at the next meeting, we will have it on the agenda.

Senator POULIOT: Thank you. My only purpose is to facilitate the work of the committee.

The CHAIRMAN: Thank you. Honourable senators, you all have the memorandum on Indians and Eskimos before you. I take it it is in order to have this printed in our proceedings today.

Hon. SENATORS: Agreed.

Senator CRERAR: I asked a question in regard to this. There is a total of over \$100 million.

The CHAIRMAN: That is right. By the time you take in the three departments, it is over \$100 million.

Senator CRERAR: If any member of the committee is good at mental arithmetic, I might ask what that amounts to per capita, on the basis of 200,000 Indians and Eskimos, approximately.

The CHAIRMAN: I would think \$500 is the quick answer.

Senator GROSART: In this document is this the official spelling of "Eskimoos" in the plural? It is a serious question that I ask.

The CHAIRMAN: I would think not, but I do not know if anyone could give a definite answer. Dr. Davidson?

**Mr. G. E. Steele, Under Secretary of State:** I would venture to observe that "Eskimo" is the same, I think, in the plural as in the singular.

The **CHAIRMAN:** Is there anything further before we ask Mr. Steele to proceed with the submission he was dealing with last week?

**Senator SMITH (Queens-Shelburne):** In regard to the supplementary information on the sheet which has been handed out to us, showing the supplementary estimates for the last couple of years—

The **CHAIRMAN:** I should have called your attention to the other paper distributed, which is headed: "Contents of Supplementary Estimates for 1961-62 and 1962-63." You may recall that this was arranged for at our last meeting. I assume that it is in order to print that also as an appendix to our proceedings of today.

**Hon. SENATORS:** Agreed.

(For Documents see Appendixes "A" and "B")

The **CHAIRMAN:** Now, Senator Smith.

**Senator SMITH (Queens-Shelburne):** My question is, having glanced quickly and briefly, that it strikes me that most of the votes of the supplementaries in 1961-62, which I am looking at, are related to policy changes, rather than departments not being able to make up their minds concerning routine matters year by year.

**Mr. STEELE:** That is correct, sir. That was my impression when I tried to answer this question.

**Senator SMITH (Queens-Shelburne):** For instance, vocational training payments was a new program, was it not, that came with a change of policy?

**Mr. STEELE:** Yes. The supplementaries which have appeared in recent years for vocational training assistance really result from the fact that the Government, as a matter of policy, increased the amount which the federal Government would pay the provinces, from 50 per cent to 75 per cent, on vocational training requirements; and the provinces, for capital facilities; and the amount which the federal Government is going to put out in any one year under that kind of a program, depends entirely on the pace of events in the provinces. This is a very difficult thing to predict, and also tends to start off slowly and as you know, to build up. Rather than to try to anticipate this in all the main estimates, we have sort of encouraged the Department of Labour, where these items occur, to catch these up when they know precisely what the amounts are likely to be.

**Senator SMITH (Queens-Shelburne):** That is the explanation for most of the items I ran through, too, it seems to me, as well as possibly the expense of national defence for operation and construction items. I think we can assume for the most part that the supplementaries do develop as a result of change of policy since the time the main supplementaries were put together.

**Mr. STEELE:** It is either that, or, as you have noticed from a number of these items, sir, they represent provision for things which you would not normally put in the main estimates. For example, the operating deficit of the national railway system is something that could only be known at the end of their operating year, and it has become traditional to put that in the final supplementary estimates.

**Senator SMITH (Queens-Shelburne):** And I suppose the same applies to "Agricultural Commodities Stabilization?"

**Mr. STEELE:** That is right. You close the accounts at a certain period of the year, and then you know what the operational loss has been.

**Senator MOLSON:** What does the item "NRU" represent?



Mr. STEELE: That was entirely a policy decision, sir. If I can give you some background on that, this touches on perhaps another type of item you tend to put in the supplementary estimates, and that is adjusting entries where you are writing down the value of assets or making adjustments to the public accounts. In the case of "NRU", which was a special case going back a number of years, when we commenced the construction of the second of the big research reactors at Chalk River, the financing of that a number of years ago was arranged on the basis that a certain portion would be capitalized and set up as an asset, and this related in turn to the revenue received from the United States government through the sales of the by-products of the research operation. When that contract terminated, therefore, the revenue value of that asset was extinguished, and it became necessary at some point to consider writing off the unliquidated portion of the asset; and that is exactly what this item is.

The CHAIRMAN: Any other questions with respect to the memo on supplementary estimates?

Senator CRERAR: I should like to refer to the item Senator Smith (Queens-Shelburne) mentioned a moment ago, Vote 534—Vocational Training Payments, tabled June 8, 1961. Was there anything in the supplementary estimates before that for vocational training?

Mr. STEELE: There undoubtedly would have been a main estimates item.

Senator CRERAR: So this is supplementary to something that was after the main estimates? So Senator Smith's idea was new, and it does not hold there. It may be true about payments to railways, but veterans pensions at \$31 million, under Vote 599, is certainly a supplementary to a vote already in the main estimates.

Mr. STEELE: Could I answer that one, sir?

Senator SMITH (*Queens-Shelburne*): Yes, answer that for the record.

The CHAIRMAN: Yes, we will get an answer to that question on veterans pensions.

Mr. STEELE: A supplementary on veterans pensions and war veterans allowances could only come about as a change of policy in relating to the benefit paid. A decision was taken after the main estimates in that year to adjust the scale of benefits for both the veterans pensions and the war veterans allowances. This is entirely the reason there was a supplementary estimate, I would think.

Senator SMITH (*Queens-Shelburne*): Would that not apply to vocational training payments—there was a different formula?

Mr. STEELE: I would describe that differently, because for vocational training payments, we have had supplementary estimates since the level of assistance was raised to 75 per cent, and largely for the reason we have been unable to predict accurately in the main estimates the amount the provinces would get.

Senator FLYNN: That is a relatively new policy; that is why the calculation is not easy to make in advance.

Senator CRERAR: The basis of the main estimates is that they are supposed to cover the total expenditures for the year as far as can be done, and when you look at these supplementary estimates you find, for instance, Vote 611—Payments to Western Grain Growers, and Municipal Winter Works, tabled January 24, 1962. Now, the main estimates were made up only a matter of a few weeks before that.

Mr. DAVIDSON: Over a year.

The CHAIRMAN: This is for the year 1961-62.

Senator CRERAR: That is right. Well, an amount of \$42 million is voted for payments to western grain producers.

Mr. STEELE: That would be the acreage payments, sir.

Senator CRERAR: Take Vote 685—Agricultural Commodities Stabilization Account, an item of \$23 million. Surely there could have been some idea of the loss that was likely to occur? However, I am not going to belabour this, Mr. Chairman, I want to draw attention to it. I also want to make the point very definitely, that from my experiences in this field, from recollection of many years, supplementaries are only to be regarded as dealing with matters where it is unable to foresee possible expenditures. That rule should be adhered to. I suggest that in considering our report we make that recommendation.

The CHAIRMAN: Any further questions on this paper? Do you want to proceed, Mr. Steele?

Mr. STEELE: I have no further prepared statement, Mr. Chairman. However, I wonder if the committee would like us to report briefly on some of the questions raised, particularly with regard to staff growth and payroll costs, which Senator McCutcheon and other senators have asked about? We are working on getting this information together, and would hope to be ready within a week to put before you a comprehensive presentation on the numbers of the costs. I do not know whether you wish me to refer to some of the discussion in the Senate on interim supply, sir?

The CHAIRMAN: I think that those questions that were asked in the debate are properly matters which we should now take into consideration. For example, I have a note that Senator Brooks asked the question as to a drop in the railway payments from \$83,500,000 to some \$10,500,000. Perhaps Mr. Steele could comment on that.

Mr. STEELE: I think I could clear that one up. It would be difficult, having regard for Senator Crerar's remarks, to sort of defend putting these in the supplementary estimates rather than in the main estimates each year, if the Government intended to keep these special payments to the railways in this amount as part of general Government policy. But the fact of the matter is that each year since it was decided to make these special subsidy payments to the railways they have been put into the supplementary estimates rather than the main estimates, I think in the hope that there would be a chance to fit these special payments into a more general policy relating to the royal commission report.

Therefore, although we have taken account in 1964-65 of the possibility these payments will be kept at this level and be introduced in the supplementary estimates, we could not give you any assurance about what Government policy would be in this area. But the reason they do not appear, as Senator Brooks has noted, is that they have in fact been in the supplementary estimates each year. This was the special \$20 million payment, and then you will recall there was a further \$50 million that was added to this, to make a total of \$70 million paid to the railways each year by way of a special amount allocated on the basis of the various railways participating.

The CHAIRMAN: Any further comments on that? I think we all rather assumed that would be the answer to Senator Brooks' question in the chamber on that.

Senator White raised a number of questions relating to the expenses of the Canadian forces in the United Nations Emergency Force, in Cyprus, the Congo and elsewhere. Mr. Steele, have you any information on that for the committee?

Mr. STEELE: I have only a general comment to make at this time, but I could report that having seen the questions raised by Senator White in Senate *Hansard* we have been in touch with the Department of National

Defence, who must provide this information, and we understand they are getting this ready, either to transmit directly or to provide it through us to the committee.

The general observation I would make is that each year when these costs come up before the Treasury Board for discussion it is certainly part of the consideration that we do examine the state of the outstanding accounts, so to speak, and take a look at whether or not the United Nations is reimbursing Canada for its portion of the costs. Our impression of this is the accounts are being kept current.

There were some delays, I recall, in connection with the Canadian force that went into the Congo, and the United Nations' arrangement here, at the commencement of this, was that each national country would sort of pre-finance its own participation in this and the transportation costs of getting the Canadian contingent to the Congo, and the costs of maintaining this force there are a first charge to the National Defence appropriations. The United Nations had extreme difficulty in getting the special financing necessary for this, so there were some delays. I am not aware, however, these delays are continuing. I think the costs are being reimbursed to us. This was our information last fall when we examined this with the departments concerned. We discussed this with both External Affairs and National Defence.

Senator ISNOR: How will that show in your public accounts, Mr. Steele—as an expenditure?

Mr. STEELE: First of all, the expenditure would have to be sort of separated out from the National Defence costs because these costs are charged to the normal Defence appropriations themselves, and I doubt the public accounts show a detailed breakdown of these operations, though these could be secured. The reimbursing item would be shown as a payment into the Consolidated Revenue Fund from the United Nations.

Senator ISNOR: I should think, in fairness to the Department of National Defence, that the operating costs should show, and that there should be a credit set up so as not to increase the total expenditures of the Department of National Defence.

Mr. STEELE: I would agree with this, except for one difficulty we always have with this. That is, the two events do not match up in time. If you are going to credit this back to the Defence appropriations and show this, and show it in the estimates or public accounts you have to be sure the revenue would actually come forward, because you would only be voting the net sum of money you needed.

Senator GROSART: What is the nature of the commitment the United Nations gives a nation such as Canada when we incur these costs?

Mr. STEELE: Canada, through its participation, agrees to the terms. I could not give you any precise information about the various arrangements we have for the overseas contingents that are on United Nations' duties, but they are set out precisely in the U.N. resolutions relating to these operations.

As I understand it, the general arrangement is that each national country bears the cost of getting its force there in the first instance, but all the costs of maintaining it there are charges to the United Nations' budget for this purpose.

Senator GROSART: There is a written commitment as to what may be recoverable by Canada?

Mr. STEELE: Yes.

The CHAIRMAN: I was down at the United Nations last fall, and I have a recollection the United Nations passed, of course, the estimates for the

United Nations Emergency Force and for the Congo force, and those estimates included the costs of all the forces, including Canada's force. There are varying costs. There are some differences in rates of pay, and so forth. Then the operating account shows what the United Nations owes Canada for the number of troops, rates of pay and other costs involved. As of December 31 last that amount was fairly substantial. That is the debt of the United Nations to Canada. I think probably we could get more specific information about it, but that is the general situation, that there is a running account between Canada and the United Nations on the expenses of this force.

Are there any further questions on that matter of Senator White's questions?

Then I think there were two questions asked by Senator Gratton O'Leary, one relating to the amount of building space, particularly in Ottawa, used by the Government, and the other in relationship to the costs or expansion of the External Affairs department. I do not know whether Mr. Steele could make any comment on those matters?

Mr. STEELE: I would perhaps feel easier commenting on the space question rather than the External Affairs question which, I think, is largely a matter of Government policy. I have not really checked on the actual figures which were used by Senator O'Leary in commenting on the space used in Ottawa, but he quoted the Glassco information, and, of course, that must have been accurate at that date. The housing of the Government operations in the Ottawa area is an extremely large and difficult managerial question. I suppose it is certainly unique as a national capital problem, when you look at other countries, because the requirements of the federal Government in Ottawa certainly dominate the available resources to provide these.

It might be helpful if I just discussed briefly some of the ways we have gone about trying to keep this under some kind of control, in the sense of making sure that the growth is orderly and that it is planned. As to the absolute size of the growth it is pretty much a function of the growth of the Government operations themselves and the decisions about the size of headquarters establishments. It seems that each year there is an additional requirement generated for space which must either be built directly by the Government or secured through rental arrangements.

For a number of years we have collaborated with the two principal agencies, the National Capital Commission, on the one hand, and the Department of Public Works, on the other, to keep up to date a 10-year forecast of these requirements. The forecast is an extremely difficult one to keep up to date because of the changes I have mentioned, and also because of the changing requirements of departments themselves.

However, there is such a plan. It is put together by the Department of Public Works, and it is examined in co-ordination with the National Capital Commission, and the officials of the Treasury Board. It is presented to the Government as an over-all plan so that when a particular request comes along they can be related to this plan which the Government has seen and has some knowledge of. One of the things we have tried to do is to keep some balance between the amount of space which the Government occupies as a rentor and the amount which it produces for itself, and this in turn at times gets into a question of judgment of local economics of the real estate market. I think as a matter of advice and policy to the Government the view has always been taken they should not allow the scale to tip too much one way or the other. You don't want the Government to do its own building entirely, and at the same time you don't want to call into existence a significant investment in private real estate here where people depend for their livelihood too much on

the requirements of government. It is a nice judgment, first of all, in the balance between how much the Government will build and how much should be done in the way of private entrepreneur provision of this.

The way in which the Government sets out its requirements will also have a significant effect on the general planning for the city.

I should have mentioned a third agency, that is very much involved here, and which is consulted regularly, that is the City of Ottawa, in terms of providing normal municipal facilities which go into the planning for the growth and requirements in the Ottawa area. I think there are perhaps some 45,000 public service employees in the Ottawa area. This is going to call into existence a pretty significant requirement for space. It is a massive management problem, and the most I can say at the moment is that the initial capital costs for providing and maintaining this space is something we have constantly under review. We would not presume to say we are entirely satisfied with the arrangements at any point of time. We find it difficult.

The CHAIRMAN: Senator Haig?

Senator HAIG: With regard to these buildings, does the Department of Public Works build the buildings and rent the building and is it then charged to another department?

Mr. STEELE: At the present time they do not charge it to another department. But the cost of providing the space on an average per square foot of occupancy cost is attributed to that department, and the cost of that is shown in the estimates for that department as additional information, but we do not actually require that the departments who are occupants vote that sum in their estimates and reimburse Public Works. This is a change that has been made and is part and parcel of the studies we are making to improve the presentation aspects of the estimates and to get greater accuracy in relation to the total cost of Government buildings.

Senator HAIG: In Winnipeg we have a new post office, which is also occupied by the Department of Transport and by the army. Is there anything here to show what it costs them to occupy that building?

Mr. STEELE: Not that precise building at this point of time. The cost of the post office occupancy would show up in that building for the post office estimates as part of the cost of post office buildings.

Senator HAIG: What about the other occupiers?

Mr. STEELE: The same would appear in the Transport estimates and in those of National Defence.

Senator SMITH (*Queens-Shelburne*): Is that new?

Mr. STEELE: It is new within the last two or three years. We are not over-satisfied with them. It shows up the problem you have. The inventory of space occupied by the Government is a collection of every kind including buildings that are very, very old and also the most recent rental arrangements. The decision is a collective decision and is not part of any one department. The only way you can get a cost figure is to try to produce a figure which will reflect the true picture. This leaves out of account the special purpose buildings for example the laboratory for the Department of Agriculture and the National Research Council. These space figures do not come under what we commonly call office type accommodation.

Senator GROSART: Is there any general conclusion as to the cost of government owned normal office space as compared with rented space?

Mr. STEELE: I could produce information that I would not want to defend to the last fifty cents per square foot. If I might mention two general figures; I think we are satisfied that the government can produce generalized office

building space for its own use for something around \$2 per square foot. I must confess I am hazarding what I think is a pretty good guess, but it is not a precise figure. The cost of renting, on the average, and let us take it in the Ottawa area, is getting close to \$4 a square foot. On the other hand the kind of space you rent does not tend to be the same quality as the kind of space the government puts up. We are getting closer together on that. Most new office buildings going up are air conditioned, and are designed with fully moveable internal partitions to provide varying accommodation. Government buildings have not reached that stage yet. Once you leave the bare cost you start saying "What does \$4 represent and what does \$2 represent?" You have no provision in the \$2 for normal maintenance costs. If you are renting it you are paying on a maintained basis. You have to take a complete look at this picture. But we are satisfied the government can build and maintain its own space more cheaply than an entrepreneur. This is one of the judgments we tried to make in looking at a place like the Capital area.

Senator GROSART: Taking all the costs into account, including returns on capital and so on, the disparity would not be as great as is reflected in the figures of two to four?

Mr. STEELE: No, not by a long shot.

The CHAIRMAN: The one is for bare costs, that is bare costs of construction, and the other figure includes maintenance.

Mr. STEELE: Yes, that would be right. The equation tips the other way on the maintenance side. We think the cheaper way is for the Government to secure maintenance on a contract basis. Some of the departments have gone over and now get it on a contract basis, a maintenance contract.

The CHAIRMAN: Senator Reid?

Senator REID: I am sorry I was not here at the last meeting. I should like to ask a question. I would like to know what has been the total expenditure on the South Saskatchewan River project. I see two or three items in various columns for that. I wonder what they have spent for that.

Mr. STEELE: I would have to get the precise and actual expenditure figures. I do not have them here.

Senator REID: I have another question, and it is with respect to Travelling and Removal Expenses, \$835,500.

Mr. STEELE: Is this under the Department of Agriculture, Sir?

Senator REID: Yes.

The CHAIRMAN: On what page is it, Senator Reid?

Senator REID: Page 32.

Mr. STEELE: I think I can answer that question fairly accurately. The Health of Animals vote, which is the vote to which Senator Reid is referring, is a vote to which we charge all of the costs of the veterinarians and the inspectors under not only the Meat and Canned Foods Act but the Protection of Animals Act. Work done for those purposes is charged under our cost headings as Travelling and Removal Expenses. This is really the full cost of the whole field of operations in covering Canada with this program—things like the brucellosis program.

Senator REID: Why the word "removal"?

Mr. STEELE: As I say, this is just a general cost heading. The removal expense portion of that is minimal, I would think. This is just a standard heading to describe that type of cost.

Senator REID: What is meant on page 13 by the words: "Contributions to Commonwealth Agricultural Bureaux (£ 80,676)"?

Mr. STEELE: We are paying this, and have been for quite a number of years—

Senator REID: That is a lot of money.

Mr. STEELE: Yes, it is, sir. It is really for an abstracting service. There is maintained in London, I think, both in respect of agriculture and also forestry—I think you will find this in the Department of Forestry—a central abstracting service which provides to all of the contributing Commonwealth countries current information on the research activities in these two areas wherever it is done, and by an agreement of a number of years ago the Commonwealth countries set up this bureau. This is really our annual share of the budgeted cost, on the basis of our interest. It is like a small United Nations type of operation.

Senator REID: It is a lot of money.

Mr. STEELE: Yes, it is.

Senator REID: I want to know where that money goes.

Mr. STEELE: Could we get you some more information on it?

Senator REID: Yes.

The CHAIRMAN: Are there further questions along this line?

Senator CRERAR: May I go back for a moment to the point we were discussing before Senator Reid raised that very important point, namely, the relative cost of space the Government builds as against the cost of space it rents? The Government builds a post office in, say, Winnipeg, but the Post Office Department pays no rent for that building. That is correct, is it not?

Mr. STEELE: It actually does not vote any money for it, that is right.

Senator CRERAR: There is no money voted for it?

Mr. STEELE: It is voted in Public Works.

Senator CRERAR: It is in Public Works, of course, but I think consideration—and I am merely raising this question for consideration later, perhaps—might be given to the wisdom of that policy. The aim should be to have each service stand on its own feet, and in that way you get an accurate measurement of its cost to the taxpayers. There is nothing new in this. The point I am making, Mr. Chairman, was brought up by myself over 25 years ago.

The CHAIRMAN: You will notice on page 351—I am wondering whether this covers your point or not, Senator Crerar, and I am asking Mr. Steele as well as yourself—that under Post Office there is the heading “Approximate Value of Major Services not included in these Estimates”, and the first item is “Accommodation (provided by the Department of Public Works)”, with a figure of \$25,298,000. Does that cover the kind of costing that Senator Crerar is speaking about?

Mr. STEELE: Yes, sir, it does. It obviously is not a complete answer though because I take it that he would prefer to actually see the Post Office having to account for this, and have it appear in their estimates. This is a stage that we see the estimates evolving towards, but there is a lot of problems in trying to match the control which the Post Office should have over its own space standards with the type of relationship you want to see developed between, say, the common service—here, the Department of Public Works—and the using department.

The CHAIRMAN: So this is a preliminary step towards accomplishing what Senator Crerar means?

Senator CRERAR: It has been drawn to my attention that there is an item on page 351 of “Accommodation (provided by the Department of Public Works), \$25,298,000”. The point I am making is if the Department of Public Works,

which may be making only bookkeeping entries, charged the various departments which get advantage of that then we would have a truer picture of what the departmental costs were. When you bury a lot of departmental costs in Public Works under a general item you do not give a clear picture of what the cost is. My philosophy on that, Mr. Chairman, is this, that if you are going to know what a branch of a government costs you have got to have all the items in, and see how well the fellows are doing on it.

Senator SMITH (*Queens-Shelburne*): Mr. Steele, is not that why the information is at the beginning of the detailed Post Office estimates? It is so that you can add items like that one of \$25 million-odd to all the others and thus get the total cost of the Post Office operation?

Mr. STEELE: It includes these major items that are not in the estimates.

Senator SMITH (*Queens-Shelburne*): Of course, you follow that up. If you want to balance the books in the operations of the Post Office you have got to raise another \$25 million. There is only one way of raising it and that is by increasing the postage rates. No government has seen fit to do that, and I do not think they will.

Senator CRERAR: The item of \$25 million does not apply to loans?

The CHAIRMAN: No, those are in the Post Office estimates.

Senator GROSART: Is there any real advantage in going beyond this step? You have all the information you want here.

Mr. STEELE: I think some people hold that you would perhaps get a better balance, or a sharper distinction between the user and the department which is providing the service which is common to all Government departments—if the Government department which was actually using the space and calling up the need for it had to actually vote the money for it.

Senator HAIG: In connection with rented space, does each department make its own lease?

Mr. STEELE: No, sir. This is a responsibility of the Department of Public Works.

Senator HAIG: For rented space as well?

Mr. STEELE: Yes.

Senator GROSART: I think that that might work the other way. It might be just as difficult, surely, to get space from Public Works as to get the money to build it in your estimates. This does give Public Works an important measure of control.

Mr. STEELE: Yes, it is pretty hard to take up a strong position one way or the other on it. I think some of us feel there is some advantage in having the ultimate control here rest with Public Works so that they can produce common standards across the Government service. It can be argued that departments should demonstrate what their need for space is, and what their staff projections are going to be, and that sort of thing. It can very well be seen that a bit of this might be lost if the departments were actually allowed to put the money in and then say: "All right, we have got the money. What are you arguing about? Produce the space for us."

Senator GROSART: This is a very important point because in the old days they used to say: "We need a new post office here", but today they say: "We need a new Government building". This is an indication of the trend towards reversing that direction, and to suggest that it be reversed does not appeal to me at all. If you do it the other way you will have the whole thing broken down into its component parts, and you will have diversity in each of these component parts. You will have a real estate policy, and a different policy in



respect to building or leasing, and so on. Has not the Department of Public Works grown up over the years to be a very expert department in this whole accommodation field?

The CHAIRMAN: I do not think there is any suggestion that this should be taken away from the Department of Public Works. The only question is whether or not, instead of what is in the bookkeeping entry, or where an estimate is made of the cost of providing this space for the post office, there should be in actual point of fact a charge put through by Public Works to the post office and this has to be included in the post office estimates. Is that correct?

Mr. STEELE: That is correct.

Senator GROSART: It is included now in their report and not in their estimates?

Mr. STEELE: It is included as a memorandum figure, so that you do know what the total cost of the post office is, including this memorandum figure, whereas their estimates do not include the \$25 million figure.

Senator HAIG: That system is used for all departments, boards, commissions and so on?

Mr. STEELE: All departments which have their work provided for by public estimates as a common cost. When you speak of boards and commissions, there are some which are separated in cost.

Senator HAIG: You have on page 179 the National Film Board.

Mr. STEELE: That is one.

Senator MOLSON: We have these memorandum accounts showing approximate value of services not included. Where are these collected? The offsetting amount, where is that collected, to show the credit that will go to a department as a result of these memoranda charges?

Mr. STEELE: Is your question, where do you find this accumulated together in a grand total?

Senator MOLSON: Let me put it in another way. In each department you show a charge, for the sake of argument, to that department, which might or might not be a legitimate charge if other accounting methods were used for, say, space provided by Public Works. Where is it shown what the effect would be on Public Works if it were given credit for these moneys?

Mr. STEELE: I would point out that we do show it.

Senator MOLSON: Would it not be of some educational value if we had a corresponding credit to these memorandum debits?

Mr. STEELE: Yes, sir, no doubt it would. Could I just point out one of the difficulties of doing this. If you added together all of these items, these attributions, these memorandum items which appear, you could not identify that to any identifiable Public Works item in these estimates, for the reason I have given, that so much of the investment in the past does not show really—they are not set up as assets in the books, that although they have been taken into account in making these calculations of space costs, they would far exceed the amount you would have in Public Works in any one year, for the operation of Public Works and buildings.

Senator MOLSON: Does that appear to you as good accounting practice?

Mr. STEELE: It is an attempt to bridge this gap between having a full accounting administration of what the asset holdings are in this area, and the way in which the estimates are made up. The estimates are really a reflection of cash needs of the Government. Government is on a cash accounting system and we do not capitalize this.

Senator MOLSON: Let us take some quite different. Let us not take the capital account. The Post Office Department has as a memorandum amount for carrying mails for other departments. Are these accumulated to show the effect on the over-all performance of the Post Office Department?

Mr. STEELE: They know it and use it in discussions with us, but they do not reflect it in the estimates. We could do this. This is a little closer to home.

Senator MOLSON: It does not involve capital.

Mr. STEELE: We could figure out some way of showing it as additional information in the Post Office estimates, that amount of money.

Senator MOLSON: There must be some other department in a somewhat similar position.

Mr. STEELE: This type of consideration is certainly one that falls under the general heading of the Glassco recommendations about netting out revenue either received directly or which can be attributed for cost of services. The Post Office is quite sensitive in its argument that it performs a lot of general services for other departments and as yet has not got to the point where we are actually charging them for that separate service and crediting that item to the Post Office.

Senator MOLSON: Is that not because of the magnitude of the task involved? To put this on that full allocation of charges to every department would be simply a mammoth undertaking?

Mr. STEELE: I do not think it is the complexity of it so much as another type of judgment. By simple methods we can produce fairly accurate costs of providing the service. One of the things that pertains to this whole problem of revenue is how significant is it in the total judgment. For example, if it costs \$200 million to run the Post Office service, and perhaps \$5 million relates to this, is it worth while showing that \$5 million divided by 25 or 30 in respect of Government departments, and producing \$5 million in the Post Office? We tend to be caught up in big figures and try to judge whether or not it is really a significant bit of information.

Senator CRERAR: All it boils down to is that it is impossible—or rather, not impossible but very difficult, to run Government administration as you would run an ordinary business. Is that the point?

Mr. STEELE: That is a tough one, too, sir. I would not want to emphasize that kind of distinction. I think the Government, in managing its financial affairs, can and should make the same kind of judgment and use the same kind of reporting and information that you would find generally in use; and I think that by and large this is the way the trend is going.

Senator CRERAR: My view of that, Mr. Chairman, if I may inflict it on the committee, is that the closer you can get to sound administrative practice in the Government the more, in the end, the taxpayers are going to gain.

Let me give one simple illustration. Perhaps the officials could give us the information again. What is the cost to the Post Office of carrying all the track mail that goes out from all these departments all over the country? And, I may add, from Members of Parliament also. In my journey through this vale of tears in the Government service I have observed Members of Parliament for instance who will print thousands of copies of the speech that they think is an earth-shaking event, and frank it out to all their constituents. That simply means we are contributing to propaganda for the individual member. It would be interesting to have an idea of the total cost in handling this business.

I can understand that if a department wants to publicize itself, it puts people and newspapers of all kinds on this mailing list and the stream goes out every week and every month. I am sure a lot of savings could be effected there.

I recall on one occasion—if I may mention this—when the departmental estimates of Mines and Resources were considered in this connection. The different directors brought in their estimates of what they needed for the coming year. One gentleman had an estimate, a new one, as I recall, of \$10,000 for publicity. Needless to say that was cut out without any hesitation and without any ceremony. That illustrates the point I am trying to make.

There is one other question I wish to ask. Is it the practice still of some of the departments to build their own buildings? Or are all the buildings concentrated now in Public Works? I mentioned that because in my time 10 years ago, when I happened to be doing the job you are doing now, Mr. Chairman, we found for instance that in the Department of Agriculture and I think in the Department of Immigration and one or two others, they had built up a little service of their own—architects and engineers and so on—and they were doing their own building within the department. Whereas, as a matter of fact, under the law the Department of Public Works was supposed to do all that. I would like to know if that fact is still being continued.

Mr. STEELE: I could speak to that, I think sir. Would you like me to offer a guess, a pretty accurate guess, about Senator Crerar's query on the Post Office cost of Government mail? I think it is \$5 million to \$6 million the Post Office reckons is the cost of this franking service.

Senator CRERAR: Perhaps you would deal with that first, then.

Mr. STEELE: I will just discuss this under two or three headings.

Senator SMITH (*Queens-Shelburne*): Before you go on, Mr. Steele, could you tell us something about franked mail? What is the significance, then, of the item in the memo for the Post Office carrying franked mail for the Post Office Department, \$1,008,000?

Mr. STEELE: That will be the cost of its own department's franking, as I understand it. We do this with the Department of Public Works. They occupy space, and we charge them for their own space. That would be their portion of the cost.

There are three general constructing departments. National Defence still maintains a considerable construction source for its own departmental requirements, be they service or civilian.

I will come back to one other point, the headquarters operations in Ottawa. The Department of Transport has its own construction forces, by and large, for airport and airfield construction. The Department of Public Works on behalf of all other departments provides this kind of service—with certain reservations. In Ottawa the Department of Public Works does all of the constructing for all civil departments of government. This would include as well the control over the, say, headquarters for agricultural requirements for space and their science requirements, and all research requirements.

I will make a distinction between the way we provide the money in the estimates, and who actually does the work. In the Ottawa area we accumulate into the Department of Public Works estimates of provisions for government departments under the Ottawa building program. This is true of the general government requirements for the office space outside of Ottawa, which is also in the Department of Public Works. But the special buildings, lab research things, special to that department and not general to the government service, are shown in the estimates of the departments concerned. By and large, also, the Department of Public Works, subject to the expenses I have mentioned, are actually the construction agency for the carrying out of this public work. This would be true of Post Office, Customs, Health and Welfare, and others.

Needless to say, the constant battle is to keep departments from developing small special engineering and architectural groups, and to encourage, and in fact direct, that the Department of Public Works be the common construction

agency for most requirements. In practically anything you say in this area, you have to start qualifying it immediately to make exceptions. We discussed the South Saskatchewan Dam project before. This is under the direct control of the Department of Agriculture through its prairie farm rehabilitation program, which is under the Department of Agriculture.

Senator CRERAR: If you look at page 8 of the estimates, Vote 10—Construction or Acquisition of Buildings, Works, Land and Equipment—would the South Saskatchewan Dam be in that?

Mr. STEELE: No, sir.

Senator CRERAR: What is the meaning, then, of construction or acquisition of buildings?

Mr. STEELE: These are the buildings required for the research branch, science research branch, the Department of Agriculture, outside of Ottawa.

Senator CRERAR: They look after themselves?

Mr. STEELE: No; they do that in conjunction with the Department of Public Works.

Senator CRERAR: They give the money to them?

Mr. STEELE: Yes.

The CHAIRMAN: Charged to agriculture.

Senator CRERAR: I have not examined this as well as I should have done; but we found ten years ago architects in several departments, and assistant architects, and so on. The question then was raised strenuously whether this was impinging on the Department of Public Works.

The CHAIRMAN: I think this committee made a recommendation, and I think it was as the result of our recommendation in the report that changes were made.

Senator CRERAR: At that time?

The CHAIRMAN: I think so.

Senator CRERAR: There is no doubt about that; but I do not know whether the reforms were effected or not.

Senator GROSART: Mr. Chairman, I have examined with interest the summary at the end of the main estimates for 1964-65, and at the foot are summarized, under (13), (14), and (15), the expenditures for all departments under three heads, namely, "Construction or Acquisition," "Repairs and Upkeep," and "Rentals." The total for (13) is \$250 million, and for (14) \$62 million, and for (15) \$19.4 million. May I ask Mr. Steele two questions? The first is, does this represent in general the ratio of government expenditure to acquire and construct as against rentals and lease?

Mr. STEELE: Yes, sir.

Senator GROSART: So that the Government is in the rental business in a comparatively small way?

Mr. STEELE: Yes; and you will notice above it falls largely to the extent of \$9 million in Public Works, and to the extent of \$6 million in National Defence. In fact, \$16 million of the \$19 million is in those two departments.

Senator GROSART: My second question is that of the \$250 million for "Construction or Acquisition," only \$54 million is shown under the Public Works estimates?

Mr. STEELE: Yes, sir.

Senator GROSART: That does not mean that only \$54 million is under the control of it?

Mr. STEELE: No, sir.

Senator GROSART: Would you say that practically all of the \$250 million is under the control of the Department of Public Works?

Mr. STEELE: Well, I would net out from that right away, working backwards to a total. You have the total right at the bottom, \$24.6 million for National Defence, which is entirely a National Defence responsibility, and the \$52.9 million for Transport, which again, by and large, is independent of Public Works. So there is \$77 million of the total which is not under the control of Public Works. I would say with respect to the balance that, by and large, it is under the control of the Department of Public Works in one way or another, either directly or in co-ordination with the departments concerned.

Senator GROSART: Could I make an observation, Mr. Chairman, somewhat contrary to that of Senator Crerar—realizing that he has had considerable experience in this field, for which I have great respect—but he suggested that there might be too much money being spent by government departments on what he calls publicity, and which I would call information. I say that, because every study I have seen of comparative government activity around the world, indicates that governments are spending too little, rather than too much on information services. I say that for two reasons—and this has been very well developed, and I can refer you to some very intense studies of this, not by government officials, but by outside observers. A good example of what I mean is that in the committee on aging we hear at every single meeting that one of the problems of the aged is that they do not know their rights under legislation. As I mentioned in that committee, in the Province of Ontario there are 29 acts under which aged people in various categories can claim as of right, assistance. We are told over and over again there are aged people who do not know their rights, and many are in dire distress because the Government has not told them what their rights are. That is one example. The other is, it is my feeling that the more that can be done under our system of government to obtain the intelligent “consent of the governed” to every act of the government is, in the long run, greatly to the advantage of our system. I think that can only be done if Government departments accept their responsibility to inform and educate people as to the processes of democracy and what is going on in Parliament and in the departments.

To illustrate what I mean I might mention the criticism of members of Parliament using the frank. Unquestionably, there are times when it is abused. Senator Crerar referred to it as being “individual propaganda” for members; but there are some of us who might more accurately describe it as “facilitating liaison between the member and his constituents”. I, for one, would never criticize a member for using the frank to keep his constituents informed.

Senator SMITH (*Queens-Shelburne*): Just a few minutes ago we were on the subject of the duplication of responsibility with regard to building construction. Perhaps this is a rather small area, but I am conscious of the possibility of duplication in the fisheries construction field. From time to time I see and ad concerning tenders being called for the construction of a fisheries vessel for the Fisheries Department, and it says that tenders shall be submitted to the district office of the Department of Fisheries, and so on. Does that mean that the Department of Fisheries have a special branch to draw plans and specifications and to make decisions as to what form this vessel shall take, or is that something they have done for them by the Department of Transport? I don't know whether you can answer that question.

Mr. STEELE: I can answer it. It is a vexed question at the moment, because the larger problem we have been examining with the various departments is the question of the relationship, say, of the Department of Defence Production,

which has a large shipbuilding branch, with, say, the Department of Transport, which has a pretty large shipbuilding branch of its own, and correctly so, in some respects, because it has a large fleet of vessels.

We have not got to the point where you have common procurement for vessels vested with one department. A department like Fisheries would not tend to have such specialties as marine architects on its own staff, but they have people with special operating requirements, whether for the Fisheries Research Board who specify a special type of research vessel, or people in the protection service of the department who would be seeking certain characteristics in a protection vessel.

The most likely course of action would be that they would seek authority to engage the services of a firm of consulting architects to design a vessel for their particular purposes. As often is the case, when commissioned the consultants would also be given the job of supervising the construction of the vessel when it is actually let as a contract. That is how a department like Fisheries typically would handle its requirements.

A department like Transport, which has a large ice-breaking fleet and which has a large supply vessel fleet to maintain various marine services, including the lighthouse service and a large requirement for northern supply operations, would have a larger group of technical people on its own staff who would actually do some of the initial design work on its vessels. But they, in turn, would go out to contract, on a consulting basis, to secure the actual design and working drawings for the vessels, and would go to contract for the construction of the vessels.

I think that Transport have not done any work for other departments, but the Department of Defence Production has. The Department of Defence Production is the shipbuilding agency for the Royal Canadian Navy. The naval requirements, of course, have been the most extensive with which we have had experience. They maintain their own drawing office. Since these are, by and large, special, what they call, war-like vessels which have special characteristics, you have the biggest group of people in the government service, comprehensive groups of naval architects and engineering staff, in this relationship between Defence Production and the navy.

One of the things we have been studying pursuant to the Glassco recommendations is the possibility of making the use of this pool of talent more general now for the requirements of various departments of government. Recently Defence Production have supervised the construction of vessels for the Department of Mines and Technical Surveys.

Senator SMITH (*Queens-Shelburne*): I have always been struck by the criticism I have heard over the years—and this is nothing new—of the type of vessel the Fisheries Department ultimately come up with which, in the opinion of seafaring people who make their living on the high seas, is totally inadequate for that type of job. I believe the time should have arrived some time ago when a department which has real, experienced talent, such as the Department of Transport, should be doing that work for Fisheries. I was never sure whether it was the complete responsibility of Fisheries or not.

Mr. STEELE: If this was not a direct recommendation in the Glassco report, it is certainly consistent with the philosophy they have put forward, that there should be the development of this type of common service, and the cutting down of little pools of talent you now get in the various departments.

Senator CRERAR: May I say a word in response to the observations of Senator Grosart a moment ago? If Senator Grosart's ideas were carried out it

would mean, of course, a proliferation of publicity in various departments of government. There is a very simple way of advising people if they require information on a certain point, and that is to put a notice in the post office. We have post offices within the reach of everyone in this country who might require the kind of information that Senator Grosart is speaking of. To take this problem of the aged that he speaks of, it would be a simple matter to have the Department of Labour—if that were the appropriate department—prepare a little pamphlet. They could put a notice in the post office. A person sees that notice and writes and says, "Will you send me this pamphlet?" He then gets it and has the information. You will do that with one-hundredth the cost of having it disseminated by a publicity department built up for that purpose.

What appals me is the growth of all these expenditures and that is directly related to the huge deficits the country is running; and the huge deficits the country is running contribute the greatest potential danger this country has today, because even now that affects the cost of living, and it will affect it still more. There is nothing new in that; history is replete with illustrations of it. I do think it is the business of Parliament to economize in every reasonable way it can to save the taxpayers money and cut down these costs of running the government machine.

Senator GROSART: I agree entirely with the last statement made by Senator Crerar, but I do not want to become involved in an extended discussion of this matter. A recent experience in New York State has been that a properly controlled flow of information has saved the government of New York State a great deal of money. One example was that they changed their motor vehicle licensing laws with respect to commercial vehicles coming into New York State. They found that by properly disseminating the information across the country to carriers they could cut down on the normal expectation of correspondence or personnel time taken up in straightening these things, and at the same time provide a great service to the people in respect of the consent of those they were governing. I am not suggesting for one moment the kind of information service that would merely "proliferate expenditures," to use Senator Crerar's phrase. I am suggesting that a properly controlled information project throughout the whole Government would in the long run prove infinitely more beneficial than otherwise. If Senator Crerar is right that all you have to do is put a notice in a post office, I must have been stealing money from clients in the advertising business for many years. I think Senator Molson is right. You don't get all the information you want to get across or get the required response simply by using a pamphlet.

Mr. STEELE: I think I can make one or two observations directly relevant to what Senator Grosart said. We had occasion at our Board meeting last Fall to examine the sharply increased requirement for informational costs in the Taxation Division of National Revenue. We inquired into this and the additional costs to the Taxation Division last year. They requested nearly \$250,000 because of the incidence of error in the filing of tax returns. It struck us as a reasonable proposition that we should increase their informational budget by \$75,000 in trying to off-set this year, because we have to get back to a better performance in respect of error incidence since this is crucial to the automation of our tax returns. The other incident we looked at which was pretty heavy is in the Post Office with regard to their "mail yearly" campaign. This has had a significant impact of reducing what we might call the bunched up concentrated mail at different times of the year. We would distinguish between this kind of informational cost which can really be related to a particular project and the service in regard to general publicity.

Senator GROSART: Ontario had a situation like this recently in relation to its motor-vehicle licences.

Senator ISNOR: I think that was a good example given by Mr. Steele. When it is done in a business way you cannot help but notice the results. I think next year the Department of National Revenue will tell us there were very good results.

Where can I find the accounting of revenues received from rental?

Mr. STEELE: This is miscellaneous revenues from various sources, can you cite a specific example? The general answer is that below each of our votes in the estimates we show a little table, at least we have done so in previous years, under a heading of expenditure and revenue account. It seems we dropped the revenue information. We have always had in the estimates of recent years a heading showing revenues, miscellaneous revenues, arising out of that particular service.

Senator ISNOR: We were discussing buildings a little while ago and you mentioned the cost of construction per foot that you are charging to various departments. I was wondering as to the amount of space rented out to private concerns and the revenues derived from that.

Mr. STEELE: I think we would not have any indication of that in the estimates. It would come under the heading of miscellaneous revenues paid in to the consolidated revenue fund. There might be a note in the accounts, but there would not be in the estimates.

Senator ISNOR: You could not give a rough idea as to the percentage basis of rented space you have in the Public Works Department.

Mr. STEELE: The amount we have under rental? That is from private individuals?

Senator ISNOR: Yes.

Mr. STEELE: I don't think I have it here but I think we could get it for you.

Would this include presumably the rentals of, say, housing by government staff?

Senator ISNOR: I don't think so.

Mr. STEELE: Rentals to outside agencies?

Senator GROSART: Wouldn't this figure here be that?

Mr. STEELE: This is a figure for our cost for rental space which we buy.

The CHAIRMAN: Senator Isnor is speaking of revenues to the Government.

Senator MOLSON: Could I get back to the general principles of the estimates for a moment. I would like to ask Mr. Steele what is being considered with regard to the segregation of capital expenditures from current expenditures. The matter has been dealt with to some extent in the Glassco Report and was also discussed in this Committee many years ago. Senator Crerar said frequently that expenditures go steadily upward, and there seems to be a trend, a constant trend towards an increasing deficit. If we want to evaluate that properly, would it not be much better if we were considering capital expenditure and current expenditure separately?

Mr. STEELE: This is one of the standing criticisms of the estimation process. Certainly it mixes up apples and oranges in this way. If I could just try first of all to comment briefly on the two different philosophies here. Over a period prior to 1930, in fact, from Confederation down to the revisions made in 1930 when the trend went the other way, any government of any day in that period in presenting its estimates would be presenting them on what the British call the above the line and below the line, or the capital and current basis.



To get at the true picture of the cash requirements of Government you had to be careful to count in what the Government intended to do by way of capital construction. The revisions introduced in 1930 were designed to present to Parliament a comprehensive picture of the cash requirements of the Government, and to segregate these so that you could at least see where the money was going in terms of capital and current costs, but the point is still valid that we don't actually introduce into the estimates in any year a type of presentation which would reflect the way in which any agency making investment expenditures and display these. You don't regard the actual amount you spend on capital in any one year as being simply for that year but merely set that up as an asset value, and then apply depreciation values or accrued accounting to this and reflect this amount of cost only as part of the costs of running the Government or any other business in that year.

This is one of the problems we are looking into as part of the Glassco proposals. I think if I can come directly to answer Senator Molson's point about this, I could foresee not only the wisdom but perhaps the necessity of going back to this kind of presentation. We have got the estimates to the point where we were displaying the accounts of Government on an accrual basis; where we are actually showing the functional and programming costs. If you want to include in that a factor which includes the depreciation on your fixed plant in that year, you would then not include your actual expenditures as costs, or cash outlays, as you do now when you present as loans or investments your accounts made for investment purposes, and ask Parliament to pass them in that way. Certainly, one of the considerations we were taking into account was the fact that for certain large blocks of capital investment we could not see the sense of going to this kind of presentation.

Take, particularly, the National Defence outlays for equipment and war-like stores, or any part of the defence equipment program—it would make no sense to capitalize these and to apply ordinary techniques of depreciation accounting to them. If you take those out, and say: "Yes, these sums are very large", and then relate them to the overall cost of government these days—some \$7 billion—then you must make a judgment as to whether or not it is significant enough as a problem in the government area that you want to reconstruct all of your books in order to produce this greater amount of precision.

So, I think we will be asking the question, and asking others to think about it: What is the purpose of doing it this way? Is it to get a precise indication of the capital cost in any one year? Will it bear on the discussion of how much is actually put in for investment purposes?

Senator MOLSON: There is one specific point here. If you are comparing deficits from year to year—if, for the sake of argument, you say that we are going to have a deficit of \$750 million this year and that last year we had a deficit of only \$300 million, and if in the course of the makeup of that deficit it should happen that this year there were \$250 million of capital expenditure and last year that amount happened to be zero, it would have some bearing on the trend of these deficits.

Mr. STEELE: That is very true. That is why it is difficult to state what a deficit means. I can suggest another point. If you try to relate the Government's accounts to what you call the national accounts presentation, and actually examine where the flows of funds are going, as the Minister of Finance tried to do in his budget speech this year, you might come up with a third conclusion as to what the deficit means, and as to the impact of the Government's actions on the whole economy.

Senator MOLSON: Would there be any difficulty in segregating revenue-generating investments?

Mr. STEELE: These are segregated now. Wherever it is established that you are creating an asset which is designed to be revenue-producing, the technique—

Senator MOLSON: I did not say "revenue producing"; I said "revenue generating". For instance, is the Trans-Canada Highway a revenue producing asset?

Mr. STEELE: Undoubtedly so.

Senator MOLSON: I would say it generates some revenue.

Mr. STEELE: Yes, the expenditures occur in one jurisdiction, and the revenues in another.

Senator GROSART: Is not the essential difficulty that public and social assets bear little comparison with private assets, not only in respect to the production of revenue, but in their purpose. You might have capital expenditures in government which are going to cost money rather than earn it. Senator Reid might put the South Saskatchewan dam in one category of spending, but then what would he say about unemployment insurance, for example? Is it revenue generating, or not? I do not think you would ever get to the end of the argument.

Senator MOLSON: I do not think that is a capital investment.

Senator GROSART: From the point of view of creating social assets, maybe it is.

The CHAIRMAN: You are talking about the social-economic effect of expenditures, whether they are made on a current expenditure basis or on a capital expenditure basis.

Senator GROSART: Yes. In corporate financing you are only concerned with the return to the corporation. Here the whole philosophy of government is that it creates a better life in terms of revenue and other terms for people, so you cannot make this same distinction. For example, in the last six or seven years you can account for the deficit by either transfer payments to the provinces—you can account for the whole of it in that way—or you can account for it by the extension of old age pensions and unemployment insurance. You cannot say that the deficit is caused exclusively by either capital spending or social planning.

The CHAIRMAN: Apart from the economic effect I think the point Senator Molson is making, to my mind at any rate, is that some of these expenditures are definitely asset creating. There is something left that continues on for a good many years; it is sometimes revenue producing and sometimes revenue generating, but it is always a useful asset. The other expenditures disappear in the year. They go out into the stream and are gone.

Senator CRERAR: Well, I think I could have taken Senator Grosart out to lunch and discussed some of these things with him.

Senator GROSART: That might not be revenue generating.

Senator CRERAR: I notice that in the estimates submitted the amount it is proposed to spend on construction or the requisition of buildings this year is \$224 million.

Mr. STEELE: Yes.

Senator CRERAR: And the amount for repairs is \$26 million—that is on buildings alone. Then, we turn to equipment—the construction or acquisition of equipment—and we have \$64 million. The item for repairs there is \$16 million. These are quite substantial sums of money. We cannot do it today, Mr. Chairman, but I would like to dig into that. I am going to suggest, if there is not too much involved in getting it out, that we ask Mr. Steele to have prepared a statement of the total cost of buildings exclusive of Defence and Defence Production for, say, the last ten years.

Mr. STEELE: Just a total by departments, sir?

Senator CRERAR: The total amount spent on buildings alone—Government buildings.

Mr. STEELE: Yes, that would be easy.

The CHAIRMAN: Do you mean figures for ten years back comparable to the item of \$224 million that you are quoting? Is that what you mean? You gave us a figure of \$224 million as being the total of column 13 apart from National Defence and Defence Production.

Senator CRERAR: Yes.

The CHAIRMAN: Is it that figure for ten years back that you would like?

Senator CRERAR: Yes. How much have we invested in buildings over the last ten years?

The CHAIRMAN: Yes, Mr. Steele will obtain that information.

Senator CRERAR: If I am correct, what we are proposing to spend this year under column 13 is \$224 million?

Mr. STEELE: Yes.

Senator CRERAR: And maintenance and upkeep is not covered by that figure at all?

Mr. STEELE: Yes, the whole inventory.

Senator CRERAR: That is \$26 million?

Mr. STEELE: Yes.

Senator CRERAR: It would be interesting to have a statement of the capital expenditure on buildings alone—post offices and other buildings associated with government administration outside of National Defence and Defence Production—for each year over the last ten years.

Mr. STEELE: Yes.

Senator CRERAR: If it does not mean much more work I would like it to go back to 1950.

Mr. STEELE: Yes.

Senator CRERAR: Taking construction or acquisition of buildings, we are proposing to spend \$64 million this year outside of defence and Defence Production?

Mr. STEELE: Yes, that is mainly for vessel construction.

Senator CRERAR: \$64 million is a lot of money.

Mr. STEELE: It is mainly for ship construction. You see, \$33 million of that is for the Department of Transport, and that is for new icebreakers and supply vessels. It is not altogether for that, but if you take the Department of Mines and Technical Surveys and the Department of Transport you have two of the big items.

The CHAIRMAN: Senator Crerar, shall we ask Mr. Steele to prepare a statement for ten years with respect to column 13 and column 16 by departments?

Senator CRERAR: Yes.

Senator ISNOR: Mr. Chairman, did you say you were going to adjourn at 12 o'clock?

The CHAIRMAN: I was going to suggest that if there are no further questions we might adjourn, but I would ask the Steering Committee to wait with the officials of the department so that we can arrange the program for the next meeting which will be held, I suggest, next Tuesday at 10 o'clock, unless something else intervenes.

Senator GROSART: May I ask one question to round out this discussion in regard to the construction of rents? Has a study been made of Government participation in lease back operations?

Mr. STEELE: Not as fully as we would like, sir. In relation to certain specific projects now coming forward, we are getting more and more into that comparison. Some of the most recent rental arrangements we are getting in are of a long-lease type with lease back provisions in them.

Senator GROSART: You have some of those now?

Mr. STEELE: Yes, there have been some examples of work done on that basis.

Whereupon the committee adjourned.

## APPENDIX "A"

PROVISION IN MAIN ESTIMATES, 1964-65 FOR EXPENDITURES IN  
RESPECT OF INDIANS AND ESKIMOES

Blue Book Page	Department & Service	Estimates in \$ millions	
		1964-65	1963-64
	<i>Citizenship &amp; Immigration</i>		
70	Total Indian Affairs Branch—Operations.....	48	44
	—Capital.....	13	10
		61	54
	<i>National Health &amp; Welfare</i>		
296	75% of Medical Services—Operations.....	23	21
	—Capital.....	3	2
	(other 25% relates to Immigration Medical Services, Sick mariners services, quarantine, inspection, civil service health and civil aviation medicine)	26	23
	<i>Northern Affairs &amp; National Resources</i>		
	Northern Administration—		
339	Education Division—Operations.....	7	6
345	—Capital.....	2	3
340	Welfare & Industrial Division—Operations.....	4	3
345	—Capital.....	2	1
		15	13
	OVERALL TOTAL.....	102	90

Treasury Board Staff  
June 2, 1964.

## APPENDIX "B"

## CONTENTS OF SUPPLEMENTARY ESTIMATES FOR 1961-62 AND 1962-63

	\$ Millions
<i>Supplementary Estimates—1961-62</i>	
1st Supplementaries—(tabled June 8, 1961)	
Vote 534—Vocational Training Payments.....	20
Vote 590—Payments to Railways.....	50
Vote 592—Capital Subsidies for Commercial Vessels.....	10
Vote 599—Veterans Pensions.....	31
Other Votes (under \$5 million).....	27
	138
Further Supps (1)—(tabled July 1, 1961)	
Vote 610—War Veterans Allowances.....	15
Other Votes.....	5
	20
Further Supps (2)—(tabled Jan. 24, 1962)	
Vote 611—Payments to western grain producers.....	42
—Municipal Winter Works.....	40
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Further Supps (3)—(tabled Feb. 8, 1962)	
Vote 636—Vocational Training Payments.....	28
Vote 644—Army—Operations.....	35
Vote 645—RCAF—Construction.....	31
Other Votes.....	22
	116
	356
<i>Final Supplementary Estimates</i>	
Further Supps (4)—(tabled Mar. 19, 1962)	
Vote 685—Agricultural Commodities Stabilization Account Deficit.....	23
Vote 752—CNR Deficit.....	67
Votes 754—TCA Deficit.....	7
Other Votes.....	26
	123
	479
<i>Supplementary Estimates—1962-63</i>	
Supps (A)—(tabled Nov. 26, 1962)	
Labour 32a Municipal Winter Works.....	30
Labour 40a Vocational Training Payments.....	50
Transport 213a Payments to Railways.....	50
Transport 222a Capital Subsidies for Commercial Vessels.....	6
Other Votes.....	12
	148
Supps (B)—(tabled Dec. 10, 1962)	
Finance 70b Salary Revisions, etc.....	30
Other Votes.....	3
	33
	181

## APPENDIX "B"—Con.

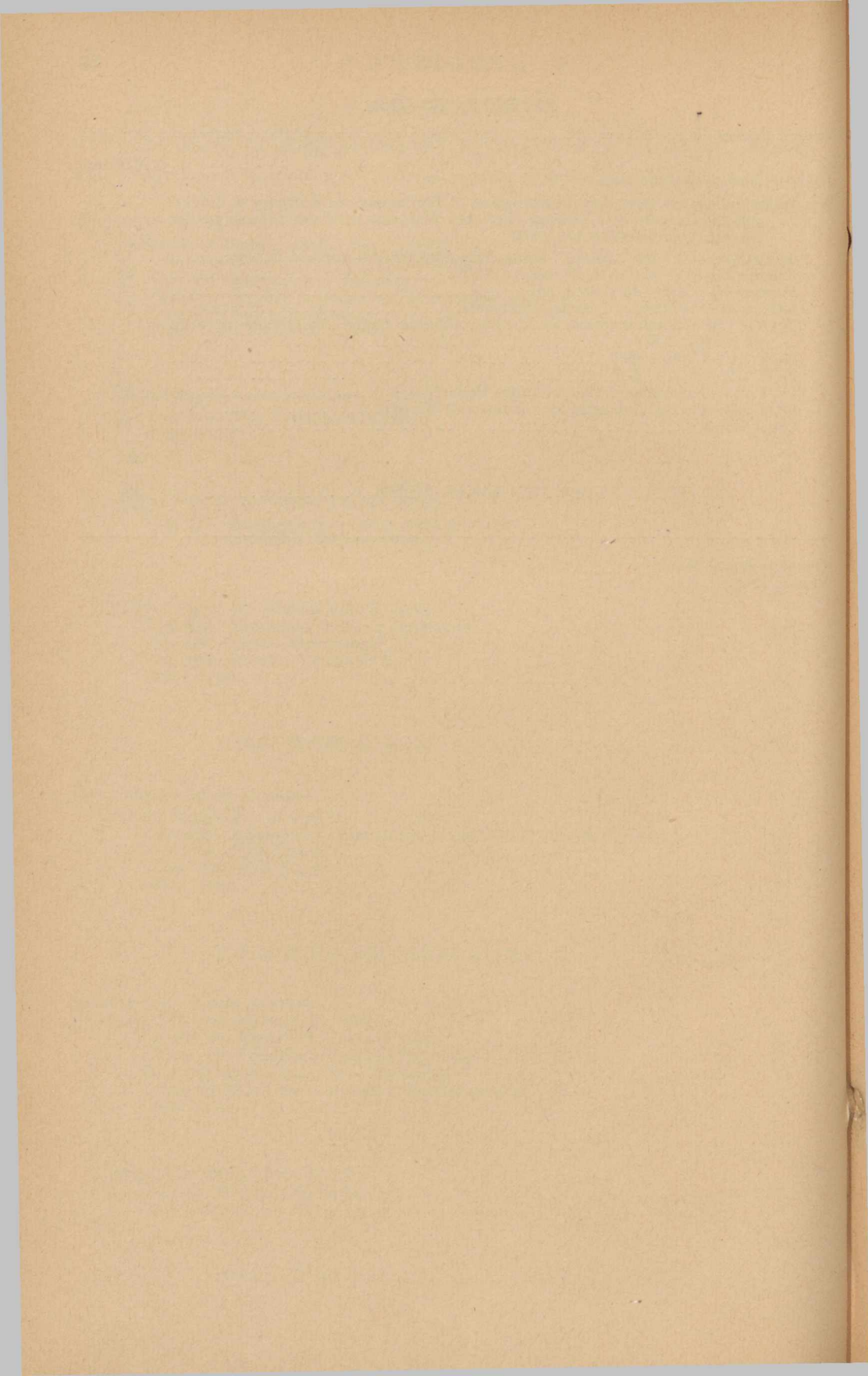
*Final Supplementary Estimates*

\$ Millions

Not tabled in regular form due to dissolution of Parliament on February 6, 1963—  
granted initially by Governor General's Warrants and later ratified by the  
Special Appropriation Act, 1963

Agriculture 163—Agricultural Commodities Stabilization Account Deficit.....	72
Atomic Eng. 16—Write-off of costs of NRU.....	25
Finance 70—Salary Revisions, etc.....	7
Labour 40—Vocational Training Payments.....	62
NANR 119—Reimbursement to Northern Canada Power Commission for work at Inuvik, NWT.....	7
DOT 87—CNR Deficit.....	49
DOT 202—TCA Deficit.....	4
DOT 214—Extension of Freight Rates Reduction Act.....	16
DOT 222—Capital Subsidies for Commercial Vessels.....	7
Other Votes.....	33
	282
TOTAL SUPPS AND FINAL SUPPS.....	463

Treasury Board Staff  
June 2, 1964.







Second Session—Twenty-sixth Parliament  
1964

**THE SENATE OF CANADA**  
**PROCEEDINGS**  
**OF THE**  
**STANDING COMMITTEE ON**  
**FINANCE**

To whom was referred the Estimates for the fiscal year  
ending March 31, 1965.

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The Honourable T. D'ARCY LEONARD, *Chairman*

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TUESDAY, JUNE 9, 1964

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No. 3

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WITNESSES:

Dr. Geo. Davidson, Secretary of the Treasury Board; Mr. J. C. Allen,  
Director, Estimates and Administrative Procedures, Treasury Board.

APPENDICES

“C”, “D”, “E”, “F”

Treasury Board Tabulations

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ROGER DUHAMEL, F.R.S.C.  
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY  
OTTAWA, 1964

THE STANDING COMMITTEE  
ON  
FINANCE

The Honourable T. D'Arcy Leonard, *Chairman*

The Honourable Senators:

Baird	Macdonald ( <i>Brantford</i> )
Beaubien ( <i>Bedford</i> )	McCutcheon
Beaubien ( <i>Provencher</i> )	McKeen
Belisle	Méthot
Bouffard	Molson
Buchanan	O'Leary ( <i>Antigonish-Guysborough</i> )
Burchill	Paterson
Choquette	Pearson
Connolly ( <i>Halifax North</i> )	Pouliot
Crerar	Power
Croll	Quart
Denis	Rattenbury
Dupuis	Reid
Farris	Robertson ( <i>Shelburne</i> ),
Flynn	Roebuck
Gershaw	Savoie
Grant	Smith ( <i>Queens-Shelburne</i> )
Grosart	Stambaugh
Haig	Taylor ( <i>Norfolk</i> )
Hayden	Thorvaldson
Hnatyshyn	Vaillancourt
Horner	Vien
Isnor	Welch
Lambert	Woodrow
Leonard	Zuzyk (50)

*Ex officio members*

Brooks

Connolly (*Ottawa West*)

## ORDER OF REFERENCE

Extract from the Minutes of the Proceedings of the Senate, Wednesday, May 20th, 1964:

“Pursuant to the Order of the Day, the Senate resumed the debate on the motion of the Honourable Senator Connolly, P.C., seconded by the Honourable Senator Hugessen:

That the Standing Committee on Finance be authorized to examine and report upon the expenditures proposed by the Estimates laid before Parliament for the fiscal year ending 31st March, 1965, in advance of the Bills based on the said Estimates reaching the Senate; and

That the said Committee be empowered to send for persons, papers and records.

After debate, and—

The question being put on the motion, it was—

Resolved in the affirmative.”

J. F. MacNEILL,  
*Clerk of the Senate.*



## MINUTES OF PROCEEDINGS

TUESDAY, June 9th, 1964.

Pursuant to adjournment and notice the Standing Committee on Finance met this day at 10.00 a.m.

*Present:* The Honourable Senators: Leonard (*Chairman*), Baird, Beaubien (*Bedford*), Belisle, Burchill, Crerar, Dupuis, Gershaw, Grosart, Haig, Hnatyshyn, Isnor, Lambert, McCutcheon, O'Leary (*Antigonish-Guysborough*), Pearson, Pouliot, Quart, Rattenbury, Taylor (*Norfolk*), Welch and Yuzyk. (22)

On Motion of the Honourable Senator Haig it was RESOLVED that the Honourable Senator Molson be elected Deputy Chairman.

On Motion duly put it was RESOLVED that certain Treasury Board tabulations be printed as appendices to the proceedings of this day.

The following witnesses were heard:

Dr. Geo. Davidson, Secretary of the Treasury Board.

Mr. J. C. Allen, Director, Estimates and Administrative Procedures, Treasury Board.

At 12.15 p.m. the Committee adjourned to the call of the Chairman.

Attest.

F. A. Jackson,  
*Clerk of the Committee.*



**THE SENATE**  
**STANDING COMMITTEE ON FINANCE**  
**EVIDENCE**

OTTAWA, Tuesday, June 9, 1964.

The Standing Committee on Finance, to which was referred the Estimates laid before Parliament for the fiscal year ending 31st March, 1965, met this day at 10.45 a.m.

Senator T. DARCY LEONARD (*Chairman*) in the Chair.

The CHAIRMAN: Honourable senators, we have a quorum; it is 10 o'clock so we will proceed.

We have with us again, Dr. George F. Davidson and Mr. Allen. Mr. Steele cannot be with us today, as he explained at the last meeting, and Dr. Davidson is going to go ahead. However, before we proceed, may I say that this committee to date has not had a vice-chairman. As a matter of fact, when this committee sits next week, if it does sit, I shall be away. Perhaps the committee might feel like appointing a vice-chairman.

Senator HAIG: Mr. Chairman, I will move that Senator Hartland Molson be appointed vice-chairman to act in your absence as chairman of this committee.

Senator TAYLOR (*Norfolk*): I second the motion.

The CHAIRMAN: It has been moved by Senator Haig, seconded by Senator Taylor (*Norfolk*), that Senator Hartland Molson be appointed vice-chairman of the committee. Does the motion carry?

Hon. SENATORS: Carried.

The CHAIRMAN: I understand that Dr. Davidson is going to deal with the question of the Glassco Commission Report, and there may be some matters left over from last week that he is in a position to report on.

Dr. George F. Davidson, *Secretary, Treasury Board*: Thank you, Mr. Chairman. I would like to say, first of all, to honourable senators, that you will now listen to somebody who has been just about three weeks on his new job. In those three weeks I have endeavoured as much as possible to cram into my head the background information and understanding of the dimensions of my new post. However, there is not quite enough room in my head for everything I am going to have to know about the task that is now mine to perform. Therefore, I warn you, Mr. Chairman, that in the course of the discussion—and I am sure even more in the course of the questions senators may have to put to me—the gaps in my knowledge and understanding of the problems will become apparent. I merely ask you to realize that in the short period of time I have had at my disposal to brief myself on all aspects of this complicated and difficult task, there is still a good deal of work for me to do before I can give to you the information you have a right to expect on a variety of matters from the Secretary of the Treasury Board.

Senator PEARSON: Mr. Chairman, may I ask the witness what department he came from?

The CHAIRMAN: Perhaps Dr. Davidson, you had better give your complete background, because it is a little comprehensive.

Dr. DAVIDSON: I started off, sir, in 1944 as Deputy Minister of the Department of National Health and Welfare. I moved from there in 1960 to become Deputy Minister of Citizenship and Immigration. In 1963 I became Director of the Bureau of Government Organization in the Privy Council office, charged with the responsibility of preparing the analytical and disgestive work for the Government in the consideration of the Glassco Report. On May 15 I came to the Department of Finance to be Secretary of the Treasury Board.

Senator ISNOR: A pretty good background.

The CHAIRMAN: Yes. I think Dr. Davidson is a bit modest about it, too.

Dr. DAVIDSON: Mr. Chairman, I have to report that a number of the tables of information to be presented to the committee in response to some of the questions that were raised by honourable senators on May 26 and on June 2 are now ready in tabular form. Unfortunately, I am not able to report that we have copies in both English and French for distribution at this morning's meeting. I would ask the permission of the committee, therefore, to include this table in English and in French as appendixes to the proceedings of today's meeting so that the honourable senators will have them much sooner and be able to examine them and put questions with respect to them at our next meeting.

The CHAIRMAN: I take it, Dr. Davidson, that you are going to say something about them now, though?

Dr. DAVIDSON: I will say just a word or two about them now, but I think it would be unwise for me to go into them in detail when the tables are not before the members of the committee.

The CHAIRMAN: Is it agreeable to the committee that these tables be printed, and then senators will have the opportunity to consider their contents before the next meeting?

Hon. SENATORS: Agreed.

*(For text of tables see Appendixes to today's proceedings)*

Dr. DAVIDSON: On May 26 questions were asked as to the establishment and strength statistics of the Civil Service for the periods 1962-63, 1963-64, and 1964-65. I have here a table which shows the establishment and strength statistics for these last three years. The members of the committee will be interested to have me merely note the establishment in 1963 was set at 216,419, in 1964 at 217,925, and in 1965, on the basis of the present situation, it is 216,090. In that connection, it is interesting to note that the Glassco Commission records the establishment strength, as of 30th September, 1960, as 216,000.

The significance of these four figures is that in the period from 30th September, 1960 until the present moment there has been almost no movement in the overall establishment and strength figures.

Senator CRERAR: Does that include or exclude the revenue postmasters?

Dr. DAVIDSON: This does not include them.

Senator CRERAR: Does it include casual labour?

Mr. DAVIDSON: Yes, it includes casual labour. The relevant reference in the Glassco Commission report is to be found at page 36 of the first volume. It shows here the figure for federal government employment, but excludes that covering the armed forces, the commercial undertakings—the commercial crown corporations, and revenue postmasters. The figures I have given are comparable in all respects. The point I wish to draw to your attention is the fact that since



September, 1960 the overall size of this portion, this major portion of the public service has remained almost completely static. The actual strength statistics, as members will appreciate, are traditionally less than the authorized size of the total labour force.

The figures that will be tabled show that in 1963 the actual strength figures, as of a specified date, were running at about 199,000 compared to the authorized establishment of 216,000. In 1964 they were running about 202,000, as against an authorized establishment of 217,000. We have not comparable figures for the present moment, but it can be assumed, I think with reasonable certainty, that the actual strength figures at any one time run, perhaps, in the order of 15,000 to 20,000 less than the authorized establishment.

We have also included a table showing the payroll costs over several years, which were also asked for. Last week there were also questions asked regarding the construction expenditures of civil departments. We have a table showing, since the year 1950, construction figures for civil departments and also for the equipment for the civil departments. Those are the ones which, with the permission of the committee, will be added as appendixes to the proceedings of today.

There were two other questions raised at the last meeting relating to the total cost of the South Saskatchewan River project and the items making up Canada's contribution to the Commonwealth agricultural bureaus, on which we are not at this moment in a position to give you complete information. We wish to check the information we have against the responsible department, to make certain the information is correct and up-to-date. Those are the questions, Mr. Chairman, which have been raised.

It would be my intention, with your permission, to proceed from the discussions which were held at the last two meetings, when Mr. Steele was your witness, into an area of discussion which is, I think, relevant and related to these discussions which have been held in the past two meetings, but which leads us a little bit further afield into the kind of reorganization of the financial administration and management of the departments and of the Government of Canada which are now mostly in the process of being undertaken or which are under study, largely as a result of the work of the Glassco Royal Commission on Government Organization.

Perhaps before I embark on that main portion of my remarks I could relate what I am going to say to some of the discussion that took place at the last meeting. You were questioning Mr. Steele, you may recall, on certain of the features of the estimates presentation having to do with the ways in which common services are or are not charged to the various departments, and are or are not shown as the cost of a particular service reflected in the votes structure in the estimates.

As Mr. Steele drew to your attention, it has been the custom since 1962-63, in connection with the details of services shown in the printed estimates book, to show in memorandum form the approximate value of major services which are not included in the individual votes.

Members can readily see this by consulting their book of estimates. For instance, at page 255 we have under the details of services for the Department of National Defence a number of line items which are designed to give an indication, and an indication only, to the members of the House and Senate, of the costs of these common services provided for National Defence by other departments.

Senator HAIG: It seems that in 1964-65 these common services totalled \$85,933,300.

Dr. DAVIDSON: They were estimated at that. One would not pretend these are cost account figures.

Senator HAIG: No, but are they for each department?

Dr. DAVIDSON: Yes, these are the estimated values of services provided by other departments to the Department of National Defence which are not included in the Department of National Defence estimates as voted by Parliament.

Senator HAIG: Take, for instance, the Department of Public Works, in their estimates is there \$3,640,400 for the Department of National Defence?

Dr. DAVIDSON: No, there is no relationship between the figures shown here and the amounts that are actually being voted by Parliament for Public Works' actual expenditures. Nor is there any necessary relationship between the figure shown here for the accounting and cheque issue services rendered by the Comptroller of the Treasury to the Department of National Defence and the actual amount Parliament is asked to vote. There may be a rough relationship, but it is not pretended you can take the cost of all common service items under each department heading for the Comptroller of the Treasury and arrive at the exact amount that the Comptroller of the Treasury desires to have voted for the current fiscal year.

Senator GROSART: Is it so that the individual dollars included here have all been voted?

Dr. DAVIDSON: These dollars figures shown here, Senator Grosart, are not significant in terms of the number of dollars Parliament is being asked to vote. These are calculations made which take into account a number of factors other than the current cash dollars needed which are designed to show the value of the services.

Senator GROSART: I know that, but my point was that the individual dollars, not as a cumulative amount, have all been voted, but not in this form?

Dr. DAVIDSON: The services represented by these dollar estimates have been provided for by funds voted by Parliament.

The CHAIRMAN: A rental calculation would be an explanation of it. These figures on page 255, as I understand them, include a calculation equivalent to a rental. When your turn over to the Department of Public Works the figure there may be a figure for the cost of construction of a building, but the counterpart of that in these figures is perhaps a rental calculation based on the cost of the building and the amount of the accommodation used.

Senator HAIG: The same as in a department store, where each department has a certain figure charged against it. That is the same as what you are doing here?

Dr. DAVIDSON: That is right.

Senator RATTENBURY: Is this for purposes of clarification or for ease of accounting?

Dr. DAVIDSON: This is a step in the direction of what has been indicated by previous committees of the house and Senate as desirable. One of the criticisms made of the form in which estimates are presented to Parliament is that there are a lot of hidden costs or expenditures being absorbed through other channels which make it impossible for any member of Parliament to determine by looking at the estimates what the true cost is of providing a specific service to the Canadian people. The argument is if you wish to have an actual reflection of the true costs to the Canadian people of the provision of a given program, you should have reflected in the estimates not only the dollar requirements of the department administering the program but the costs involved in respect of office space and accommodation, machine rentals and servicing, superannuation payments, postal services and all of the other ancillary costs which, if it were not for the provision of that service, might represent savings to the taxpayer.

Now, you can carry this thought to the point where it would require more people on the payroll to do the precise refinements of these costs and their allocation to the respective departments than the thing would be worth. We are moving cautiously—I think that is the right word, senator—in the direction of trying to meet the requirements of the members of the house and the Senate. Our first step has been to provide in memorandum form and as part of the estimates to be voted an indication of the approximate cost of providing these services to these other departments and agencies. So I must warn the committee to take these memorandum figures with a fair amount of reserve because they are really intended to be indicative.

Senator GROSART: Are there similar memorandum figures showing these items as deductions from the estimates of the departments from which they are transferred?

Dr. DAVIDSON: No, sir.

Senator GROSART: Wouldn't this be necessary to carry out your intention of showing the actual cost of departmental administration other than the transfer payments?

Dr. DAVIDSON: Certainly, before these figures could be moved one stage further to the point where they would be included in the amounts we are asking Parliament to vote, there would certainly have to be a reconciliation between these figures and those shown in the Department of Public Works itself.

Senator McCUTCHEON: Or the Post Office Department.

Dr. DAVIDSON: Some of these are closer to the estimates for the Post Office or for the Superannuation Fund than other estimates. But when you take a service like the comptroller, for example, I am not in a position to say whether in this calculation we include the cost of housing and accommodation. Mr. Allen says we do include here the estimate of the cost of accommodation for the comptroller's people who provide these services. That means automatically if you added up all these figures showing the value of services rendered to the comptroller it would come to more than the comptroller requires because he would not pay rent to the Public Works department.

Senator GROSART: I understand the Post Office does a great deal of work in trying to ascertain the exact cost of carrying paid mail. Is that shown?

Dr. DAVIDSON: It is not shown at the present time, but we do so on the basis of the calculations worked out by the Post Office of the cost of carrying franked mail in so far as it refers to each department of government. However I would remind the committee that it only relates to franked mail posted from Ottawa and does not refer to the costs incurred in administration from offices outside of Ottawa.

Senator HAIG: To find the total cost of the departments you take the votes plus this memorandum?

Dr. DAVIDSON: That is the theory.

The CHAIRMAN: Senator Burchill.

Senator BURCHILL: From an accountant's point of view these amounts should be voted to Defence and credited to the various departments?

Dr. DAVIDSON: That is correct. However if you carry this theory to its completely logical conclusion you would include this \$85 million cost of services in the cost of the National Defence department and you would vote it to them and require them to pay the comptroller, the Post Office and other service agencies, and you would in fact set them up as a self-contained, self-financed crown corporation, and you would vote only \$1 for them in the estimates. If I may say so with deference, you can carry this theory to the point where it begs the question as to the value of carrying it that far. For example, the Civil Service Com-

mission is a common services agency. Should you carry this to the point where you would charge the various departments for the cost of holding competition or hiring personnel?

Senator McCutcheon: If you did so you might get a more accurate figure.

Dr. Davidson: It depends how far you carry this principle of charging back to the purveyors of services the cost of providing the services.

Senator McCutcheon: When you are determining the cost of occupying their own buildings and charging it to the various departments—you have an item of \$5 million for accommodation in those departments on buildings.

Dr. Davidson: Could I ask Mr. Allen to comment on this?

Mr. Allen: There is a formula employed by Public Works and offhand I don't have the square foot valuation, but roughly—first of all—the formula only applies to office accommodation, and excludes specialized buildings, and also excludes the Houses of Parliament. All buildings across the country are classed in two categories, those over 20 years of age and those under. In respect of each there is a value, a rental value, calculated per square foot, which bears some reasonable relationship to current rental values, the average rates across the country. Now this formula is employed by Public Works and applied by Public Works to its inventory of space, and the same formula is applied by departments to the space they occupy and which may not come under the Department of Public Works supervision.

Senator McCutcheon: The formula of rates relates to the age of the building and the average rental in the community rather than to the capital cost?

Mr. Allen: Yes. We think it is a rough formula. It has not been attempted to associate it with the actual investment in some of these buildings over the years.

Dr. Davidson: The other point I think I might mention at this stage is that it is my understanding that these calculations have not been worked out and negotiated and agreed with the departments. I think the departments might in some instances, challenge these as being accurate valuations of the cost or value of the services to them if they were, in fact, having to find the money and estimate for them.

Senator McCutcheon: When it comes to the question of putting down in your account \$59 million for the department's own building, that becomes pretty meaningless. These are buildings owned by the Department of National Defence, but which Public Works does not supervise fully. Surely if you are trying to get a picture of the true cost you would put in normal depreciation and major repair and maintenance and so on rather than going into this rental item.

Dr. Davidson: Yes, but they are up against the difficulty that the cost items are not already appropriated in the amounts for National Defence or Public Works, and the principle has not yet been adopted, when voting money, to cover depreciation costs.

Mr. Allen: I thought perhaps I might go one step further on this. As far as I explained it covers both the Public Works calculation and the department's own calculation, but in the case of Public Works they go on to add the current maintenance and repair costs that they are incurring in the current year before they arrive at the valuation and cost of the accommodation they are providing for another department, whereas in the case of the department's own buildings, their valuation here does not cover current repair and maintenance which is included in its own estimates for the then current year.

Senator McCUTCHEON: Just to make sure that I understand it, this figure of \$3,640,400 for accommodation provided by the Department of Public Works is the figure for rentals plus an estimate of the repair and maintenance costs attributable to that?

Mr. ALLEN: That is correct, Sir.

Senator LAMBERT: In connection with the responsibility of the Public Works Department for these buildings, the point has been raised before as to how far the building of new buildings is completely under the authority of the Public Works Department. The Public Works Act, I believe, assumes that that is the case?

Dr. DAVIDSON: In that connection could I read a very brief extract from the Glassco Commission's Report on Real Property, which deals with the extent to which construction activity is in fact now being carried on by the Department of Public Works and the extent to which it is being carried on by other departments? This is from page 41:

Reference has already been made to the extent to which the monopoly of construction activity granted at Confederation to the Department of Public Works has been impinged upon by the growing construction activities of other departments and agencies. Today, its construction activity—

That is, Public Works' construction activity.

—for its own account—

That is, for common services, Government buildings and typical office buildings.

Today, its construction activity for its own account represents but twenty-five per cent of total Government construction and it carries out, as agent for other departments, an additional fifteen per cent.

So that Public Works' total percentage is forty.

Its principal independent competitors are the Departments of National Defence, twenty-five per cent—

That department works, as you know, through Defence Construction Limited.

—and Transport, twenty per cent.

This gives you the major components of the breakdown of construction activity.

Then there is, I should add, a number of other departments, notably the Department of Agriculture and the Department of Northern Affairs and National Resources, which have significant construction programs of their own. The argument in support of this tendency not to develop a complete monopoly of construction responsibility in the Department of Public Works is an argument based upon the relatively high degree of specialization in regard to construction problems of certain departments such as, for example, National Defence and Transport. This is the basic argument for saying that instead of trying to create in the Department of Public Works a monolithic construction agency for all governmental purposes you should proceed in specialized areas, where there is a substantial construction program, to refer it to the expertise—airport construction is an example—of the department which is the prime user of those services. But, this gives, I think, the picture.

Senator LAMBERT: There has been considerable change in connection with the responsibility of the Department of Public Works for these new buildings that have been erected since the end of the last war.

Dr. DAVIDSON: It is a different story with respect to office buildings, Senator Lambert. There it is recognized that office buildings which are used by a number of departments, or which are capable of being so used, are entirely under the responsibility of the Department of Public Works.

Senator LAMBERT: Yes, that department supervises the plans.

Dr. DAVIDSON: Yes, it is responsible for carrying through the construction, the housing of that department, the allocation of space in those buildings, and so on.

Senator RATTENBURY: Mr. Chairman, that answer leads me to another question. Does the Department of Public Works exercise an overall control as to the allocation of available space?

Dr. DAVIDSON: Yes.

Senator RATTENBURY: Well, I know of one instance—possibly there are others but I know of one—where space in a public building is rented to a private firm, and yet in the same area another department of government is contemplating the erection of a new building, or the rental of space in a new building, which will be erected privately. I was under the impression that the Department of Public Works was the overall co-ordinating agent. It seems to me to be ridiculous, if space is already available in a Government building, that it should be leased to a private firm.

Dr. DAVIDSON: I must say offhand that I would like to ask some questions about that myself.

Senator RATTENBURY: I can give you the details of it.

Dr. DAVIDSON: Yes. I think I am correct in stating, nonetheless, that no department of government could consider it had the authority to rent space in a government building that it occupied under Public Works arrangements. If such a situation exists it must have been done with specific authority for so doing, and that authority would be really exercised by the Department of Public Works which is responsible for the allocation and the best use of space in government-owned buildings.

Senator RATTENBURY: Let us take the Department of Agriculture, as an example; if it decides it needs a building erected in Toronto does it clear with the Department of Public Works?

Dr. DAVIDSON: Oh, yes.

Senator RATTENBURY: —to see if other space is available?

Dr. DAVIDSON: Yes, the Department of Agriculture works out its own estimate of its requirements. It would have to have some idea as to what its requirements amounted to. This would be correctly described perhaps by the term "Requirements planning". Requirements planning would be the responsibility of the using department. It first would go to the Public Works Department and present its requirements, and say: "What can you do to meet our requirements?" From that point on, whether it is a question of rental or a question of construction, the ball is in the court of the Public Works Department.

Senator GROSART: If there was a dispute between the two where would the decision be made?

Dr. DAVIDSON: It probably would eventually land in the lap of the Treasury Board.

Senator LAMBERT: In connection with the selection of sites and the character of the buildings, and so on, is there provision for consultation with the National Capital Commission?

Dr. DAVIDSON: In Ottawa?

Senator LAMBERT: Yes, I am talking about Ottawa.

Dr. DAVIDSON: Well, in Ottawa, as I understand it—at least, in the National Capital area—it is a statutory requirement that the National Capital Commission should give its specific approval to the location of the building and the type of construction or the ornamental features of the construction.

Senator LAMBERT: There is no consideration of the elements of cost in that? It is purely the cultural aspect that interests the Commission?

Dr. DAVIDSON: It is the asthetic relationship of that building to the environment itself that concerns the Commission.

Senator PEARSON: Can a department purchase a building that is already erected without going through Public Works?

Dr. DAVIDSON: No, sir.

Senator GROSART: Is this so-called monopoly of the Department of Public Works in this field a statutory requirement?

Dr. DAVIDSON: There is, so far as I have been able to discover, Senator Grosart, no clear statutory provision to the effect that the Department of Public Works must be the only department of government to authorize and to carry out a construction program in respect of a government building.

Senator GROSART: What significance is there in the Glassco Commission's use of the word "monopoly"? They said "monopoly granted at Confederation".

Dr. DAVIDSON: I think, in fact, the Department of Public Works started off conceptually as being the department which was to be responsible for all kinds of government construction, but I think our own discussion shows that when we talk of Public Works as being a construction agency we are thinking essentially of government office buildings. There are, in fact, countless other kinds of construction. There is the construction that is involved, for example, in the program of the Prairie Farm Rehabilitation Administration, and from the Department of Agriculture the argument is presented that this is such a distinctive and specialized kind of construction that a department which is set up to build buildings is not necessarily the department that would be expected to be expert in, and responsible for, earth moving and the kinds of works involved in such constructions as the South Saskatchewan Dam and other projects of that kind, which, on a much smaller scale, come within the ambit of the Prairie Farm Rehabilitation Administration.

The same is true of airport construction, and it is true of a variety of types of construction for National Defence which have military significance.

For this reason, what started out to be a department that was to be given the principal responsibility as the construction agency for the traditional kinds of government buildings, has now found itself in a position where, while it continues to retain an essential monopoly in regard to the ordinary kinds of government construction—notably office buildings—has found its place taken by the large substantive departments in terms of construction for their own requirements.

Senator GROSART: In the early days when there were such things as forts, were they built by Public Works?

Dr. DAVIDSON: I would have to make a check in order to answer that question, but my impression is that they were built by the Department of National Defence. Penitentiaries provide another example of this type of thing. Who is best equipped to understand the problems of penitentiary construction—the Department of Public Works or the penitentiary authorities themselves?

Senator POULIOT: How many departments and crown companies are separated in each grade—engineering and branches?

Dr. DAVIDSON: A tabulation could be prepared and presented to the committee at a later stage which would indicate that.

Senator POULIOT: You know very well that the Department of Public Works was at one time the only department engaged in construction. Then the fashion started of building larger and larger constructions and each department took it upon itself to do this. Now it is necessary to go from department to department, and it is quite complicated, to find out the person you want to see. I want to know what other departments are doing their own construction. You mention

agriculture and health. I think that if you go down the list you will find that each department is doing likewise. There is a complete lack of supervision and uniformity in the construction. Have you not come to the conclusion that that is so? Should not all new construction be by the Department of Public Works, where they have the technical staff trained for that purpose?

Dr. DAVIDSON: In the Summary of Standard Objects of Expenditure, attached to the Blue Book of Estimates, there is an appendix showing the value of construction or equipment item in each of the several departments. It shows that, so far as the allocation of funds is concerned, substantial amounts of money are allocated to individual departments, or voted by Parliament, for the purpose either of doing their own construction or of arranging through Public Works to carry out their construction for them.

You will find a partial answer to your question with respect to personnel employed in various departments of Government, in the Glassco Commission Report on real property, to which I referred earlier. It is in Volume 2 on page 45. There is a tabulation there showing the personnel employed—architects, engineers and supporting personnel—for the year 1961.

Senator POULIOT: By departments?

Dr. DAVIDSON: By departments. It shows this under the headings of architects, engineers, and supporting personnel.

The tabulation with respect to personnel employed does show what Senator Pouliot has drawn attention to.

There are on the establishments of other departments a certain number of architects, engineers and supporting personnel, arising out of the fact, as I explained earlier, for example, that the Transport Department, where they are concerned with airport construction, the building of rain stations and a variety of highly specialized and highly technical construction activities, have a contention in this regard.

Their contention is—and if I may say so, I think they have good support for their argument—that for this kind of highly specialized construction, it does not make sense that they should have to go to another department to get the engineering and construction skill in that other department into their highly specialized department. There may be some point in providing a common service department for architectural and engineering construction skill that is required for common types of construction; but there is very little economy or administrative advantage to be gained by locating in a second department of Government the kinds of personnel required solely and exclusively for the purpose of one particular department.

Senator POULIOT: That is all construction. Each department is independent of the other.

Dr. DAVIDSON: Far from it.

Senator POULIOT: They are just as much independent of the Department of Public Works as they are of any other department.

Dr. DAVIDSON: If I may say so, I think you are thinking primarily of building construction.

Senator POULIOT: I am.

Dr. DAVIDSON: I am thinking and referring at the moment to other kinds of construction which may involve the construction of dykes or agricultural works or the development of airports or rain stations or some of the highly technical construction activities not related to building construction which are carried on, for example, by the Department of Transport.

If you look at this table I referred to, you will find that the main department of Government, other than Public Works, which retains in its own employ a corps of architects and engineers, is the Department of Transport.



The CHAIRMAN: Does the Glassco Commission follow up this study with any advice or recommendation?

Dr. DAVIDSON: The Glassco Commission recommends, so far as construction activity is concerned, that the Department of Public Works be made responsible for all construction activity of the Government, outside of the National Defence field.

The CHAIRMAN: That is in what volume and on what page?

Dr. DAVIDSON: In the report on real property, volume II of the Glassco Commission's Report, page—I shall give it in a moment.

The CHAIRMAN: While you are finding it—Senator Grosart.

Senator GROSART: My question was on the same line. While admitting the specialized functions, it seems obvious that one of the important purposes of the original so-called monopoly was to provide co-ordinated planning. Now that this monopoly has been eroded, has anything been substituted, any overriding planning authority, for example to see that if you want to build a dam here, you will be told you should not because someone wants to build a power station up above?

Dr. DAVIDSON: There are two things I should like to say in answer to that. One is that the Department of Public Works is developing now a pattern of relationships with other departments, based upon what they call a liaison architect; so that they have on their departmental payrolls a certain number of liaison architects, whose chief job it is to maintain liaison with other departments, some of which do none of their own construction work—small departments which have no facilities of their own—and the purpose of liaison there is to find out the needs of those departments and to see that they are serviced properly.

A group of departments will be made, which should do some of their own construction activity and which are helped by Public Works to do their own construction activities, and the liaison officer's job there will be slightly different. It is to keep informed on the construction activities that the department is doing under its own auspices and also to see that services are rendered to that department in respect of those segments of construction program of that department which had to be carried out by Public Works. This is in the process of developing as one set of relationships.

The second thing I should like to say is this. This entire report of the Glassco Commission respecting Real Property is currently under examination by a committee which has been set up under the auspices of the Bureau of Government Organization, of which I am still the director. We are in the process of examining these individual recommendations, to find out whether or not, in our view, they are recommendations which can be incorporated into Government policy.

I am not in a position at this moment to indicate the final views of the committee, because the committee has not concluded its work, other than that it is becoming clear that there is a need for ensuring that the construction plans and the land use plans of all departments of Government be cleared through some central co-ordinating agency. It is to ensure that if a department, for example, acquires a piece of property in some locality, there be clearance, first of all, to establish whether the Government owns property in that locality which could be used for this purpose, plus making it unnecessary that further acquisition be made. The Department of Public Works has already been asked to establish a service by inventory on real property for the purpose of providing a central point of information, if nothing else, through which all requests of this kind can be cleared.

The second thing which is developing out of this is the inclusion in respect of construction projects. These also should be cleared through some central

co-ordinating channel to ensure that there is a planning and construction program, in particularly urban areas in relation to the land use and other urban development plans of the municipalities in which these buildings are to be located.

Senator POULIOT: Dr. Davidson, are expropriations of real estate still under the Department of Justice?

Dr. DAVIDSON: Yes, sir.

Senator RATTENBURY: Does this include Crown Corporations?

Dr. DAVIDSON: Senator Rattenbury, there you have the difficult question of how far you can go loading up inventory with all Crown-owned land; and we are in the process of sorting out the outer limits of this. For example, do you include in the inventory all of the Crown-owned land in the Northwest Territories and in the Yukon Territory; do you include all C.N.R.—all of the rights of way, and so on; do you include all harbour board property? If you began to really include in a realistic fashion in your inventory every piece of property that is held by the Crown in the name of Canada you might get such an unwieldy inventory that it would be useless before it was started.

It is interesting to note, in this connection, that the lawn in front of the legislative buildings in the City of Quebec is, according to the Glassco Commission, owned by the federal Government. There are a good many other rather unique instances of Crown-owned property. But the purpose of the Glassco Commission in proposing an inventory of the obvious federal properties is to ensure that the federal Government does not unconsciously go out to purchase property for one purpose when they have a suitable piece of property in their possession for another.

The CHAIRMAN: Dr. Davidson was somewhat interrupted in his original train of thought. I was wondering if we should let him go ahead with his own plan of proceeding?

Dr. DAVIDSON: Could I just say one more thing, Mr. Chairman, before I leave it?—and I do this with some diffidence. However, in terms of the questions which have been raised on interim supply relating to this problem of government buildings and space, and so on, I think perhaps a factual statement should be made. It will be recalled that in the course of debate on interim supply, Senator O'Leary (Carleton) made certain remarks with respect to the amount of government-owned property and he raised a question as to the amount of office space occupied by the federal Government in Ottawa, compared to the amount of space occupied by the United Kingdom government offices in the City of London. He said he had not been able to obtain the information with respect to the U.K. offices in the City of London. Nor have we, although we are in the process of trying to get it. I am not quite sure whether he meant by the City of London the small City of London, which is technically the City of London, or the metropolitan area. However, a question was read into the record by Senator O'Leary from the Glassco Commission Report to the effect that the federal Government owned 180 million square feet of building space in Ottawa. I think there has obviously been some mistake or misunderstanding as to what that figure referred to, because I have before me the first volume of the Glassco Commission Report page '20, where the quotation which Senator O'Leary read into the record appears. I should like to read the entire paragraph so that the factual position will be put clearly on the record:

Even without the vast public domain in the north, the federal Government is by far the largest holder of real estate and the larger tenant in Canada. In 1960, about 180 million square feet of building space were occupied by departments and agencies—the equivalent of over

100 buildings, each the size of a football field and 28 storeys in height—and the value of real estate holdings was estimated at \$4 billion.

That is the end of the quotation; and I think it is quite clear from that, Mr. Chairman and senators, that the figures quoted relate to government-owned space in the entire Dominion of Canada.

Senator PEARSON: Does that include Crown corporations?

Dr. DAVIDSON: I can only read what Glassco himself has said. Yes, departments and agencies.

The information I have as to space in Ottawa is with reference to government-owned or rented office space, and the figure that I have here is that there are 10.6 million square feet of office building space owned or occupied by the Government of Canada in the City of Ottawa.

Senator POULIOT: That is the question I should have asked, and which you have answered very well. Thank you. Is not the Treasury Board the only control over the construction program of each department and each Crown company?

Dr. DAVIDSON: It is the only executive control, Senator Pouliot. There is of course the control that Parliament exercises itself through the estimates.

Senator POULIOT: The only control of Parliament is to look into it, as we do now?

Dr. DAVIDSON: That is correct. But Parliament has enacted certain legislation by which the Treasury Board and the departments themselves must be guided. To take an obvious illustration, the Defence Construction Limited.

Senator POULIOT: Do they have to submit their plans for approval by the Treasury Board before starting their work?

Dr. DAVIDSON: Oh, yes. The departments which do their own construction are subject to the same requirements exactly vis-a-vis the Treasury Board, as are the Department of Public Works programs.

Senator POULIOT: Have you a technical staff to study the plans that are submitted for your approval?

Dr. DAVIDSON: Not in terms of the technical plans.

Senator POULIOT: Take the construction of a dam or an airport, which are highly technical in nature, would you not require technical assistance?

Dr. DAVIDSON: I should have made a distinction, Senator Pouliot, between our examination of these construction proposals in terms of their financial and their policy implications.

Senator POULIOT: Common sense has a lot to do with it.

Dr. DAVIDSON: And the purely technical examination which requires architects or an engineering personnel. Obviously, the Treasury Board does not have its architects and engineers, and does not attempt to impose its technical views in those areas on the technical advice that the departments are either in a position to provide for themselves through their own personnel, or the technical consultants which they have obtained from outside.

Senator POULIOT: I am alluding, as you know, to the building projects in various places that were built by people of great reputation, and it is most difficult to approve of the plans without having technical assistance. I do not suggest that you should hire more technical staff, but I think in cases like that it would be a good thing to submit the plans to the staff of the Department of Public Works, where they are independent. If the Department of Public Works is not going on with the construction of some kind, perhaps you in the Treasury Board, or the Department of Agriculture or the Department of Trade and Commerce, could submit an application to the Department of Public Works for a check-up. What do you think of that?

Dr. DAVIDSON: I think that in certain instances that might be done. I think the basic position the Treasury Board must inevitably take in all these construction proposals is that it must satisfy itself the department undertaking the construction is operating on the basis of competent technical advice. Whether that competent technical advice is within its own department, or whether it is by consulting services from outside engineering consultants, which I think is done in most large-scale construction projects, the essential point remains the same, that the Treasury Board has the responsibility, before it approves a construction program put forward by any department, to satisfy itself the proposal has been examined and found to be sound on the basis of the best and most competent technical advice that can be found inside or outside the Government service. If there were a project being put forward by an individual department where it was clear the Public Works Department had more competent technical experts to examine that particular project, I think clearly Treasury Board would wish to have the advice of the Department of Public Works.

Senator POULIOT: Does the Treasury Board consult technicians from outside?

Dr. DAVIDSON: Not directly, but it insists from time to time that the department consult outside technicians and that the advice given by them be provided, through the department, to the Treasury Board.

Senator POULIOT: If I am the Minister of Trade and Commerce, for instance, and I come with a program for the construction of a building and submit the plans and specifications, and it is submitted to the Treasury Board, how will the approval be made?

Dr. DAVIDSON: If you come to me, as the Deputy Minister of Trade and Commerce, with a plan for a proposed office building, I will say to you immediately, "That is the responsibility of the Department of Public Works," because all office buildings are provided by the Department of Public Works.

Senator McCUTCHEON: Dr. Davidson, in connection with the general theory that the Glassco Commission laid down the principle, to what extent is there a policy, and if so, to what extent is there a policy of lease-backs in connection with Government operations?

Dr. DAVIDSON: Mr. Steele made a comment on this at the last meeting, and I think I can do little more than reiterate the comment that he made. That is, that the Government is just now beginning to interest itself in the possibility of operating, for its space requirements, on the basis of lease-backs. Traditionally, back over the years the Government position has been, either you rent existing accommodation, some of which has been of indifferent quality, or you build the Government's own office buildings. But at the present time Public Works, with Treasury Board, has under study the possibility of a number of lease-back arrangements which, if they work out successfully, I think could establish a new pattern for the provision of normal Government office space requirements. These cannot obviously, in cases I am thinking of, be buildings that meet any specialized requirements of the Government as the sole potential user of that building. For the moment we are examining the possibility of obtaining space on lease-back arrangements in normal office buildings that could, under other circumstances, be used by other consumers of space.

Senator McCUTCHEON: Why do you put that limitation on it? After all, commercially you have very many one-use buildings that are constructed in this way.

Dr. DAVIDSON: I put that limitation on it, Senator McCutcheon, only in terms of describing the point at which we are initially experimenting with this arrangement. I am not suggesting there is any doctrinal reason why the

Government should not consider a lease-back arrangement with respect to a laboratory building, or something of that kind, that could only be used by the Government.

Senator McCUTCHEON: Are you looking at the experience of the United Kingdom in this connection?

Dr. DAVIDSON: I do not know, but I hope we are. I just do not know what the answer to that question is, but I will find out.

The CHAIRMAN: Dr. Davidson, you were starting out at the beginning, with some plan of your own, to discuss the Glassco Commission.

Dr. DAVIDSON: Yes, I apologize.

The CHAIRMAN: It is not for you to apologize. You have been very good about answering all the questions. Perhaps you might feel ready to go ahead now with your own submission.

Dr. DAVIDSON: Yes, I thought after linking up some of my remarks this morning with those made by Mr. Steele at the last meeting, I might go on and develop more extensively some of the remarks he made at the last meeting of this committee with respect to the changes which are now taking place in the form of the estimates, the changes which are under study for possible adoption in the course of the next year or so, and the extent to which the thinking of the Glassco Commission on Government Organization has been in our minds in the evolution of our thinking in this regard.

Mr. Steele drew to your attention that, for example, this year the number of votes in the estimates has been very sharply reduced, and this is as a direct result of the recommendation of the Glassco Commission which pointed out that in the votes as presented to Parliament in past years here in Canada we have had something like 495 or 500 separate votes, each one of which had to be voted separately by Parliament; whereas, for example, in the United Kingdom, which has a budget substantially in excess of the amount we are required to have voted by Parliament here, the number of votes in the United Kingdom estimates is something of the order of 200 or 185. The question arose in the mind of the Glassco Commission whether, by proper consolidation of the separate votes in a coherent fashion which would not result in the lessening of information given to members of the House and Senate, there was not a possibility of packaging these votes in a fashion which would result in fewer votes appearing in the estimates to be voted, and the votes having greater meaning for the members of Parliament.

The estimates book, as you gentlemen know, is the central document which is used both by the Government itself and by Parliament in planning and approving the expenditures program for the year ahead. While the estimates book has numerous purposes, one of its basic purposes is to inform Parliament of the plans of the Government in a form which members of Parliament can understand, in a form which is not obscure and which will enable the members of Parliament to deal intelligently with the expenditure plans put forward by the Government. The work that has been done by the Glassco Commission in its report made with respect to the form of the estimates and the form of public accounts are all related to that period. All of these are designed to achieve at least two purposes, first to make the operations of the Government, both the departments and the central agencies of government, more manageable. Also to make it possible for the government agencies and departments to operate along clear-cut lines of responsibility and accountability. That is one of the purposes of the suggested changes.

The second purpose is that of providing a clear and intelligible picture to the members of Parliament as to what it is that the Government intends to do in the way of an expenditure program. As I say the first of the recom-

mendations simply consists of a reduction in the number of votes to be voted. But this is only the beginning of a number of recommendations now under consideration and which have been considered to some extent by the Public Accounts Committee of the House of Commons, and which will be under consideration there and in process of implementation as the Government takes decisions on these points from time to time.

One of the principles to which the Government has attached a great deal of importance in the past has been that it should not take unilateral decisions in changing the shape and structure of the estimates book without consultation with the committees of Parliament which are interested in ensuring that the estimate material is presented to Parliament in a coherent and understandable form.

That is why last year the secretary of the Treasury Board at that time, Mr. Steele, presented certain proposals as to what we had in mind to bring some form and shape into the estimates to the House of Commons Public Accounts Committee, and that committee approved certain changes in the form and content of the estimates, and asked that they be incorporated into the estimates book as soon as it was administratively possible to do so. I shall refer in a moment to what those changes were as approved by that committee.

The Public Accounts Committee also gave approval in principle to certain other contemplated changes but suggested that implementation of these should be deferred until such time as some of the more fundamental changes relating to the use of program budgeting as the basic control mechanism could be finally developed, and I would like to refer briefly to the report of the Standing Committee on Public Accounts of the House of Commons in its Minutes of Proceedings and Evidence, No. 9, for Friday, December 13 and Monday, December 16, 1963. There the Public Accounts Committee records its approval of three changes in the form of the annual estimates as follows:

—your Committee believes that the following changes in the form of the annual Estimates would contribute to a better understanding of the Estimates:

- (a) Adoption of the revised vote pattern proposed by the Treasury Board for introduction into the Main Estimates 1964-65 subject to certain improvements suggested by the Auditor General to the Committee.

That is the revised vote pattern you gentlemen have in the bluebook now before you. It involves a reduction in the number of votes but also the preservation of all the material that was presented to Parliament in the larger number of votes in previous years. We have simply consolidated a number of votes into one vote, and have kept the indications for the time being, and have integrated the separate information in respect of each aspect of the newly consolidated vote.

It would be our hope and expectation that at some time in the future there could be agreement that we would integrate them all into a consolidated vote pattern so that we would not only have the smaller number of votes, but would integrate all the material into certain main subheadings based on program budgeting rather than on the breakdown now in the detailed purposes of expenditure.

Senator GROSART: Is not the only purpose in that to save the time of Parliament?

Dr. DAVIDSON: In the program budgeting there are reductions in the number of votes.

Senator GROSART: Then it does both.

Dr. DAVIDSON: I think the reduction in the number of votes is only the secondary objective. It would appear to be the one attracting the most immediate attention.

The CHAIRMAN: But is it now also a matter of time-saving for Parliament?

Dr. DAVIDSON: It is more than that. It reduces the number of votes, in so far as that could be done, and consolidates into one vote all of the elements of a program which can be regarded as a coherent program. There have been examples in the past of separate portions of the same program being set up for separate votes and which have had to be voted on separately.

Senator PEARSON: Does this preclude a discussion of the individual votes in the consolidation?

Dr. DAVIDSON: No, sir. In the present form you have all the information in the details of services that you would have had had the consolidation not taken place.

Senator GROSART: This, then, I take it, is much more than a reshaping. It is a rearrangement of subject matter.

Dr. DAVIDSON: It is a temporary change but the hope and intention is to re-structure in fairly dramatic form the content of what we present to Parliament. If you open up the estimates at any point now in the detail of services you will find certain details with respect to salaries, allowances, professional and public services, travelling expenses; these are the main objects of expenditure which are standard and have some sort of reason in common. Once you get past the heading of the vote you find yourself looking at the same sort of breakdown, and the question arises as to how meaningful an examination of the votes based upon this detailed breakdown really is, from the point of view of members of Parliament, and how meaningful it is from the point of view of any attempt to control their management of the program when it comes back to developments.

The Glassco Commission suggests this is not a really meaningful presentation, and you, gentlemen, should be demanding something more, and something better in the way of material. It would make far more sense from your point of view as well as from the point of view of expenditure and control if they were presented on the basis of what is called program budgeting. In that way you would have the elements of the program presented to you rather than the detailed objects of expenditure by themselves. I trust I make myself clear on this point. If not I could illustrate it from the Glassco Commission report on financial management where the elements of program budgeting involved the distinct dimensions of the program being put before members of Parliament in terms to indicate what the purpose of the object is, rather than how much is being spent on salaries and expenditures, etc. It involves not only a functional breakdown but a geographic breakdown as well.

To take, as an example, the votes presented to Parliament for the Indian Affairs Branch of the Department of Citizenship and Immigration. If you look at those you will find that instead of salaries, travelling expenses, it had been broken down on the basis of detailed objects of expenditure. Would it all not be more meaningful from the point of view of members of Parliament if instead of that you were given a breakdown showing, for example, on the basis of individual Indian agencies, what the costs of the operation of the service of the individual Indian agency are, or what are the costs of certain functions performed within the Indian Affairs program such as education, welfare services, the administration of reserves in trust, and so on? It is this shift in emphasis that the Glassco Commission has urged upon the Government—a shift in emphasis from the kinds of details which you have been accustomed to receiving in the past, which are relatively ineffective in enabling you

to perceive what are the true dimensions of the program and the costs of the program, to the new details which we are endeavouring to establish along the lines suggested by the Glassco Commission which will be more usable by Members of Parliament.

Senator BAIRD: In other words, you will spell them out in more detail?

Dr. DAVIDSON: In less detail, Senator.

Senator O'LEARY (*Antigonish-Guysborough*): I was following you, Dr. Davidson, up until your most recent remarks. First of all, it seems to me that what is being sought is quite obvious, but on the other hand I can see dangers in it. You are now getting into a more detailed breakdown which, a little while ago, you were getting away from. I am not too clear when you talk about individual breakdowns. You were talking about more general detail. I realize that this is in the planning and not in the votes or estimates themselves, but I am not clear about this. Can you enlighten me?

Dr. DAVIDSON: I have just said, in reply to a senator who suggested this would provide more detail, that it would not. I really question whether that is a proper conclusion to be taken from my remarks. It is rather a question of substituting certain kinds of information for the kinds of information that you are getting at the present time. If the recommendations of the Glassco Commission were to be accepted it would mean that you would no longer find in your blue book of estimates, under the details of services, the kinds of traditional breakdowns of a vote that you find at the present time.

If you look at page 314, for example, under the Department of National Revenue, you will see under Vote 1 a list of salaries, positions, the number of positions at each level, a table showing in a fair amount of detail the numbers of staff and the different salary levels of staff, and a description of the different positions and the salary ranges. The Glassco Commission suggests that it is questionable as to how meaningful that information is, or how meaningful that degree of detail is, when you multiply it 200 or 300 times in the book of estimates and show repetitively this kind of pattern of detail with respect to each of the votes. Then, you come to salaries, wages and allowances, and all the detailed objects of expenditure. The Glassco Commission suggests, rather, that what you should do is examine a department to break down its expenditure program on the basis of functions, purposes and programs rather than have this kind of a breakdown, and that you should substitute for this kind of detailed breakdown, based upon accounting objectives of expenditures, a new breakdown which would give you, program by program, the global sums which are required to meet the costs of carrying on that program in the different parts of Canada.

The commission has illustrations which it has presented in the large Volume I. It takes the Department of Transport as an example, and breaks down certain of the pages in the estimates as they were at the time when the Glassco Commission was working, and shows the difference between the details of services as they appear at the present time and the details of services as they would appear if the concepts of program budgeting were to be incorporated into the form of the estimates book.

I think, Senator O'Leary, if you were to look at the examples given in the larger volume of the Glassco Commission's report you would see that while the information is different in character, and I believe, as the commission does, more informative from the point of view of the Members of Parliament, it does not involve greater detail or a more lengthy exposition of the items.

Senator O'LEARY (*Antigonish-Guysborough*): I would agree it is more informative, but, on the other hand, one senator asked a question a while ago which pointed out that at the present time we still have to examine the items in the votes whether or not they are listed there. Is it not true that the



department heads are going to have to answer a lot more questions when they come before the committee on the examination of the estimates of their departments?

Dr. DAVIDSON: That may be so, and they may have to have the material available.

Senator O'LEARY (*Antigonish-Guysborough*): They will have to have it anyway.

Dr. DAVIDSON: They will have to have it available, yes.

The CHAIRMAN: Dr. Davidson, this seems to me to be summed up in one paragraph on page 94 of Volume I of the report in these words:

The conclusion is inescapable that the present procedures in developing and reviewing the Estimates are wasteful and inefficient.

The form of the Estimates does not permit intelligent criticism and, in placing the major emphasis on the nature of expenditure rather than on its real purpose, the matters coming under senior review are the less important details of administrative judgment. Any valid assessment of performance by departmental management is excluded, and it is virtually impossible to form any objective judgment from the Estimates as to the desirability of continuing, modifying, or enlarging specific programmes in the public interest.

Senator O'LEARY (*Antigonish-Guysborough*): We do not have to agree entirely with that. I think both are required.

Senator ISNOR: I should like to support Senator O'Leary's thought. From my experience in the House of Commons I am inclined to think that there would be a great many more questions, and more time used up in seeking information which is not presented in the estimates. I quite agree with the recommendation made from a business point of view. Perhaps you could condense the information in the estimates as to banks and the larger companies in their annual reports. A large number of details could be eliminated, but the fact that you have 265 members who are seeking information of a detailed nature must be taken into consideration. That seeking of information could consume a very large amount of time. I make the comment, Mr. Chairman, that the Treasury Board officials should take into consideration the suggestions offered by Senator O'Leary.

The CHAIRMAN: In addition to setting out the objects and programs, the figures with respect to the nature of the expenditures would still be given for those programs? Am I correct in that, Dr. Davidson?

Dr. DAVIDSON: Not necessarily in terms of the standard objects as they are now set out in the book of estimates.

The CHAIRMAN: Not the items of salaries, and so on?

Dr. DAVIDSON: That is correct.

The CHAIRMAN: That is the point that Senators O'Leary and Isnor are making, I think.

Senator ISNOR: That is correct, and all I ask is that Dr. Davidson takes that into consideration.

Dr. DAVIDSON: I was going to make this point, Senator Isnor, that what I am trying to set out here is merely the doctrine as it appears in the Glassco Commission's report. I should immediately add that we are approaching our examination of what can or should be done to change the form of the estimates with a reasonable amount of prudence and caution. I have already said, for example, that we have put certain proposals before the Public Accounts Committee, and the Public Accounts Committee has indicated its concurrence along certain lines.

Reference has been made to the fact that we have underway at the present time four financial management studies in four separate departments of Government. What we are really trying to find out is the extent to which it is possible and desirable to fit the Glassco suit of clothes—as it might be called—on the Government departments which are responsible for carrying out the programs ordered by Parliament.

Personally, I believe there is a great deal to be said for most of the recommendations that the Glassco Commission has made in the field of financial management, but I want to assure myself—and I am sure the Government and the departments want to assure themselves as they go along—that these are in fact of practical application; that such changes are in fact made acceptable to the members of Parliament, and that there is agreement that the changes we are hoping to make in the form of the estimates will not only lead to improved management practices in the day-to-day administration of government, but will also assist the Members of Parliament in understanding more than they do at the present time of what it is that the Government is endeavouring to accomplish with the money it is asking Parliament to vote. I realize full well that a good deal of the information in the Book of Estimates, as it now appears, is interesting to Members of Parliament, that it satisfies their curiosity in respect of many things which are interesting. I think we have to take this fully into account.

I suggest also, however, with deference, that the Book of Estimates—which is presented annually to Parliament—is one of the most important documents in the field of Government that appears from year to year, and that therefore we must make this document purposeful, if I may say so, as well as interesting in the sense that it satisfies the curiosity of individual Members of Parliament as to what is being done with respect to certain matters in their own particular part of the country.

Senator CRERAR: I am glad to hear that comment from Dr. Davidson. There is nothing more important in a democracy than the amount of money the government takes out of the people's pocket in taxes and what it does with the money. That is the real purpose and business of government, that we largely have lost sight of. These suggestions by Dr. Davidson are very interesting.

The implementation of the recommendations of the Glassco Commission are important. One of the drags—and I do not wish to be misunderstood—in economic administration, in a sense, is the Civil Service Commission. I found that when I was in administration, in a cabinet portfolio, and I was really trying to do a job, the lack of control over your staff was a handicap in economical administration. I can quite understand why the aura developed around the Civil Service Commission. It was to prevent abuses through patronage and in other ways. I have long held the view that every person who comes into the Civil Service should come in through the Civil Service door, through the Commission's door. The Commission should certify. But once an individual gets into a department, I think that the officials there, the deputy officer who is really the administrative head of the department, should have the authority to place him and to promote him without reference to the Civil Service Commission.

I suggest this—and this is my last word. I received a good many very sound ideas from reading the biography of Viscount Waverley, who was Sir John Anderson in the British Government. He was a very remarkable civil servant. I was interested in reading about the times he walked five miles to school near Edinburgh each morning, right up to the time when he wound up by having his name suggested to King George by Churchill—that “if anything happens to me while I am away, I suggest that you send for John Anderson to take my place.” That is the caliber of the man.

This story of how he qualified himself for the lowest rungs of the civil service and then by merit and sound administrative capacity rose up to the top, is a very interesting story. I suggest to Dr. Davidson that it might be of interest to him to read this story.

The CHAIRMAN: I think he has done fairly well.

Senator McCUTCHEON: Dr. Davidson has said that the view of the Glassco Commission is that the proposed new form of estimates would make for a much more informed debate when you are debating whether a department should undertake a particular project or program, whether that program is obsolete now and should be eliminated, or whether this project should or should not be eliminated. Now you have questions in Parliament as to how many clerks you have.

The argument also is made, and I agree with it, that the deputy minister, charged with carrying out a particular program, can be made much more responsible than if the program he is carrying out is merely to assign work to a set number of people being paid a set sum.

That surely is what the Glassco Commission is trying to get at. At the same time, a Member of Parliament may ask about salary or pay, did a person do this or do that.

Senator O'LEARY (*Antigonish-Guysborough*): How are we going to get that in the presentation of estimates?

Senator McCUTCHEON: I suggest you should not get it in the presentation of estimates. There are other ways of getting it, if you want it.

Senator O'LEARY: (*Antigonish-Guysborough*): In committee, in the departmental examination?

Senator McCUTCHEON: By questions on the Order Paper or by discussion with officials, after the minister has given authority to have such discussions.

Senator ISNOR: I think Senator McCutcheon forgets that in the initial statement made by the minister, he indicates that as a rule he does the very thing that Senator McCutcheon is asking for. He outlines his program; but that is not included except as to the expense, in the estimates.

The CHAIRMAN: I think the two things are compatible and you do not necessarily have to eliminate the nature of the expenditure, if you are still dealing with the program under a department.

Senator GROSART: My point was covered by Senator McCutcheon.

Dr. DAVIDSON: There is one other aspect of this that I should mention. From the point of view of the departmental management of expenditure, it is assumed, I think, that when Parliament votes funds for departments, they expect the departments to try to live within the limits of the funds provided, and they expect that they administer those funds in a responsible and prudent manner.

I think there is increasing evidence that from the point of view of departmental management and control of the funds voted, particularly in a country as widespread as Canada, the present detail of estimates broken down on the basis of these primary objects of expenditure, is not as effective in helping departments to control their expenditures as would be a vote structure and a control structure based upon individual programs.

Let me illustrate what I mean by that. If you have, for example, a vote which contains a certain provision for salaries, postage, travel and other familiar items in detailed objects of expenditure, and let us say Parliament votes a certain amount of money on the basis of those details, for this particular operation, what happens then?

When the department has received the authority from Parliament to spend this amount of money, it then has to proceed to break this down in such a way that the administrative or local offices, scattered across the country, know what it is that they have to work with. If you simply try to break it down on the basis of salaries, postage, travel expenses and all the detailed objects of expenditure, you get a kind of compartmentalization—and particularly of the small items and unrealistic items of compartmentalization—which renders an attempt to control the expenditure and to pin the responsibility for controlling expenditure on the local office manager, rather unrealistic.

The result of this—and this is reflected in the larger volume of the Glassco Commission Report—is that in effect, once these funds are voted by Parliament on the basis of details shown of detailed items of expenditure, there has been an increasing tendency for departments to control the expenditure on a year-round basis, on the basis of year-round budgeting.

As the Glassco Commission points out, they discovered in 1961 that in respect of 180 of the 495 votes, once they had been voted by Parliament in the traditional form, the control that was being exercised by the departments was a control based on the concepts of program budgeting. In other words, they took the salaries and other items as broken down, and they converted them into a budget which they then gave to the, let us say, manager of the Unemployment Insurance Commission, or the National Employment Insurance office, and they said, "Here is the total budget of expenditure representing the program of the Unemployment Insurance Commission office"—or the National Employment Insurance office, or the Indian Affairs Agency in Red Lake—"and this is the budgeting; we expect you to live on it in the course of this fiscal year." Now by providing each of these responsible centres with a budget and requiring them to live within that, you are thereby enabling the departments to fix responsibility on their individual officers and to hold them responsible for the fact that they have failed to live within the budget; whereas under the present arrangement based upon a control related to the detailed objects of the expenditure, if you suddenly find your primary, your impostage, telegrams and postage, have been exhausted after nine months, then it is pretty hard to find out, without doing a complete canvass of where that money has been spent all across Canada, what is responsible for the fact that you have not been able to live within your budget of expenditure under that particular primary. Therefore, the thinking which has been developed as a result of our examination of the Glassco recommendations certainly supports the view that from the point of view of management, departmental control of the expenditures, once they are voted by Parliament, a shift to program budgeting as distinct from the breakdown that we provide to Parliament and try to live by now—that this shift is desirable.

The CHAIRMAN: Along that line, Dr. Davidson, within the total amount of a particular vote, the department can vary the amounts spent under the various headings?

Dr. DAVIDSON: Under the present circumstances, Mr. Chairman, they can only do that with the specific permission of Treasury Board. You cannot transfer between allotments without—

Senator McCUTCHEON: A lot of the work of Treasury Board would not be required if your votes were in the other form.

Dr. DAVIDSON: If you found under postage, telegrams and so on, you were going to exceed your budget, you would have to make a departmental submission to the Treasury Board asking for permission to transfer money out of another allotment—salaries or transportation expenses, into this. This is what makes for a good deal of paper work, which is good for the pulp and paper companies, but does not really add to the possibility of a streamlined, crisply-moving operation.

Senator HAIG: Why should that have to go to the Treasury Board? You have a budget from a certain department, why not keep that within the department itself?

Dr. DAVIDSON: The simple answer to that is that the law requires that you go to Treasury Board now.

Senator HAIG: The law is an ass.

Senator McCUTCHEON: The simple answer is that Parliament has not added "x" million dollars to a program; it has voted a certain amount for postage, and there must be some authority after that, I take it, to add or take away from it?

Dr. DAVIDSON: Could I just make one modification of that, Senator McCutcheon? Strictly speaking, Parliament does not vote money on the basis of the details of services. Parliament votes money only on the basis of the main vote headings. Therefore, it is not strictly correct to state that Parliament votes \$6,000 or so for postage; but the provisions of the Financial Administration Act clearly set out that when Parliament votes money on the basis of the main vote headings the responsibility is on the Treasury Board to ensure that that money is spent in accordance with the details of services printed in the estimates, unless the departments seek individual authority for specific alterations in that expenditure pattern from Treasury Board.

Here I should like to draw attention to what I believe to be the central question raised by all of the Glassco Commission recommendations, in the first volume, relating to the role of the Treasury Board, the financial management and the personnel management. That is, what should be the division of responsibility as between the central agency, such as the Treasury Board, the Civil Service Commission, the control of the treasury and the individual departments? Should there be a high degree of centralized control to a point where if you want to get more money for postage, and you have money to spare under travel expenses, you have to come to a central agency to get permission; or should there be an attempt to vest a larger amount of operational and administrative responsibility in the departments themselves and hold them accountable for performance, so that they pay the price if they fail to discharge the trust that is placed in them? The Glassco Commission says essentially this, that as a result of certain weaknesses which became apparent in the departmental administration in both the personnel fields and in the financial management fields, it became necessary to take a measure of responsibility away from the departments in respect of both personnel management and in respect of financial management.

Putting it bluntly, the Glassco Commission records as an historic fact that departments found they could not resist the pressures, and therefore the Civil Service Act came into effect, taking responsibility in many fields of personnel management out of the hands of the departments which could not resist these pressures, and vesting them in a central control agency, the Civil Service Commission. In the thirties, when the depression came along, it was discovered that departments were not handling their own accounting and financial management responsibilities adequately, that there was loose and ineffective control. Therefore, the Consolidated Revenue Audit Act was passed, and the control by Treasury Board was passed for the purpose of exercising central control, with free audit, and all the other common accounting services provided in all of the other central control mechanisms that are attendant with the control of the treasury's office. The result admittedly, as Glassco points out, was the tightening up of the correctness of the individual decisions that were being made; and this was in an era when the expenditures of federal Government amounted to something in the neighbourhood of \$300

million to \$500 million annually. It is essentially this pattern of central control in the personnel management and the financial management fields which is in possession today. In the meantime, the expenditures of the federal Government have risen from \$500 million or less to \$7 billion.

Senator ISNOR: But in the thirties was that not due to the tightness of money, the unemployment situation, and general business conditions, and so the Government and the Treasury Board through the Minister of Finance took steps to curtail expenditures across the board?

Dr. DAVIDSON: I think that is what brought this thing to a head; but I think also that if you go back to the record of the thirties, you will find that the Government decided it was necessary for them to curtail expenditures because they could see ahead the difficulties of raising the funds to meet the budgetary requirements, and when they turned to the departments they found, through the failure of departments to control by their own internal mechanisms their former commitments, that obligations, looking to future fiscal years, had been incurred which could not in fact be avoided. Therefore, the degree of control the Government could exercise over its efforts to contain expenditures in a future fiscal year was largely nullified by the fact the departments had pushed forward expenditure obligations into an ensuing year and had made commitments for an ensuing year, and so on, and the Government's position was largely "mortgaged" even before the fiscal year began. It was this that led to the conclusion that, frankly, departments could not be trusted to manage their own affairs financially, and that a watchdog in the person of the office of the Comptroller of the Treasury must be established.

The point Glassco makes is that the control mechanisms which might have been satisfactory and necessary from the point of view of the 1918-1930 period have, by the sheer growth of the size of Government, become unwieldy, to the point where they are now interfering with the effectiveness of administration.

A simple illustration, as Glassco points out, is that 16,000 submissions a year have to be made to the Treasury Board by departments seeking authority from the Treasury Board, because of the requirements of the law, to make small decisions, many of them very small decisions that under normal circumstances you would expect a responsible senior executive, to whom you are paying \$20,000 a year or more—that is to say, the deputy minister of a department—to make on his own.

Senator McCUTCHEON: \$7.50 for tea and cakes.

Dr. DAVIDSON: From the point of view of what should go to the central control agency of the Treasury Board, I think it might help to ask yourselves the question, "Is this a matter that is so important that it should require a decision by six cabinet ministers sitting in judgment on this question; or is it a matter that people you are paying salaries to should be required to decide for themselves and should be held responsible for deciding in the proper fashion?"

Any of you gentlemen here who have sat on Treasury Board will, I am sure, confirm the statement that the vast majority of items that come to the Treasury Board under the present regime or arrangements certainly do not require the joint and collective wisdom of six cabinet ministers to decide. In fact, it is questionable whether the decision should even require the attention of the minister of the department himself, provided you have the proper regime of departmental responsibility and accountability built back into the department.

What the Glassco Commission is saying, in effect, is this: You are over-protecting the departments at the present time by building around them such an elaborate system of protective controls that no matter how many mistakes a person may make, all those mistakes are caught by the protective mechanisms that are built around him in the central control agency. Therefore, the Government is assured, in one way or another, that the right decision will be made about this expenditure of \$100, \$200 or \$300. What is lost sight of in the process

is that you are paying several people salaries to make sure the right decision is made. You are paying one person in the department to start the thing off wrongly by not making a decision, or not making the right decision in the first place, and you are paying two or three other people to make sure his wrong decision is corrected.

The Glassco Commission says you should put the responsibility back on the department where it belongs for decisions in this detailed area. They are being paid to discharge this responsibility, and they should be required to discharge it and should be held accountable for failure to discharge it. The role of the so-called central control agencies—which are now making many of the decisions the departments should be making for themselves, and are being paid to make for themselves—should be to provide guidelines on policy, broad directions within which departments are required to remain in detailed decision-making. Furthermore, they should provide an examination and assessment of the performance of departments so that if it is discovered a department is not managing its financial affairs along the lines laid down by policy directives of the Treasury Board, those departments are held accountable and are brought to the table and required to explain to the ministers sitting on the Treasury Board why they have failed to carry out the policies laid down by the six or seven ministers.

Here is an area where the collective judgment of half a dozen ministers becomes meaningful and significant, because they are then in a position to make an assessment of the quality of performance of the particular deputy minister and his senior officials; whereas at the present time the central control agencies are so preoccupied with making the myriads of individual detailed decisions which should under proper arrangements be taken by the departments themselves, that they cannot see the wood for the trees. They have not the time or the means of assessing the performance in the broad qualitative terms that are required of the individual departments.

May I just remind you that what I am saying here is what Mr. Glassco has set out as being his assessment of the weaknesses of the present arrangement. The essence of this is that responsibility should be vested in the department for the detailed decision-making, and the role of the central agency should be that of broad decision-making, stimulation, leadership, policy directives, and so on. That shift in responsibility for decision-making to the departments must mean, if it is to be consistently carried out, that when this responsibility is shifted to the departments the departments, in turn, must not centralize this control at departmental headquarters. They must, in turn, be equally concerned with the decentralization of their responsibilities to the heads of their regional offices or to their people in the field.

It is here that program budgeting comes back into the picture, because to make this regime work effectively—to carry the responsibility down to the point where you can pinpoint blame or the breakdown of control of the official who should be held responsible and accountable to do this, you really need a system based on program budgeting to make this operationally possible. It cannot really work effectively on the basis of a system of budgetary control based on standards, details, objectives of expenditures we have at the present time.

Senator CRERAR: I agree almost 100 per cent with the analysis given by Dr. Davidson on the real, administrative problems. Decentralization, yes. The amount of centralization that goes on in government services is an important factor in adding to the whole cost of administration. I found that in my ten years' experience as a cabinet minister, but I think there is something a little bit more that might be touched upon. My theory was that the deputy minister was the administrative officer; that anything touching policy was a matter for the minister's or the cabinet's decision.

On the other hand, if you have a deputy minister as the administrative officer and there is a civil servant out, say, in Winnipeg who is responsible for a certain area and he falls down, what happens then? There is where one of the weaknesses, I think, in the whole government administration is today. Ordinarily, in a private business or corporation that fellow would be called in and you would say "Look, you have one more chance. If this kind of mistake happens again, you are out." You cannot say that in the civil service, because we have this theory—at least, I do not know whether it has changed since my day, but you have the theory that once a servant is admitted into the sacred circle of government administrators, high or low, you cannot dismiss him unless you find him guilty of fraud or theft, or something of that kind. This is the fundamental weakness in the whole area of government administration. It may be a matter of a clerk who is getting only \$2,000 or \$3,000 a year. He feels secure, if he does not steal or get drunk or something of that nature when he is working. Because of this feeling of security he tends to lie back on the oars. I merely mention that as a factor which I think is of tremendous importance.

Senator BAIRD: How many officers are there in the Treasury Board?

Dr. DAVIDSON: You mean staff?

Senator BAIRD: Yes.

Dr. DAVIDSON: About 92, I think, including clerks and all the rest of the staff. There are going to be more, Senator Baird.

Senator BAIRD: Well, if that is the case I am going to get out of this country.

The CHAIRMAN: Senator McCutcheon.

Senator McCUTCHEON: Dr. Davidson, I think the Glassco Commission touched on other facets of this. It suggests that a tendency has developed to pass the buck to the Treasury Board. Certain departments have a decision which they can make themselves, but if they feel that they can get the imprimatur of the Treasury Board, then, in two years or three years nobody can come along and ask why they did that.

Dr. DAVIDSON: There are two kinds of departments, Senator McCutcheon, those who do that, and those who don't do that.

The CHAIRMAN: Are there any other questions of Dr. Davidson on what he has presented to us? I think we got a very good introduction into the Glassco Commission report this morning.

Hon. SENATORS: Very good, very good.

The CHAIRMAN: It has certainly given us something to think about. Dr. Davidson, have you any further information you would like to give us?

Dr. DAVIDSON: No.

The CHAIRMAN: If there are no further questions, I think we are coming to the time for adjournment. As to our next meeting, having regard to the fact that next week might not be convenient, I would suggest that we might be meeting two weeks from today, unless something should interfere in which case a notice will be sent out as to a meeting next week.

Senator ISNOR: Leave it to the chairman.

The CHAIRMAN: There should be a meeting of the steering committee this week, and I shall arrange to call it.

Senator CRERAR: That means if the Senate is sitting next week.

The CHAIRMAN: If the Senate is sitting next week then I think we should arrange for a meeting.

The committee adjourned.



**APPENDIX "C"**  
**FEDERAL CIVIL EMPLOYMENT**  
**ANNUAL ESTABLISHMENTS IN MAN-YEARS AND (STAFF STRENGTHS)**

	1965		1964		1963	
	Establishment	Establishment	(Strength)	(Strength)	Establishment	(Strength)
			(29/2/64)	(29/2/64)	(31/3/63)	(31/3/63)
Agriculture.....	10,467	10,495	(9,081)	10,435	(9,089)	
Atomic Energy.....	17	16	(14)	15	(14)	
Auditor General.....	183	180	(157)	180	(154)	
Bd. of Broadcast Governors.....	40	40	(37)	40	(37)	
Chief Elect. Officer.....	28	80	(18)	17	(19)	
Citizenship and Imm.....	4,994	5,054	(4,794)	5,205	(4,950)	
C.S.C.....	836	841	(716)	810	(680)	
External Affairs—						
Department.....	2,566	2,578	(2,432)	2,465	(2,312)	
I.J.C.....	12	12	(11)	12	(10)	
Finance.....	5,925	5,883	(5,038)	5,823	(5,113)	
Fisheries.....	2,722	2,665	(2,099)	2,648	(2,219)	
Forestry.....	1,350	1,275	(1,166)	1,275	(1,055)	
Gov. Gen. Office.....	30	18	(16)	17	(16)	
Industry.....	630	313	(91)	—	—	
Insurance.....	110	110	(101)	110	(99)	
Justice.....	3,956	3,626	(3,395)	3,558	(3,224)	
Labour—						
Department.....	764	761	(654)	684	(610)	
U.I.C.....	11,451	11,291	(10,345)	10,929	(10,078)	
Legislation.....	928	888	(1,009)	903	(518)	
Mines and Tech.—						
Department.....	3,639	3,551	(3,215)	3,531	(2,845)	
Dom. Coal Bd.....	19	19	(14)	19	(16)	
Nat. Film Board.....	726	716	(767)	705	(740)	
Nat. Gallery.....	71	67	(55)	67	(59)	
National Health.....	5,722	5,479	(4,840)	5,503	(4,861)	
National Research.....	3,403	3,403	(3,116)	3,392	(3,114)	
National Revenue.....	15,518	14,995	(14,917)	15,106	(14,384)	
Northern Affairs.....	3,827	3,877	(4,346) <sup>4</sup>	3,815	(4,350) <sup>4</sup>	
Post Office.....	29,831	29,303	(27,830)	28,815	(27,411)	
Privy Council—						
Department.....	206	195	(167)	264	(188)	
Economic Council of Canada.....	99	99	58	—	—	
Public Archives and Nat. Library.....	310	308	(208)	202	(183)	
P.P. and Stationery.....	195 <sup>1</sup>	1,859	(1,688)	1,858	(1,717)	
Public Works—						
Department.....	9,783 <sup>2</sup>	8,455	(8,318)	8,539	(8,215)	
N.C.C.....	541	536	(419)	541	(394)	
R.C.M.P.....	9,152	8,920	(8,585)	8,870	(8,491)	
Secretary of State—						
Department.....	1,063 <sup>3</sup>	910	(740)	833	(738)	
Atlantic Dev. Bd.....	9	7	—	6	—	
Office of Representation Comm.....	17	—	—	—	—	
Trade and Commerce—						
Department.....	4,432	4,170	(3,917)	4,182	(3,792)	
Nat. En. Board.....	74	73	(62)	73	(60)	
Transport—						
Department.....	15,748	15,794	(14,346)	15,679	(13,927)	
Air Transp. Bd.....	94	90	(83)	90	(78)	
Bd. of Transp. Com.....	183	183	(163)	179	(159)	
Can. Marit. Com.....	27	26	(25)	26	(25)	
Veterans Affairs.....	14,366	14,367	(12,978)	14,380	(13,090)	
<b>Total, Civil Depts.....</b>	<b>166,064</b>	<b>163,528</b>	<b>(152,031)</b>	<b>161,801</b>	<b>(149,034)</b>	
Defence Production—						
Department.....	3,672 <sup>1</sup>	1,752	(1,604)	1,647	(1,506)	
E.M.O.....	223	220	(178)	—	—	
National Defence.....	46,131	52,425	(48,235)	52,971	(48,590)	
<b>Total, Defence Depts.....</b>	<b>50,026</b>	<b>54,397</b>	<b>(50,017)</b>	<b>54,618</b>	<b>(50,096)</b>	
<b>Total, All Depts.....</b>	<b>216,090</b>	<b>217,925</b>	<b>(202,048)</b>	<b>216,419</b>	<b>(199,130)</b>	

## NOTES:

<sup>1</sup> 1,706 man-years were transferred during 1963-64 to Defence Production—Department.  
<sup>2</sup> 1,514 man-years were transferred for 1964-65 from National Defence for the upkeep of Fort Pepperell, Fort Churchill and the Northwest Highway System.  
<sup>3</sup> The increase over 1963-64 reflects in part the transfer of the National Museum (139 man-years) from Northern Affairs and National Resources.

<sup>4</sup> Strength data provided by DBS include project labour chargeable to Construction and Repairs Allotments and, therefore, not reflected in the man-year establishment control figures. Winter works programs in recent years have resulted in the employment of many hundreds of workers during the winter months.

Treasury Board Staff

June 9, 1964.

## APPENDIX "D"

## DETAILS OF CIVIL STAFF COSTS FOR THE FEDERAL GOVERNMENT SERVICE

Departments	Estimates		Expenditures		
	1964-65	1963-64	1962-63	1961-62	1960-61
Agriculture.....	51.8	51.4	50.1	47.6	45.7
Atomic Energy.....	0.1	0.1	0.1	0.1	—
Auditor General.....	1.2	1.2	1.1	1.0	0.9
Board of Broadcast Governors.....	0.3	0.3	0.3	0.3	0.2
Canadian Broadcasting Corporation.....	—	—	—	—	—
Chief Electoral Officer.....	0.1	0.1	0.3	0.1	0.1
Citizenship and Immigration.....	23.8	24.5	23.0	22.1	20.9
Civil Service Commission.....	4.4	4.3	4.1	3.8	3.4
External Affairs.....	17.5	15.7	15.2	13.6	12.3
Finance.....	62.0*	33.8*	22.7	21.3	20.7
Fisheries.....	12.8	12.2	11.9	11.3	10.5
Forestry.....	6.7	6.5	6.2	5.9	5.2
Governor General.....	0.6	0.5	0.5	0.4	0.4
Industry.....	3.6	0.9	—	—	—
Insurance.....	0.7	0.7	0.7	0.6	0.6
Justice.....	25.1	22.1	21.2	19.4	17.8
Labour.....	49.8	45.6	45.6	43.1	39.7
Legislation.....	10.4	7.5	6.9	7.0	6.9
Mines and Technical Surveys.....	20.2	19.9	18.4	17.1	15.4
National Film Board.....	—	—	—	—	—
National Gallery.....	0.4	0.4	0.3	0.3	0.3
National Health and Welfare.....	26.8	24.8	21.8	22.6	20.7
National Research Council.....	20.2	19.4	19.2	18.2	16.7
National Revenue.....	78.7	74.1	72.4	69.2	67.3
Northern Affairs and National Resources..	20.2	17.7	17.9	17.0	15.3
Post Office.....	132.8	134.5	118.9	115.5	109.5
Privy Council Office.....	2.2	1.1	1.2	1.1	1.0
Public Archives and Nat. Library.....	1.0	0.9	0.9	0.8	0.7
Public Printing and Stationery.....	0.9	0.6	2.0	1.9	1.8
Public Works.....	39.4	33.0	31.9	31.5	30.3
Royal Canadian Mounted Police.....	5.1	5.2	4.5	4.1	3.4
Secretary of State.....	4.7	4.3	4.1	3.9	3.8
Trade and Commerce.....	23.2	21.5	20.6	19.7	15.8
Transport.....	82.9	81.4	75.7	71.4	64.4
Veterans Affairs.....	56.0	55.1	54.9	54.1	53.0
	785.9	720.7	675.7	646.0	604.7
Defence Production.....	14.0	12.1	9.4	8.5	7.8
National Defence.....	182.3	194.6	195.4	190.1	183.5
	196.2	206.7	20.48	198.6	191.3
	892.1	927.4	880.5	844.6	796.0

(Details may not add to totals owing to rounding)

\* Includes amounts in the General Salaries Vote intended for allocation to other Departments:

1964-65 — \$35.0 million

1963-64 — \$10.8 million

Treasury Board Staff  
June 9, 1964.

**APPENDIX "E"**

EXPENDITURES BY CIVIL DEPARTMENTS ON ACQUISITION OR CONSTRUCTION OF BUILDINGS, WORKS AND LAND  
(in \$ millions)

Years	Total	AGR	AECL	C&I	PENS	NRC	NANR	PWD	DOT	Other (under \$5.0 m)
1950-51.....	90.0	11.1	1.1	3.4	0.9	1.4	8.6	40.0	17.4	6.1
1951-52.....	88.6	9.3	5.2	2.6	1.1	2.1	3.3	42.4	16.1	6.5
1952-53.....	101.1	9.3	5.2	3.5	1.1	4.0	3.2	42.5	22.8	9.5
1953-54.....	119.6	10.6	3.7	4.2	0.7	2.3	2.7	56.2	29.8	9.4
1954-55.....	131.4	8.2	5.9	3.9	1.3	2.0	3.2	64.0	35.5	7.4
1955-56.....	147.8	8.0	7.1	5.0	0.9	1.8	6.0	74.9	36.5	7.6
1956-57.....	180.1	10.2	8.1	4.9	0.9	2.6	16.0	83.1	43.5	10.8
1957-58.....	208.6	9.0	6.1	6.8	0.7	2.7	24.3	94.0	55.5	9.5
1958-59.....	253.0	11.0	8.8	8.6	3.9	2.6	31.1	103.6	72.7	10.7
1959-60.....	255.6	15.3	10.1	9.6	5.0	4.0	34.9	93.0	72.3	11.4
1960-61.....	232.3	15.3	15.2	10.5	2.4	5.1	27.5	75.2	69.7	11.4
1961-62.....	242.7	19.9	6.8	10.2	3.9	5.2	30.8	67.8	85.1	13.0
1962-63.....	211.1	22.2	7.1	8.4	3.2	1.9	34.8	53.8	72.2	7.5
1963-64*	223.2	25.6	12.2	8.6	9.0	4.1	27.1	53.2	71.1	12.3
1964-65*	235.9	24.3	13.3	11.7	14.5	5.4	25.3	56.8	66.6	18.0

\* Amounts included in the Estimates for those years.

Treasury Board Staff  
June 9, 1964.

FINANCE

## APPENDIX "F"

EXPENDITURES BY CIVIL DEPARTMENTS ON ACQUISITION OR CONSTRUCTION OF EQUIPMENT  
(in \$ millions)

Year	Total	AGR	AECL	C&I	FISH	PENS	MINES	NH&W	NANR	P.O.	PWD	RCMP	DOT	Other (under \$1.0 m)
1950-51	15.9	1.6	0.6	0.6	0.5	0.3	1.0	0.5	0.8	0.5	1.2	1.0	4.6	2.7
1951-52	14.2	1.5	0.2	0.6	0.3	0.3	0.8	0.7	0.6	0.4	0.9	1.4	4.9	1.6
1952-53	18.0	1.7	—	0.5	0.3	0.3	0.7	0.8	0.6	1.1	0.8	1.2	8.2	1.8
1953-54	21.3	1.6	—	0.6	0.2	0.3	0.8	1.6	0.6	0.8	1.1	1.4	9.8	2.5
1954-55	24.5	1.7	—	0.6	0.3	0.3	1.8	0.6	1.1	1.2	1.4	1.5	11.6	2.4
1955-56	24.3	2.0	0.6	0.7	0.4	0.4	3.1	0.7	1.9	1.1	1.9	1.9	7.2	2.4
1956-57	28.0	2.0	0.5	0.9	0.9	0.4	1.6	0.9	1.7	1.5	0.6	2.4	10.9	3.7
1957-58	32.5	2.2	1.0	0.9	1.5	0.4	0.9	0.8	1.6	1.9	0.9	3.1	14.7	2.6
1958-59	45.3	2.1	1.3	1.2	1.4	0.4	1.5	1.1	2.6	1.1	1.6	3.4	25.2	2.4
1959-60	47.3	2.4	1.4	1.1	1.8	0.9	2.2	1.4	3.2	1.9	2.6	2.6	23.5	2.3
1960-61	40.2	2.3	1.0	1.3	1.0	0.7	2.7	0.9	2.4	1.7	3.7	2.2	18.0	2.3
1961-62	40.1	2.4	1.4	1.4	2.5	1.1	5.2	0.8	2.9	1.4	3.1	2.0	12.9	3.0
1962-63	42.0	2.2	1.3	0.9	2.5	1.2	6.6	0.7	2.3	1.1	1.3	1.9	16.4	3.6
1963-64*	46.5	2.4	2.0	1.1	2.5	1.0	4.6	0.9	2.2	1.1	1.6	1.9	21.9	3.3
1964-65*	67.6	2.7	3.5	1.3	2.2	1.6	5.2	1.0	2.9	1.5	2.9	2.3	34.1	6.4

\* Amounts included in the Estimates for those years.

Treasury Board Staff  
June 9, 1964.



Second Session—Twenty-sixth Parliament

1964

# THE SENATE OF CANADA

PROCEEDINGS

OF THE

STANDING COMMITTEE

ON

## FINANCE

To whom was referred the Estimates for the fiscal year  
ending March 31, 1965.

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The Honourable T. D'Arcy Leonard, *Chairman*

The Honourable H. De M. Molson, *Deputy Chairman*

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Wednesday, June 17, 1964

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No. 4

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WITNESSES:

Dr. Geo. Davidson, Secretary of the Treasury Board.

Mr. G. G. E. Steele, Under Secretary of State.

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APPENDICES

D—Treasury Board Tabulation (Corrected)

G—Statement on the South Saskatchewan River Dam

H—Statement of the Commonwealth Agricultural Bureaux

THE STANDING COMMITTEE  
ON  
FINANCE

The Honourable T. D'Arcy Leonard, *Chairman*

The Honourable H. De M. Molson, *Deputy Chairman*

The Honourable Senators:

Baird	Macdonald ( <i>Brantford</i> )
Beaubien ( <i>Bedford</i> )	McCutcheon
Beaubien ( <i>Provencher</i> )	McKeen
Belisle	Méthot
Bouffard	Molson
Buchanan	O'Leary ( <i>Antigonish-Guysborough</i> )
Burchill	Paterson
Choquette	Pearson
Connolly ( <i>Halifax North</i> )	Pouliot
Crerar	Power
Croll	Quart
Denis	Rattenbury
Dupuis	Reid
Farris	Robertson ( <i>Shelburne</i> )
Flynn	Roebuck
Gershaw	Savoie
Grant	Smith ( <i>Queens-Shelburne</i> )
Grosart	Stambaugh
Haig	Taylor ( <i>Norfolk</i> )
Hayden	Thorvaldson
Hnatyshyn	Vaillancourt
Horner	Vien
Isnor	Welch
Lambert	Woodrow
Leonard	Yuzyk (50)

*Ex officio members*

Brooks

Connolly (*Ottawa West*)

## ORDER OF REFERENCE

Extract from the Minutes of the Proceedings of the Senate, May 20, 1964.

"Pursuant to the Order of the Day, the Senate resumed the debate on the motion of the Honourable Senator Connolly, P.C., seconded by the Honourable Senator Hugessen:

That the Standing Committee on Finance be authorized to examine and report upon the expenditures proposed by the Estimates laid before Parliament for the fiscal year ending 31st March, 1965, in advance of the Bills based on the said Estimates reaching the Senate; and

That the said Committee be empowered to send for persons, papers and records.

After debate, and—

The question being put on the motion, it was—

Resolved in the affirmative."

J. F. MacNEILL,  
*Clerk of the Senate.*

THE HISTORY OF THE

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... of the ...

... of the ...



## MINUTES OF PROCEEDINGS

WEDNESDAY, June 17, 1964.

Pursuant to adjournment and notice the Standing Committee on Finance met this day at 10.30 a.m.

*Present:* The Honourable Senators: Molson (*Deputy Chairman*), Beaubien (*Provencher*), Belisle, Burchill, Crerar, Farris, Flynn, Gershaw, Grosart, Isnor, Lambert, Smith (*Queens-Shelburne*), Stambaugh, Taylor (*Norfolk*), Welch and Yuzyk. 16.

On Motion of the Honourable Senator Smith (*Queens-Shelburne*), it was Resolved to print Treasury Board Statements namely the South Saskatchewan River Dam and the Commonwealth Agricultural Bureaux as appendices G and H to these proceedings.

On Motion of the Honourable Senator Grosart, it was Resolved to reprint Appendix D, previously printed incorrectly on June 9th, 1964.

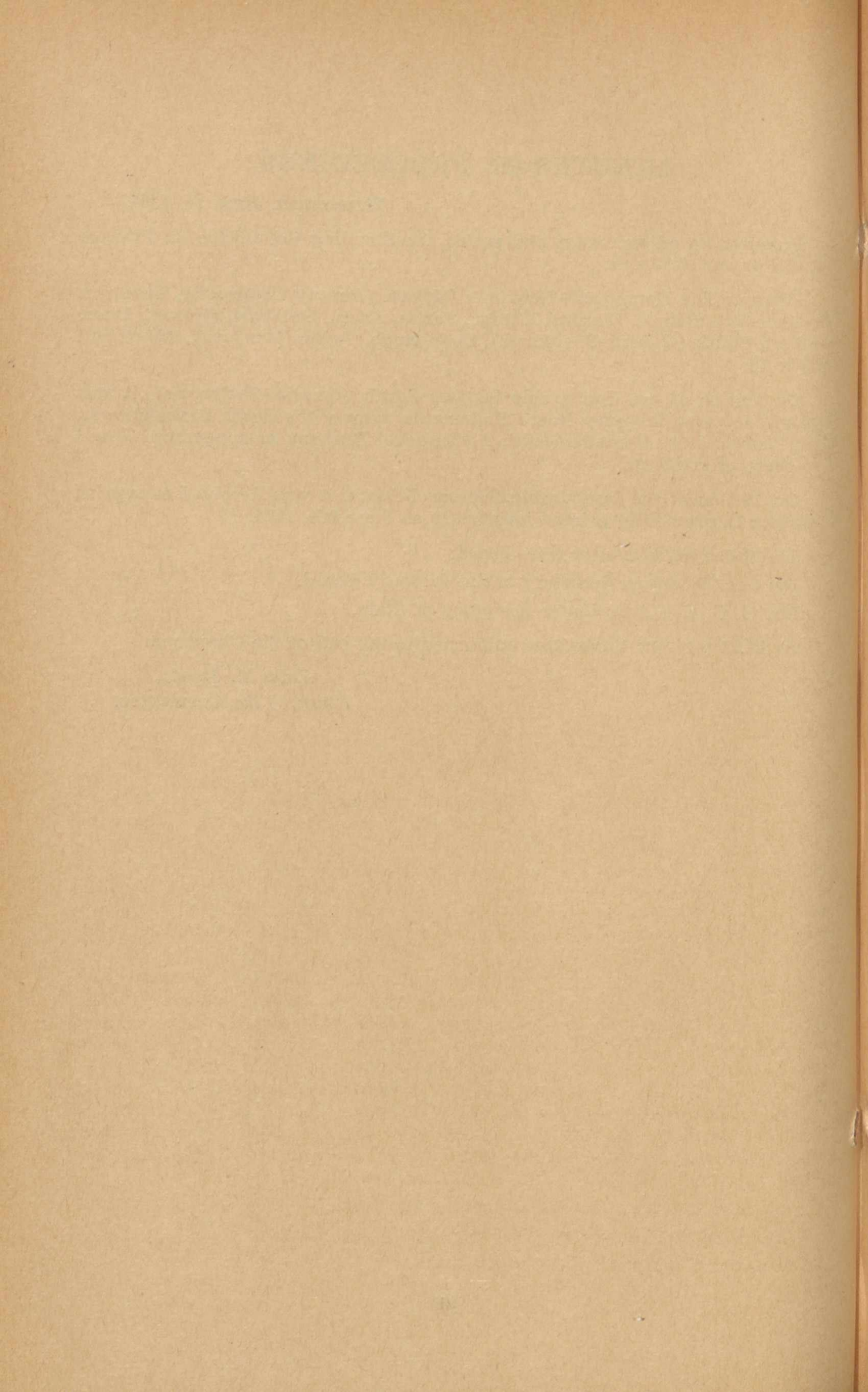
The following witnesses were heard:

Dr. Geo. Davidson, Secretary of the Treasury Board.

Mr. G. G. E. Steele, Under Secretary of State.

At 12.25 p.m. the Committee adjourned to the call of the Chairman.

Dale M. Jarvis,  
*Clerk of the Committee.*



**THE SENATE**  
**STANDING COMMITTEE ON FINANCE**  
**EVIDENCE**

Ottawa, WEDNESDAY, June 17, 1964.

The Standing Committee on Finance, to which was referred the Estimates laid before Parliament for the fiscal year ending 31st March, 1965, met this day at 10.30 a.m.

Senator HARTLAND de M. MOLSON (*Deputy Chairman*) in the Chair.

The DEPUTY CHAIRMAN: Honourable senators, I have been advised by your chairman, Senator Leonard, that he will not be here today, and I see also from the minutes of the last meeting's proceedings that you were kind enough, if that is the term, to appoint me deputy chairman, so I may take it it is your wish I should take the Chair?

Hon. SENATORS: Agreed.

The DEPUTY CHAIRMAN: We have with us today Dr. George F. Davidson, Mr. G. G. E. Steele and Mr. J. C. Allen, and at the last week's proceedings Dr. Davidson was reviewing the progress which had been made in connection with the recommendations of the Glassco Commission, and also what was under consideration in connection with the Glassco Commission report. In addition to that he put on the record four, I think, tables which he said would be discussed later, so I think, if you agree, we should ask Dr. Davidson to continue, if that is his wish also.

Hon. SENATORS: Agreed.

Dr. George F. Davidson, *Secretary, Treasury Board*: Thank you, Mr. Chairman. The tables to which the chairman has referred are found in the proceedings of the committee for the meeting of June 9, that is No. 3. I have not yet had an opportunity to review the text of the evidence that was given last week, but if there are any questions that honourable senators wish to ask on the tables at the end of last week's proceedings I am sure that either Mr. Steele or myself will be glad to answer them, either now or at a later stage in the proceedings.

I am sure that there are a goodly number of mistakes in the printed evidence which I have not yet had an opportunity to review, mistakes which I put in there, if not mistakes which crept in with the help of others. I do not propose to try to correct them now, Mr. Chairman, but there is one I would like to make a correction to, on page 84. I was in error in stating that the staff of the Treasury Board numbers 92. I was overlooking certain transfers that were made when the Bureau of Government Organization was transferred along with myself from the Privy Council office to the Treasury Board, and I was also overlooking the small staff that attaches to the minister's office. In all the correct number is 113 and not 92.

Senator GROSART: Mr. Chairman, have copies of that been distributed?

The DEPUTY CHAIRMAN: Yes, I got mine yesterday.

Senator GROSART: I did not get mine.

Dr. DAVIDSON: I also promised that we would table today answers to questions which were put earlier regarding the cost to date of the South Saskatchewan River dam and an explanation with respect to the purpose of the Commonwealth Agricultural Bureaux item in the estimates. I have for tabling, with your permission, Mr. Chairman, replies in English and in French to those two questions.

Senator SMITH (*Queens-Shelburne*): Mr. Chairman, I assume that would form part of our record?

The DEPUTY CHAIRMAN: I was just going to ask. I would assume we would append these to the record for today. Is that your wish?

Hon. SENATORS: Agreed.

(*For replies see Appendices G and H to today's proceedings*)

Dr. DAVIDSON: The chairman has drawn my attention to the fact there are some printing errors in the tables shown as Appendix "D" on page 86. The total which is shown at the bottom of the column marked 1964-65 estimates, the figure which is shown as 892.1 million should actually be 982.1 million. And on the third column, under "expenditures", the figure shown towards the bottom of the column for 1962-63 as 20.48 million should be 204.8 million. There should also be a million dollars indication, that all these figures are in millions of dollars.

Mr. Chairman, I apologize for the fact that towards the end of the last meeting I was somewhat carried away by my own exuberance and did not continue on my intended course of putting on the record the recommendations which the Public Accounts Committee of the House of Commons made with respect to changes in the form of the annual estimates. I would like to return briefly to that, if I may, and list the recommendations for this committee which were made a year ago by the members of the House of Commons Public Accounts Committee.

The House of Commons Public Accounts Committee recommended:

- (a) Adoption of the revised vote pattern proposed by the Treasury Board for introduction into the Main Estimates 1964-65 subject to certain improvements suggested by the Auditor General to the Committee.

That is what I have already referred to, a consolidated vote pattern which has the effect of reducing from 495 to something of the order of 250, the number of votes in a given year's estimates as shown in the printed book. That was done also by consolidation of the information without the subtraction of any information previously appearing in the estimates.

The second recommendation of the Public Accounts Committee was:

- (b) Inclusion of supporting financial information of Crown corporations and other public instrumentalities in the Details of Services for the purpose of providing better information to the Members and to the public with respect to the nature of the fiscal requirements of the Crown corporations and other agencies requiring financing by parliamentary appropriations.

This recommendation bears upon the fact that while the amounts required to be voted by Parliament for the needs of certain crown corporations appear in the main part of the estimates, supporting details have not traditionally appeared in the printed estimates in respect of crown corporations. It was the expressed view of the Public Accounts Committee that attempts should be made to supply certain supporting financial information in the Details of Services portion of future estimates presentations.

This does present certain difficulties because of the special relationship of crown corporations to Parliament, but this particular recommendation is under study at the present time. We are endeavouring to explore the problem with a number of representative crown corporations, and while we have no final progress to report on it at the present time we hope to be able to report at a later stage on what we think can be done to meet the wishes of the Public Accounts Committee in this matter.

The Deputy CHAIRMAN: Would that give greater detail than is now available in the accounts of those corporations, or in a different form?

Dr. DAVIDSON: It would not give greater detail. It would probably give considerably less detail, but I think the view of the Public Accounts Committee, if I am right in this—and Mr. Steele will certainly correct me if I am wrong—was that at the present time they are getting the details of the requirements of crown corporations in a separate document, and they wished to explore some means by which they would get this detailed information, to whatever extent it is possible to get it, included as part of the main estimates presentation, so they would be able to find, in one book, the total requirements of Government, both in respect of ordinary departments and in respect of various kinds of crown corporations which require funds to be voted by Parliament. Would that be a correct statement on the position, Mr. Steele?

Mr. G. G. E. Steele, Under Secretary of State: That is correct.

Senator CRERAR: How many crown corporations are there now? I have lost count. Are there about 22 or 23?

Dr. DAVIDSON: I think the number would exceed that, but this raises the very complicated question of what do we mean when we refer to crown corporations. There are, as you know, listed in the schedules to the Financial Administration Act four kinds of agency, and the crown corporations are listed under schedules A, B, C or D, depending on the particular nature of their corporate activities.

Senator CRERAR: I would suggest a good definition of a crown corporation is whether it is succeeding or failing, where the Government has to make good if it is on the wrong side of the balance sheet. I think that is a crown corporation.

Quite obviously, a crown corporation like the Canadian National and TCA probably—and I am not so sure about that, but certainly the Canadian National is in the red and the Government picks up the tab. A crown corporation like the Wheat Board, because it is an agent of the crown and it is really a crown corporation, pays its own way, although there is a possible contingent liability there if these countries to whom we sell wheat on time, on deferred payments, fail to make these payments. In that event the Government picks up the tab, or some export insurance corporation or something that is another creature of the Government.

I think it would be interesting, Mr. Chairman, if we could get a list of these crown corporations and see their financial history for the past five years, not in detail, but whether they were on the right side of the ledger or the wrong side at the end of the business year, and the amount. I want to make it clear to the committee that I am not partial to crown corporations at all; I don't believe in them except under very rare circumstances. I don't like to think that if these crown corporations run behind in the region of \$50 million, for illustration, then the exchequer or the Finance department has to put up \$50 million. I am cautious enough that I always like to know as far as I can what the possibilities are for the future.

The Deputy CHAIRMAN: Shall we ask Dr. Davidson if he could file a list of the crown corporations and the results of their last financial year?

Senator CRERAR: If it is not too much trouble I would say the last five years. I don't want to burden you down with work and maybe three years would do, but five years would be better to get a picture. I am satisfied there is nobody at this table who has any idea what the picture is. Would that be too much trouble, Mr. Steele?

Mr. STEELE: No, but I wonder if I might make one or two observations about this. "Crown corporations" is a generic term and it includes the various agencies listed in the amendments of the Financial Administration Act. What I was going to say was that for the ones we call the departmental corporations full information is in the bluebook each year. These are the ones that although they have corporate forms and have certain powers of their own by and large they come under the normal departmental estimates. I would cite, for example, the National Gallery of Canada or the National Film Board or some agencies of this kind that have some corporate powers.

Senator CRERAR: Those, in the whole picture, are small change.

Mr. STEELE: That is what I wanted to find out. I think you are referring to the agency and proprietary corporations. Some of these never appear in the estimates because they are completely self-contained. The extreme example is the Polymer Corporation which is to all intents and purposes a commercial corporation. Its borrowing powers are different, but they do have a balance sheet, a profit and loss account. It is like a private industry. Would it be your wish to receive a five-year report of all the profit and losses or a bank statement of the accounts?

Senator CRERAR: I would like that report to cover crown corporations where, if failure results, the Government picks up the tab. And I would like to get the story for five years to see how they are operating. Now quite obviously I think there will be a deficit in the aggregate mainly due to the Canadian National Railways, but at any rate I think that there would be definition. I don't want any statement of assets and liabilities. I think accompanying that statement should be a note of each one showing the Government guarantees, if any, that are outstanding.

Mr. STEELE: The contingent liabilities position?

Senator CRERAR: Yes, I know the Canadian Wheat Board is one in which the Government has some guarantees so far as that board is concerned. But I am concerned mainly with these deferred payment sales to China and other countries.

The Deputy CHAIRMAN: That will be other than the corporations in the bluebook?

Senator CRERAR: As I said a moment ago they are small change.

The DEPUTY CHAIRMAN: The CBC is here—\$88 million—that is not small change.

Senator GROSART: What proportion of employees of the federal Government are in crown corporations, using that term in the wider sense?

Senator CRERAR: About 150,000.

Dr. DAVIDSON: I think this can be found in the Glassco Commission report if you will give us a few moments.

Senator GROSART: My recollection is that the figure is about 140,000 out of some 250,000.

Mr. STEELE: More than that; the CNR is over 100,000 in itself.

Dr. DAVIDSON: Senator Grosart brings me to the third recommendation made by the Public Accounts Committee of the House of Commons. That is that there should be included in the estimates presentation additional information concerning the staff of all government departments and the crown cor-

porations and other public instrumentalities referred to under clause (b)—the number of employees actually on the payrolls at the latest date available during the course of the estimates preparation, and brief notes explaining proposed major increases in the size of establishments. I am quoting now from the report of the Standing Committee of the House of Commons on Public Accounts, the third report of that committee dated Friday, December 13, 1963. This would give in future estimate presentations full information bearing on the very point you have raised about the numbers of employees in crown corporations from year to year.

Senator GROSART: Did I get a wrong impression from your evidence last week that when you illustrated the new approach in the estimates one of the things that might be cut would be this statement of salary ranges and employees in each range? Is that a wrong impression?

Dr. DAVIDSON: That was not a wrong impression. If you look at the illustrative table shown in the detailed portion of the larger first volume of the Glassco Report illustrating how they recommend that the details of services be recorded in future in the estimates, you will find there is a tremendous compression proposed by them in detailing the lists of the number of personnel and the present salary lists.

Senator GROSART: Is there not a conflict between the recommendations in respect of crown corporations in this recommendation and the estimates for Government departments?

Dr. DAVIDSON: I think it completes the picture. I think you must examine the vote-by-vote elaboration of the detailed arrangements in the report of the Committee on Public Accounts—the committee recommendation is that this material be presented as additional information, and I understood it is the intention to present this in tabular form as a supplement to the details of services in the estimates book. You would have a tabular presentation without having it all spelled out in a separate vote in the main estimates presentation. These were the three recommendations of the Standing Committee on Public Accounts which were approved last year by the standing committee and some of them have already been adopted for the purposes of the 1964-65 estimates. The last mentioned is being adopted for purposes of future estimates presentations and the one I referred to respecting supporting financial information on certain crown corporations is being studied to see what can be done to meet the wishes of the Public Accounts Committee.

In addition to these three recommendations which have been adopted in Public Accounts they went on to approve three additional recommendations for changes in the form of the estimates, but for the reasons stated, the committee expressed the view that the implementation of these recommendations should be delayed until the Government is in a position to introduce program budgeting as referred to in its recommendations.

The three features for additional improvement are as follows:

- (1) The proposition that we should introduce interdepartmental billing for services rendered.

This matter was discussed extensively in the last two meetings.

- (2) That the estimates be prepared both on a "net" and "gross" basis.

That is, that revenues be credited to the separate votes in the estimates, and that the moneys which the Parliament should be asked to vote should be shown on a net basis after the deduction of earned revenues in respect of that particular operation.

- (3) The inclusion of appropriate explanations in the estimates in all cases where expenditures proposed for the year involve substantial commitments for future years.

These are the three recommendations on which the Public Accounts Committee expressed approval; but it also expressed recognition of the fact that it is difficult, if not impossible, to introduce these changes until the entire shape of the estimates' presentation was revised to reflect the principles of program budgeting.

The DEPUTY CHAIRMAN: That implies, also, a form of cost accounting, does it not? That is, if the charges were to each department as you were suggesting.

Dr. DAVIDSON: I think it is correct, Mr. Chairman, that it moves in the direction of a clear indication of a cost accounting principle. I think it would be possible to implement fully the recommendation of the Public Accounts Committee without going completely over to a precise cost accounting setup. It really depends upon how far you go in the detailed implementation of that particular recommendation.

Well now, sir, from the background of what has been done through the medium of the Public Accounts Committee, and the efforts that we have made to meet the wishes of the Public Accounts Committee for changes in the form of the estimates, I would like now to turn to the recommendations of the Glassco Commission as contained in their Financial Management Report which is Report No. 2 appearing in their first volume, and I would like to touch upon the recommendations made by the Glassco Commission in the financial report which have a bearing on the form of the Estimate Book.

The first of these is to be found on page 111 of the abbreviated report, volume 1, where the Commission recommends that the form of the Estimates be revised so that the votes will more clearly describe the purposes of expenditure, more comparable and complete supporting information will be provided, and unnecessary detail will be eliminated.

The three purposes as set out here are again: a clearer description of the purposes of expenditure—we believe that this would be accomplished better, if we try to develop the Estimates on the basis of program budgeting, than is possible from the present form of the presentation, where so much detail is listed that has relatively little meaning in terms of satisfying the needs of members of the House of Commons and the Senate for information as to the purposes of the expenditures.

The second point is, again, that more comparable and complete supporting information will be provided; and thirdly, unnecessary detail will be eliminated.

Might I just illustrate the problem that is inherent in this recommendation by drawing the attention of the honourable senators to a matter which is of peculiar interest to the Treasury Board, and that is that if you look at the Estimate Book which you have before you now, on page 125 you will find the Department of Finance Estimates shown both in the main outlines and in the details of services.

The Treasury Board staff that I have referred to in the previous sessions, as an organization is part and parcel of the Department of Finance, and yet you will look in vain for it through the details of the estimates as now presented from page 125 to the end of the Finance Department's estimates, on page 142. You will look in vain through these 17 pages which purport to give the picture of the Finance Department. You will look in vain for any details that recognize the existence of any organization known as the Treasury Board.

The Treasury Board is in fact buried in vote 1, the Departmental Administration Vote.

Mr. Steele draws my attention to the fact that the ministers themselves are not buried but the staff is.

You will also find under the heading "Departmental Administration" a list of things included within that administration, and a list of salaried positions. However, you will not be able to segregate what the cost of operating the Treasury Board organization is in any given year.



This illustrates the kind of information that it is not possible to get from the present Estimates Presentation, and it follows from the Glassco recommendation with respect to program budgeting as the basis of future Estimates Presentations, that if this were adopted, you would be able to examine the Finance Department's Estimates or the estimates of any department, and identify, function by function, the various responsibilities which that department carries out, and you would find the corresponding costing amounts reflected at least in a global sum with adequate supporting details, and not along the lines of the present supporting details in the Estimates.

Well, this, sir, is the first of the recommendations made by the Glassco Commission and I think it can be said that not only has the Government accepted this as a desirable recommendation, but is in the process of endeavouring to carry it out.

As you note also, sir, the form of the Public Accounts is tied up very closely to the form of the Estimates. One must be a reflection of the other, and consequently the Commission, at the same time that it made recommendations with respect to the future form of the Estimates along the lines which I have described, made comparable recommendations with respect to Public Accounts shown also on page 111 of the abbreviated version. The recommendation is worded as follows:

Further improvements be made in the Public Accounts to eliminate unnecessary detail and to explain variances between actual and estimatable expenditures.

I go on from there to indicate a number of other recommendations which the Glassco Commission has made, and which have been accepted by the Government, and which are in the process of being studied with a view to implementation.

The second recommendation affecting the Estimates directly is found on page 95 of the abbreviated version of the Glassco Report, volume No. 1, where it states that where appropriate, revenues should be offset against related expenditure, and that votes should be shown in the Estimates and controlled on a net rather than gross basis. This refers to the recommendation that has already been endorsed by the Public Accounts Committee, and has been accepted by the Government that where appropriate—and I emphasize those words “where appropriate”—where appropriate, earned revenues from given operations will be credited to the gross cost of that operation, and Parliament will be asked to vote only the net requirements rather than the gross requirements.

Senator FLYNN: Can you give us an illustration of that: “where appropriate”?

Dr. DAVIDSON: Yes, Senator Flynn. I might refer, for example, to one in my old department, the Citizenship Registration Branch.

This branch at the present time requires an appropriation of something of the order of \$900,000 to a million dollars a year to operate the citizenship courts across the country. There are revenues derived from the fees connected with applications for citizenship and citizenship certificates. I am a little high on those appropriation figures, Mr. Steele informs me that it runs between \$700,000 and \$800,000. There are revenues which are now shown in the estimates in memorandum form, running to \$450,000 or \$500,000 annually, so that the real requirement from the Consolidated Revenue Fund is normally something of the order of \$300,000 or \$400,000 annually. That is the present net requirement.

Presently Parliament is, in fact, asked to vote something of the order of \$700,000 to \$850,000 annually for this purpose.

Senator FLYNN: Could you indicate a case where you would have a surplus?

Dr. DAVIDSON: There are a few examples.

Mr. STEELE: The company's branch earns more than it costs. This is by a factor of four.

Dr. DAVIDSON: There are a few other examples also, and these would be reflected more clearly by a estimate structure of program budgeting with the crediting of revenues to the individual programs than can be reflected under the present arrangement.

Senator GROSART: Could this be applied to the Unemployment Insurance Commission?

Dr. DAVIDSON: Could it be applied?

Senator GROSART: Yes.

Dr. DAVIDSON: Well, it could be applied, in the sense that it has gross expenditures and certain offsetting revenues from contributions. In fact, the separate fund established for the Unemployment Insurance Fund is designed to isolate this operation as a separate operation from the main estimates and accounts of the Government. The same is true of a considerable number of other funds.

Senator FLYNN: It is done, in fact, in the case of the Unemployment Insurance Fund.

Dr. DAVIDSON: No.

Senator FLYNN: The cost of operation was not charged to the revenue of the commission?

Dr. DAVIDSON: Not in the main estimates themselves. The only thing that appears in the estimates from year to year with respect to the Unemployment Insurance operation is a two-fold item: one, the vote for the administration of the Unemployment Insurance Commission, which is a substantial amount of about \$50 million; and, secondly, the Government's contribution to the Unemployment Insurance Fund which is based upon the formula written into the legislation that requires the Government to contribute a certain amount in relationship to the combined total of employer-employee contributions. But the revenues accruing to the Unemployment Insurance Fund and the expenditures out of the Unemployment Insurance Fund are really carried in a separate account, because the fund is established as a fund outside the confines of the Consolidated Revenue Fund.

Senator FLYNN: The Government is contributing to the cost of operating the act, but it is not provided for by the act.

Dr. DAVIDSON: It is provided for by the act. The law requires the Government to contribute both the cost of the administration of the Unemployment Insurance Commission and the Government's contribution in relation to employer-employee contributions as well. In addition, when the fund runs into deficit the Government then has to make some loan or advance provisions.

Senator FLYNN: So you are not really applying this rule we are talking about?

Dr. DAVIDSON: Not unless you were to amend the Unemployment Insurance Act to bring the provision for funds for unemployment insurance, both gross and net, into the main estimates presentation.

Senator GROSART: I do not know whether this is germane to the topic under discussion or not, but I am still perplexed that on a recently celebrated week-end it seemed to be discovered within a few days of the catastrophe that the Unemployment Insurance Fund was broke.

Dr. DAVIDSON: Was that before or after the 15th May?

Senator LAMBERT: It was before.

Dr. DAVIDSON: Then that is Mr. Steele's question.

Senator GROSART: I merely identified it is a celebrated week-end.

Mr. STEELE: I could make what you would call a couple of germane observations. No one will ever be able to isolate the exact point you have in mind, for this reason, I think, that when the Unemployment Insurance Fund gets down to a level of, say, \$10 million, the float in the fund, which is handled on an imprest account basis right across the country, is something there is no way of obtaining an accurate day-to-day impression of. So the management of the fund has tended to be on the basis of historical experience with payments in and payments out. It is quite well known that at a certain time of year the draw-down has exceeded payments in by a wide amount. It happened that the time of year was such on this occasion that it did not make administrative sense to take any chances on it. Whether it went into deficit or not we cannot really tell, but you are giving authority to make advances.

Senator GROSART: I remember we were told that the fund had to obtain an advance from the post office, which seems strange to me—an advance of their own money which, I understood, was lying there. Is that correct?

Mr. STEELE: I could not answer that question, senator. This must have been an advance against funds which, as agent, the post office was collecting through stamp sales.

Senator GROSART: It seemed strange to me to call it an advance.

Mr. STEELE: I do not think it was in fact. It may have been an advance payment of funds due by the post office to the fund.

Senator FLYNN: Could the same problem arise in a department under a certain item, that there could be at one time a deficit? How complete is the control over expenditures of a department, if you are going to ask for supplementary estimates?

Mr. STEELE: It is absolute. Our commitment control system at the present time is such that the Comptroller of the Treasury must certify at all times that there is an unencumbered balance in the relevant vote.

Senator FLYNN: Could there be a commitment? It seems to me when the Government is asking for supplementary estimates it is claimed the money is already committed.

Mr. STEELE: This could happen under two or three types of conditions. For instance, Parliament, ever since the establishment of the Department of Finance miscellaneous, minor and unforeseen vote, and only to the limit of that vote—which, in the current year is \$3 million—has recognized the fact the Government may authorize temporary advances out of that vote to any vote in the estimates for certain things. If you get an emergency situation or something which crops up you can justify as having been unforeseen, then this would cause a supplementary estimate later, after the fact, which is really the point you are making. You might also get a situation where the purposes of the vote in any particular period of time or year may be diverted within the general policy to something which would cause a short vote by the end of that fiscal year if a supplementary estimate item did not come forward. But if that item was never passed it is quite certain the result of this would be that the department would have to cut back on its other programs in order to cover that.

Senator FLYNN: But there is the possibility of switching funds under a certain item to those under another one?

Mr. STEELE: Only within the vote authority.

Dr. DAVIDSON: Not between votes, and even within the vote authority the department must come back to the Treasury Board.

Senator FLYNN: I thought it was the exception you were giving me. If you are caught without funds under one item you have to economize under another item.

Mr. STEELE: Within the same vote.

Senator GROSART: Could you relate the two items on page 199 of the estimates, under Unemployment Insurance Commission, to the total income and expenditure of the Unemployment Insurance Commission?

The DEPUTY CHAIRMAN: Senator Grosart, Dr. Davidson is still giving his evidence. Could not we wait for Mr. Steele?

Senator GROSART: As you wish, though I thought it was arising from this particular point.

The DEPUTY CHAIRMAN: Perhaps it does.

Mr. STEELE: I am not in a position to answer the question, but we can obtain the answer. I think you would like to know how the amounts appearing in the appropriations relate to the total operations of the Unemployment Insurance Fund; that is, the amounts paid in and paid out of the fund.

Senator GROSART: My question is rather to the principle than to the dollars figure.

Dr. DAVIDSON: These two figures really have no relationship to the amount of income received by way of employer-employee contributions and the benefits paid out in any one year. The income received by way of employer-employee contributions and paid out in the way of benefits is never reflected in the estimates because by law it is established as a separate fund.

Senator GROSART: But it would be if that recommendation regarding showing net and gross figures were adopted?

Dr. DAVIDSON: No. It is, in effect, in a sense, a crown corporation or a quasi-crown corporation. All that is shown in the estimate books are two items for which parliamentary authority is required before the money can be spent, first of all, for the administration of the Unemployment Insurance Act, and that includes the insurance branch and the National Employment Service, being a figure of \$53 million. By the provisions of the Unemployment Insurance Act that is an obligation on the Government of Canada, payable under the Consolidated Revenue Fund. The second is the statutory amount of the Government's contribution to the Unemployment Insurance Fund which, as I recall it, is based on a formula which requires the Government to contribute one-sixth of the total contributions or one-fifth of the combined employer-employee contributions.

Senator GROSART: This would appear to be a good example of a situation where a further breakdown would add to the clarity of it, because, as you said, with regard to the \$47 million item, the majority of that expenditure would have nothing to do with the Unemployment Insurance Fund. It would mostly be the NES.

Dr. DAVIDSON: There is detail given on that on page 212.

Senator LAMBERT: Is the Department of Labour responsible for these estimates in connection with the Unemployment Insurance Commission?

Dr. DAVIDSON: The Unemployment Insurance Commission is responsible for its own estimates, Senator Lambert, but it does present its estimates through the Minister of Labour.

Senator LAMBERT: I was wondering if the Deputy Minister of Labour would have any intimate contact with the budgeting for the commission.

Dr. DAVIDSON: Under the law, the commission is established as a separate commission, but it reports to the Minister of Labour.

Senator LAMBERT: In the light of your remarks do members who budget for the requirements for the year ahead depend on the economic conditions of the country?

Dr. DAVIDSON: That is not the point I was making, but it is a fact that when Parliament passed the Unemployment Insurance Act it had in mind that it was desirable to establish a fund in which the surpluses of good years could be allowed to accumulate to meet the deficit over bad years. I think it can be inferred from the action of Parliament that Parliament did not consider, at the time it passed the act, it was sound to try to operate the unemployment program as an insurance program on the year-to-year basis requiring the inclusion of the total financial operation of the fund within the estimates presentation that has to be voted by Parliament. Therefore it provided by law that the income from contributions be set up in an operating fund and be allowed to accumulate from year to year, and it was into that fund that the revenues from contributions have been deposited each year, and it is from that fund that payments are made.

The DEPUTY CHAIRMAN: There is a report from which you can get the information you require but it isn't in the estimates presentation.

Senator LAMBERT: Would it be right to assume that the proportion in connection with the administration of this fund and its expenditures are closely related to the departmental contributions made to the fund?

Dr. DAVIDSON: I think the current problem is that the fund has in recent years been paying out more than it has received.

May I carry on? I would like to have one further comment with respect to the recommendation I read and which led to this discussion. You will note the recommendation of the Glassco Commission "Where appropriate this system of crediting the money to each individual vote should be adopted"—this does not mean each individual instance because sometimes the amount of revenues is so trivial in relation to the size of the vote it would complicate the estimates presentation if that were to be adopted as a rule in respect of each individual vote in the estimates. This is being interpreted to mean where the amount is not insignificant in relation to the gross cost, the principle of crediting the revenues in voting an item on the net basis should be adopted.

The DEPUTY CHAIRMAN: Is this not what is being done in the case of the Canadian Broadcasting Corporation? On page 54 of the estimates it shows a grant in respect of the net operating amount—is that not an exception to the general rule?

Dr. DAVIDSON: That illustrates what is being proposed as a general rule.

The DEPUTY CHAIRMAN: But it doesn't show the gross figure.

Dr. DAVIDSON: This is why the House of Commons Committee on Public Accounts made the recommendation I have already referred to as to the desirability of showing additional financial information in respect to those crown corporations receiving a substantial annual amount from Parliament. Going on, the commission recommended on page 94 that the number of votes in the estimate be reduced. This has been adopted in the 1964-65 presentation, and it went on to recommend that all cost elements in individual programs be consolidated within the same vote.

This second half of the recommendation has to be formally approved by the Government as yet because there are some difficulties in determining how far it is reasonable to apply this principle in actual practice. First of all, as already mentioned, in the estimates as now presented there is information presented in memorandum form under each vote heading showing estimated value of accommodation provided by Public Works, and for the cheque-issuing services of the comptroller and other costs.

We have gone a tentative step already in the endeavour to meet the Glassco recommendation that all cost elements in the same program be consolidated in the same vote. But to carry this to the complete extent which might be implied

by these words would involve a kind of precise bookkeeping operation which might actually produce more in the way of added expenditure than the additional information would be worth. Let me illustrate by referring to the proposition that if you were to be strictly logical about this you would try to allocate to each department the costs incurred by the Civil Service Commission in its efforts to recruit personnel for the individual departments, and if you then became involved in cost accounting calculations to determine what the cost per recruit was, in fact you can see the intricate and rather unnecessary bookkeeping operations that would be involved in making a calculation of this kind. Consequently the Government has felt it should proceed fairly cautiously with the acceptance of the second portion of this recommendation while recognizing the principle that it is desirable that members of Parliament should have, in one place at the time they are voting the money required for a given program, all of the true cost elements of that program either within the vote as presented or in the memorandum form presented at the present time.

The next recommendation which follows immediately after this is in many ways perhaps the most important one so far as the form of the estimates is concerned. That is the recommendation appearing on page 94 that the departmental estimates be prepared on the basis of programs of activity and not by the standard objects of expenditure.

We have already discussed this and I have tried to illustrate why, from the administrative point of view or from the point of view of the honourable members themselves, it would be more convenient for them to have the estimates information presented to them on the basis of programs of activities rather than by the standard objects of expenditure as now presented in most cases.

In this connection the chairman has brought my attention to page 330 of the estimates before you where there is a very good illustration of the use of program budgeting as a means of presenting the estimates in detail. If you look at Vote 15 of the Department of Northern Affairs and National Resources for national parks, you will see, for example, the details as they are broken down into head office, education and interpretative services, historic sites, western regional office, Banff park, Cape Breton Highlands parks, and so on down the line. For Senator Isnor I will mention also Fundy park and the Fortress of Louisbourg restoration program.

Senator ISNOR: Thank you.

Dr. DAVIDSON: This, in our judgment, gives to the members who are trying to find out all the costs what the operation really amounts to. This is better designed to give information of the kind that they need to make a proper judgment, than the kind of information that appears in the traditional details of standard objects of expenditure.

Page 332 also gives another illustration of this under a construction vote showing the breakdown as between construction of trunk highways, construction of other roads, bridges and trails, construction of buildings and other construction projects, acquisition of cars, trucks, and so on. Below that, the details again are broken down so far as construction is concerned by individual projects, namely the various parks which are the places in which the first mentioned kind of expenditures are being made.

Senator SMITH (*Queens-Shelburne*): Under Vote 20, would that give the authority to spend money on a new park not listed in the details?

How can the department spend any money at all on a new park, even the investigation of a new park, unless there is some vote given for authority to have a survey made and preliminary studies made?

Dr. DAVIDSON: Unless there is some provision made in the estimates under a specific heading, it cannot be done.

Senator SMITH (*Queens-Shelburne*): But it is being done in Nova Scotia, and I am wondering when you get to the place where land is being turned over in the Province of Nova Scotia where I live, how soon can the department be authorized to get in there and spend money this winter to relieve unemployment?

Dr. DAVIDSON: There are various means by which the Parliament, if it wishes, may give that amount of authority to a department. It can be put in under engineering services; it can be put in under minor projects, and you will notice, for example, under Public Works estimates that there is detail given, project by project, of a great many projects, and then a lump sum is included for miscellaneous projects not listed in the Estimates, which in their total sum cannot exceed a certain amount.

Senator SMITH (*Queens-Shelburne*): I had glanced through the National Parks Illustrations before, and I had not seen the item as you mentioned it which appears on the Public Works.

Mr. STEELE: May I just make an observation on the vote control by Parliament and the details in these estimates? The details do not form part of the Appropriation Act as such, when the act is passed by Parliament. This is traditional and is well understood, and the control or the authority that is granted to the Government or the Executive by the passage of the Appropriation Act by Parliament is confined to the vote total. The purpose of the vote is explained by supplementary information which appears in the Blue Book, and it is just supplementary information relating to the way in which the Government at the time it makes up the Blue Book indicates to the house the manner in which it intends to spend the money.

So that the direct answer to Senator Smith's question is that under the National Parks Act, or what Parliament enacts for national parks purposes, a case can be made for a new national park. It is rather a good question whether or not you can establish new functions of this type. Some new functions clearly lie beyond the scope of the vote authority itself, but it is the vote authority which governs, not the details.

Senator STAMBAUGH: I would like to ask a question. In Waterton National Park, if there are certain extra moneys which have to be charged, will this be against the park or what?

Mr. STEELE: Presumably. It would come as a first charge against this park. The Government might take steps to do this. As a consequence, they might find themselves short, thinking of their whole year's program, and they might have to come back to Parliament for a supplementary estimate for this purpose, but there is no doubt that they would move right ahead, on the authority which they have, to take whatever remedial action is necessary within the limits of the funds they have available.

Senator STAMBAUGH: At the present time is there any money which would come out of the vote?

Mr. STEELE: Right.

Dr. DAVIDSON: May I just tie up for Senator Smith a point made which may seem inconsistent as between what I have said and what Mr. Steele has said. I assume without looking at the vote that the wording would contain a formula which you will see on page 328 under Vote 15 where it ends up with the words "as detailed in the Estimates." This does have the effect of binding the Government, when Parliament votes the money, to abide by the breakdown shown in the detailed portion of the Estimates.

I think that is correct, Mr. Steele?

Mr. STEELE: Correct.

Dr. DAVIDSON: And I had assumed "as detailed in the Estimates" was actually contained in the vote heading of Vote 20, but I notice that it is not.

Senator GROSART: It would not bind them to spend money voted, if they did not need to spend it.

Dr. DAVIDSON: No, but if the words "as detailed in the Estimates" were in the black print on the heading of Vote 20, this would prevent the Government in the course of the year from diverting funds from, let us say, Fundy Park to Georgian Bay Islands Park, because the details of the Estimates sets certain limits on these two amounts.

Senator CRERAR: May I ask a question while we are on the national parks? Most, if not all, of the national parks derive some revenue from facilities such as golf. Take Riding Mountain Park, for instance, which happens to be in Manitoba and is why I speak of it. They have a golf course, and then there are certain rentals: cottagers come in and build cottages and pay ground rent of so much a year. There are certain concessions. I do not know whether it has changed since my day or not, whether a percentage of the gross take goes to the department. These revenues are collected by the park superintendent or his office. Are they still sent to the Receiver General in Ottawa?

Dr. DAVIDSON: Yes, sir.

Senator CRERAR: If a farmer goes in and gets a permit to cut ten cords of wood, for instance, for which he pays perhaps \$2.50, that revenue is sent to the head office of the parks and paid in to the Receiver General's account, and then, when he wants to buy some gasoline or some bit of equipment, he gets an authorization to do that, and the funds are forwarded to him to purchase this gasoline or lawnmower. Is that procedure still followed?

Mr. STEELE: In broad outline, that would be true, sir. The revenue which is generated from the parks operation normally cannot be diverted by any of the parks staff for parks purposes. It is paid into the consolidated revenue, as you indicate. The management of the parks appropriation is presently under study by these teams we have talked about. In fact, each park no doubt has what you call an imprest account to handle local day to day expenditures which would be managed within the over-all park appropriation.

Senator CRERAR: But the simple park office remits cash to the superintendent as a sort of petty cash account?

Mr. STEELE: Yes.

Senator CRERAR: To meet these needs for which he has to account?

Mr. STEELE: Yes, sir.

Senator CRERAR: Then the revenue secured goes to Ottawa and then the authorization, by way of petty cash for which he has to account, goes back?

Mr. STEELE: Yes.

Senator CRERAR: Mr. Chairman, I mention this because when I had the responsibility of administering these parks, I had a grandiose scheme that was going to change all that, and I would have changed it but that the war intervened and changes were ruled out.

Mr. STEELE: I think you would find a number of changes which have been designed to streamline the administration of this. For example, the deposit of moneys would be done locally and advised through the local treasury office.

Senator CRERAR: I think that is true. I do not know. If the Rocky Mountain National Park collects entry fees for cars, golf fees, rentals for concessions, say \$100,000 a year, that is sent in probably in 5,000 items week after week and then when any authorization is required to get grass seed or anything like that, authority has to come from Ottawa. Consequently, in the performance of that operation the amount of book work or paper work is enormous. What I



had in mind and frankly what I was going to put into operation, was to bond each park superintendent, give him a bank account in which locally he would deposit the receipts from the park, let him check out against that for these things he now gets by authorization, and then have that strictly audited with a running audit right through. I would have him bonded and his account bonded as a protection against any fraud. I venture to say that that would reduce the paper work in those parks by an amount that I cannot calculate.

One of my observations is that one of the great difficulties in Government administration is the centralization of everything in Ottawa and the colossal amount of paper work it requires, to keep the records of staff and rentals and telephones and so on. I merely mention that because I was a bit curious as to whether or not the same old archaic system, in effect since the parks were started, was still there.

Mr. STEELE: I would have to agree with everything you have said. There is one basic barrier, that is, that any use of funds that come into the Crown by way of revenue requires a special law. In other words, it requires a basic change in the law. This is what Mr. Davidson has been talking about in considering changes which would permit the netting out of the amount. These are received at present as public funds and can only be paid into the consolidated revenue fund. Payments out of that fund must be specifically authorized by Parliament, in other words, a vote must be passed.

Senator CRERAR: It would require a very simple amendment to do it.

Mr. STEELE: I am aware of that.

Senator CRERAR: It is quite possible to do it.

The DEPUTY CHAIRMAN: It is getting back to the question of program budgeting, Senator Crerar. In effect, if the man in the parks had a program budget, this system would be possible; but it is not possible under the law as it now stands. Is this correct?

Senator CRERAR: The parks superintendent gives an estimate, does he not, of what he is likely to require during the year?

Dr. DAVIDSON: He does, for the purpose of enabling headquarters administration to make up this book of Estimates, in the form in which it is given in the individual estimates; but he is not given effective responsibility for the budget of his particular operation, both on the expenditure and revenue side.

Senator CRERAR: I am aware of that. I think there could be a profitable change there. I would put the responsibility on the park superintendent and if he were not doing his job rightly I would not want to have to go to the Civil Service Commission to get permission to fire him.

Dr. DAVIDSON: At the present time if anything goes out of kilter in respect of any operations such as an individual park, on the revenue-expenditure side, it is very difficult to pinpoint precisely where the responsibility for that lies, because it is so much a matter of headquarters control. Control in terms of the budgetary items is dispersed to such an extent that it is very difficult indeed to fix the responsibility. The concept of program budgeting and responsibility accounting, these two things go hand in hand, is that when an individual department gets its funds from Parliament, after having asked Parliament for these funds on the basis of explanations centered on individual program, the department in turn breaks down to its individual branches and regional offices and local projects the budget it has received from Parliament. If the netting of revenues principle is involved, the headquarters says to the park superintendent at Jasper Park, for example: "This is the amount of expenditure that is included in your budget, this is the amount of revenue that we estimate that you will net from your program during the year, this is the amount that we

will allocate to you from the funds voted by Parliament, and you must ensure that the revenues you earn from your year round operations, plus the net amount that Parliament has agreed to make available to you, suffices to carry your Jasper Park operation for the fiscal year that it is intended for.

If you can fit this suit of clothes onto the individual park superintendent or onto the head of an Indian agency office, then if something goes wrong in that particular project, small or big though it may be, you can identify pretty quickly the man to blame. It is the man who is in charge of that particular program of that particular unit of budgetary control; he is the man who is responsible for accounting and control of that budget and if the thing goes out of line, you know where to look for the responsibility.

At the present time, on the basis of control by detailed objects of expenditure, I think Mr. Steele will confirm it is much more difficult and in some cases almost impossible really to exercise the kind of effective and meaningful control you would like to be able to exercise.

Senator CRERAR: I would in general like to agree with that. Mr. Chairman, the problem pretty well boils down to this, that we are still following the methods in administration that were in practice 50 years ago.

If you go back before the First World War, Government was a pretty simple operation. So far as revenue is concerned, it came from excise taxes, customs duties, or fees of one kind or another. The amount was relatively small. I do not think my memory is at fault when I say that our total expenditure then ran about \$115 million, whereas we have over \$8 billion now, yet we are pursuing the same methods we pursued then when the revenue was only around \$115 million.

That, of course, is not surprising, not surprising at all, but in the immense expansion there has been of what the Government is doing we still cling to the old methods. I am quite convinced that that accounts for a huge amount of expense in these estimates, plus the fact that there has been, of course, the desire of departments to spread out.

Take the Department of Agriculture, for instance, this year it has \$140 million in its main estimates. Last year it was \$132 million. That is an \$8-million increase. Then on top of that you have to add \$11 million or \$12 million to the items for services by way of premises and all that sort of thing. So the total outlay in the Department of Agriculture is over \$150 million. You look over that and look through the estimates. Apropos of the fact of the revenue you get, I was rather interested in looking up the vote on the Board of Grain Commissioners. That is Vote 50 in the estimates. I will give these figures for the information of the witness. In 1961-62 the expenditure was \$6,453,000; the revenue was \$5,021,000. This comes from fees for weighing and inspecting grain, and matters of that kind. In 1962-63, \$6,172,000 expenditure and \$4,016,000 revenue. In 1963-64 it is estimated at \$6,507,000 expenditure and \$4,884,000 revenue. Quite obviously that board is pretty nearly paying its own way, and a simple adjustment might be able to be made to have it succeed, because I think that is one department that has always been very well administered. But in Britain the practice is more to try and get fees for every service the Government renders. Here we rather go the other way: we want to give it free.

One other comment—and I think then I am through for the day, Mr. Chairman—this expenditure of \$140 million in the estimates and \$10 million more, \$150 million for the Department of Agriculture, has to be considered in the light that every provincial government has a department of agriculture today and they are spending millions of dollars. It would be a very interesting study, Mr. Chairman, to see the amount of duplication there is in that. Take dairying. Our dairying vote in the Department of Agriculture—I cannot put my finger on it at the moment, but it is very large. Every provincial government

has a dairy department and it is spending a great deal of money. The same is true in many other fields, and there could not be a more fruitful source of getting efficiency and certainly economy than to sort these things out. This rate of expenditure is really shocking.

Senator SMITH (*Queens-Shelburne*): I wonder if Senator Crerar is leaving us with the impression that this great amount of money involved in the Department of Agriculture is mainly connected with the expense of administering the department as a research and service organization to farmers, and so on. I think the committee should also recognize a great deal of this money is being expended directly to the farmers or in projects that benefit the farmers—things that governments years ago never contemplated doing for them. I think when we are making a point about the administration costs, we have to offset what criticism we have for the growing amount in the estimates of any department by the additional functions which are directly benefitting people in this country.

The DEPUTY CHAIRMAN: And new programs.

Senator SMITH (*Queens-Shelburne*): Yes, and new programs.

The DEPUTY CHAIRMAN: I think, honourable senators, we are running out of time. I would like Dr. Davidson to be able to finish his testimony. I do not suggest we cut short anybody's views, but I think it would be better, if you agree, if we ask Dr. Davidson to continue his Glassco Commission observations.

Senator CRERAR: I apologize, Mr. Chairman, for my interjection.

The DEPUTY CHAIRMAN: On your birthday, senator, you can have all the time you like.

Dr. DAVIDSON: I think I have covered most of the recommendations in the financial management report of the Glassco Commission which have a direct bearing on the form and shape of the estimates.

I propose to conclude by adding a few words with respect to a number of recommendations in the field of financial management emanating from the commission which, while not affecting the form of the estimates, will, if approved, affect the ways in which it is possible for Parliament and for the Government to exercise more effective financial management control over the operations of the departments through the years.

For example, one of the recommendations contained in the Glassco Commission report on financial management has to do with the desirability of forward forecasting of financial requirements. Instead of operating on a year-to-year basis the commission recommends that all departments and agencies be required to prepare and submit to the executive long-term plans of expenditure requirements by programs; and that on the basis of these long-term expenditure plans an overall forecast of Government expenditures and prospective resources for a period of five years ahead should be prepared annually.

I think the sense and purpose of this will be obvious to honourable senators, and I do not need to elaborate on it, beyond saying that at the present time as a result of the work that has been carried on in the Board under Mr. Steele's direction for the past several years, we are now in a position where we do forward forecasting on expenditure requirements departmentally two years ahead, and the effect of the Glassco Commission recommendation will be to push this forward to a five-year rather than a two-year projection.

Senator GROSART: It must be based on the assumption there will be an election every five years.

Dr. DAVIDSON: We will make it seven years, if you like. This recommendation, incidentally, was made by the Glassco Commission and not on any more or less authoritative basis than that.

I would like to touch upon one recommendation I regard as being critical and central to the effective management and control of the total governmental

operation. I touched upon this last week. I would like to read the Glassco Commission recommendation appearing on page 99 of the abridged volume 1:

Departments and agencies be given the necessary financial authority and be held accountable for the effective management of the financial resources placed at their disposal.

This involves the fixing of responsibility for departmental management on departments and not bolstering them unnecessarily with a mantle of protection provided by central control or supervising agencies. At first blush it may look as though a recommendation that the responsibility be decentralized to departments and that detailed controls of central agencies be withdrawn to some extent, is an advocacy of irresponsibility. It is not meant in that way by anything I say, and I am certain it was not meant in that way by the Glassco Commission. But if effective responsibility for day-to-day administration in departments is going to be achieved it must be achieved by departmental management itself, and cannot be by an all-wise, all-benevolent central authority or control agency. It is certainly my view—and I think the view of a good many who have followed the work of the Glassco Commission—that we have over the past 30 years moved unnecessarily far in the direction of the imposition of detailed central control and of supervising individual decision-making by the central agencies over the individual departments. If this recommendation is accepted it will involve some reversal of that trend. The Government has accepted this recommendation in slightly modified terms. It has approved in principle that the departments and agencies be given greater financial authority and be held correspondingly accountable for the management of resources placed at their disposal.

It has gone on to accept the further recommendation that while the Treasury Board should continue to lay down policies on financial and administrative matters, which are common to all departments and agencies, it should do so in a less restrictive and detailed manner. The practice over the years under the Consolidated Revenue and Audit Act and the Financial Administration Act, tended to emphasize centralized control.

I elaborated my views on this in an interpretation of the commission's recommendations at the last meeting. I take it I need do no more than to say that the Government has indicated that, in general, it concurs in the direction of these recommendations. We are presently working on ways and means by which this can be tailored effectively to the financial requirements of the public service.

I would like to suggest at this point, Mr. Chairman, that you should stop listening to the sound of my voice, since I have brought this to the point where I think at the next meeting of the committee Mr. Steele could carry on with an explanation of what it is we are trying to do in four separate departments of government at the present time to fit the Glassco Commission's suit of clothes on to the individual departments.

I merely sum up by saying that if you take the 27 recommendations on financial and management contained in the Glassco Commission Report, the present position is that the Government has given its formal acceptance to 16 of these recommendations, some of the more obvious ones, and the simplest ones, and some less complex on the balance of arguments. It has reserved its position up to the present moment on eleven of these recommendations; and in order to satisfy itself as to the feasibility or otherwise of adopting all of these recommendations, it has decided that before accepting all of them blindly it will set up exercises in four separate departments of Government chosen for specific purposes as being representative of the kinds of operations the Government carries on. It will receive the benefit of the experience of consultants from outside the Government who will indicate to us what

changes are required in the internal economies of the departments to make the Glassco recommendations applicable, and will indicate to us also their general judgment as to the practicability and the wisdom of taking the total context of the Glassco recommendations in the financial and administrative fields into these departments. From these four exercises, lessons will be learned which can be applied to other departments.

With your permission, Mr. Chairman, I will leave that to Mr. Steele for the next meeting, because he had the responsibility for initiating and managing this program while he was secretary of the board, and he will be able to give a more clear and coherent picture than I.

If I may, Mr. Chairman, I will conclude by reverting to Senator Grosart's question about the numbers of employees in crown corporations. If he will be satisfied with information that is only four years out of date at this stage, I will give him the reference on page 312 of the large volume I of the Glassco Commission report. The figures that are shown there, as of September 1960, show that classified Civil Service at that time amounted to about 132,000, or 28 per cent of the total public service, as they are defined; the armed forces, 120,000, or 25 per cent; crown corporations, 150,396, or 32.2 per cent. Then there are some other classifications of small percentages, but this gives the total picture. It includes the employees of a number of crown corporations not ordinarily considered within the public service as a whole. It includes Canadian National Railways, Canadian Overseas Telecommunication Corporation, Eldorado Aviation Limited, Eldorado Mining Limited, Northern Transportation Company Limited, Polymer Corporation Limited, Trans-Canada Air Lines, Canadian Broadcasting Corporation and Bank of Canada.

So it would not be fair to put that figure of 150,000 on the record, without saying it includes these large proprietary corporations not ordinarily thought of as being part of the civil service.

Senator GROSART: There has been some attempt to bring it up to date in the annual report of the Civil Service Commission. The only thing is they do not take in all employees, and it is very difficult to relate these two sets of figures.

Mr. Chairman, may I ask one question in connection with the general matter of program budgeting? Dr. Davidson quoted a phrase from the Glassco Commission about "a clearer description of the purposes of expenditure," and he also spoke of the description being "function by function." My question relates rather to program analysis or breakdown, if I may put it that way. Perhaps I may give two examples to illustrate this.

One is the matter raised by Senator Smith. Are there any figures showing the total amount of let us say the \$8 billion budget which is money that merely passes through the hands of the Government and goes to provinces, municipalities, or to individuals and others? Can we take this total amount out and say what our actual administrative government budget is?

Mr. STEELE: The direct answer to that, to the extent that you could find this in any public document, is that there are no such figures, sir. It happens that we have been trying to produce certain tabulations, because of certain royal commissions. I will mention the banking royal commission, which has reported, the taxation one, which has not yet reported, and the Economic Council which is developing an interest in this sort of information. We can no doubt get together to get something which would help in this understanding. It does present us with all sorts of problems, and Government expenditures have not really been fitted into a national accounts category too well. We are just now in the throes of trying to do this, too, because accountants and people who control expenditures often define, as you know, these differently. However, there is no doubt that it is possible to do this. The direct answer is, there is no normal categorization along these lines.

Senator GROSART: When we take out \$1 billion for old age pensions, or \$300 million for family allowances, and so on, these are not government expenditures in the normal business sense. I give that as my first example.

The second example I give to illustrate, is the question of what I may call social justice payments, which illustrates the importance of some breakdown of these figures. The International Labour Organization does that from time to time. These figures are widely quoted and seem to show that Canada is away behind other countries with regard to our percentage of expenditure of gross national income on social justice services in relation to gross national income. The International Labour Organization has put out statements on this. In talks I have had with officials of the Department of National Health and Welfare, I have been told that these figures are all wrong. Within the last two weeks I have seen a figure printed under the authority of an economist, that our total expenditure in this field is 12.8 per cent, and from another source I see it stated as 20.1 per cent.

Mr. STEELE: Of what, sir?

Senator GROSART: This is the percentage of gross national income that we spend in the broad category of social justice.

Mr. STEELE: As a national total by all levels of government?

Senator GROSART: Yes, by all levels of government.

Dr. DAVIDSON: Are you speaking of gross national income, or gross national product, senator?

Senator GROSART: Gross national income. Now, of this \$8 billion budget, how much goes to the provinces, how much to individuals, and so on?

Again, on a point raised by Senator Molson, how much of this total of \$8 billion is going into the creation of capital assets? These figures, I think would give us more than program budgeting, they would give us program analysis. I am not suggesting they go into the estimates or the public accounts, but that a memorandum might be prepared; because I have tried to get these figures in the various categories, and I am always getting the warning—"Well, don't use them."

Mr. STEELE: In so far as the federal Government's expenditures are concerned, have you looked at the categories that are now in Part I of the Public Accounts?

Senator GROSART: Yes.

Mr. STEELE: They are, I admit, pretty finely set out, and they do not indicate the difference as between levels of government, but in so far as the flow of funds from the federal Government is concerned I think they do give you some of the information you are seeking.

Senator GROSART: There is a better description of it in a budget White Paper published two or three years ago, but it still does not bring it down.

Dr. DAVIDSON: I know from working on the social security side of the Department of National Health and Welfare that something has been done about this. It has done a lot of work in so far as social security payments are concerned, but it does not include the intergovernmental payments. The Department of National Health and Welfare has in fact produced publications which compare the percentages in New Zealand, Australia, the United Kingdom, the U.S.A. and Canada for different five year periods. I can assure you that they give you a good deal of information on this, but they will probably tell you before you start using the global totals that you should study the first or last page and satisfy yourself that you know what is really in these papers. Some very difficult problems of definition arise. What do you include? Do you include veterans' pensions, for example? Do you include Prairie Farm Assistance payments? Do you include Indian education and Indian welfare payments?

Senator GROSART: Or income tax exemptions? That is the best example.

Dr. DAVIDSON: You could go all the way through from A to Z.

Senator GROSART: The point I am making, Dr. Davidson, is that other people are taking figures and comparing them. A recent publication of the C.L.C. quotes this figure of 12.1 per cent, and says it is disgraceful that Canada is not looking after its people. Is this correct? Is either assumption correct? Is this a correct figure? Does it mean that we are lagging behind other countries? I must say that I do not believe we are.

Dr. DAVIDSON: I am sure it is a correct figure if you read the fine print on the page where it appears in the *International Labour Review*, but it is not a correct figure if you take it away by itself and place it on another page which states the problem in the context of another definition.

Senator FLYNN: Like Senator Grosart, I would be very much interested to have an answer to the perennial question that is asked in Quebec by the separatists today, namely, how much does the federal Government collect, and how much goes back to the Province of Quebec?

Senator GROSART: It is not only the separatists who are asking that question.

Senator FLYNN: We see many figures that are contradictory with respect to this.

Senator CRERAR: Mr. Chairman, I said a moment ago that I am not going to intervene in this discussion any further, but I really must ask your indulgence. I admire Senator Grosart's devotion to social welfare, but centrally in Ottawa our total expenditures in that field, apart from soldiers' disability pensions, is getting pretty close to \$2.5 billion a year.

In my own province of Manitoba—I cannot speak with accurate knowledge of other provinces, although I expect the same condition prevails there—if you look at the budgetary expenditures of the Manitoba Government you will see that the second amount, after education, is health and social welfare. If you take the City of Winnipeg which now has a very substantial budget—I know that because my municipal taxes are going up every year—you will see that the second item there in the total field of expenditure is with respect to social welfare and health, and so forth. Senator Grosart will forgive me if I turn a rather stony eye on his proposals to expand these expenditures.

The DEPUTY CHAIRMAN: I think his suggestion, Senator Crerar, was that it would be nice to know accurately how much we were spending in this area because in his opinion we were doing better than what is shown by the published comparative figures.

Senator GROSART: That is quite right. I do not believe my devotion to social welfare is anything like as great as Senator Crerar's because I have not had the opportunity over the years to demonstrate it. However, I do say this, that I am a great believer in the welfare state because I am a great believer in private enterprise. I do not believe we can have the second without the first.

Dr. DAVIDSON: May I conclude this discussion by making a mischievous remark? I take some genuine pride in the fact that I had a good deal to do with the inauguration of a number of the most expensive social welfare programs. I do not think Senator Crerar can escape his share of responsibility in this because, as he knows, he was the first minister of the Crown ever to bring me down to Ottawa to go to work for the federal Government.

Senator CRERAR: Well, Mr. Chairman, it is true—and I have never regretted it—that I was instrumental in Dr. Davidson's coming to Ottawa, but Dr. Davidson will remember that was for a special assignment. It was in connection with the moving of British children to Canada during the war, a project which I had the happy, or unhappy, experience of looking after. But, I add this, that that was a matter that the Finance Committee examined ten years ago. It might be

worthwhile checking that up in the journals of that time. We did get an approximation of the total expenditure under these headings, and I think it is a wholly desirable thing. Where does the money come from that governments get, and what do they do with it? That is an important question for the public.

The DEPUTY CHAIRMAN: We looked at that again in 1956, Senator Crerar. We investigated the total figures as percentages of income, federal, provincial and municipal, at one stage.

Now, honourable senators, are there any other questions you would like to ask our three very patient witnesses, or should we discuss the next meeting?

Senator BURCHILL: Mr. Chairman, before you proceed, may I say that I was attending the meeting of the Standing Committee on Banking and Commerce, and when I came into this room you were discussing Vote 20, National Parks, and I think this is a good note on which to wind up, in view of the discussion, because I notice there is a vast reduction in the amount for 1964-65 for Head Office. In 1963-64 it was \$1,050,310, and for 1964-65 it is \$651,000.

The DEPUTY CHAIRMAN: Do you mean a reduction is so rare, Senator Burchill, that it catches the eye?

Senator BURCHILL: Yes, I could not believe it.

Dr. DAVIDSON: This is under the construction vote, senator; not under administration.

Senator BURCHILL: I see.

The DEPUTY CHAIRMAN: Is there any question honourable senators would like to ask Dr. Davidson or Mr. Steele in connection with appendices C D E and F to the minutes of the last meeting?

Senator GROSART: Mr. Chairman, the errors seem to be substantial. I wonder if it might be well to reprint them correctly?

The DEPUTY CHAIRMAN: Well, these will be edited for the final printing.

Dr. DAVIDSON: I have not seen this yet.

Senator GROSART: Neither have I, but I take it from what has been said that there are errors in them.

The DEPUTY CHAIRMAN: We will have those corrected. Dr. Davidson has suggested that at the next meeting Mr. Steele should carry on. I think, first of all, we should thank Dr. Davidson again for being such an excellent and patient witness, and for his wonderful exposition. Do I take it that it is the committee's pleasure to have Mr. Steele appear as a witness at the next meeting?

Hon. SENATORS: Agreed.

The DEPUTY CHAIRMAN: Because of the uncertainty of the program of the Senate I do not think we can fix a date for the next meeting.

Senator SMITH (*Queens-Shelburne*): I move that we adjourn at the call of the Chair.

The DEPUTY CHAIRMAN: Is that agreed?

Hon. SENATORS: Agreed.

Senator ISNOR: Mr. Chairman, I must apologize for being late, but like Senator Burchill I was attending the meeting of the Standing Committee on Banking and Commerce. However, sitting back here I was able to listen to some of the proceedings, and particularly to Senator Crerar. I am wondering whether the members of this committee are aware of the fact that today he celebrates his eighty-eighth birthday.

The DEPUTY CHAIRMAN: Yes, we congratulated him on that a little earlier.



Senator CRERAR: I would just as soon not be reminded of it, although I do appreciate very much the kindness of Senator Isnor.

The DEPUTY CHAIRMAN: Thank you very much, Dr. Davidson, Mr. Steele and Mr. Allen for your presence. The committee adjourns to the call of the Chair.

The committee adjourned.

## APPENDIX "D" (Corrected)

## DETAILS OF CIVIL STAFF COSTS FOR THE FEDERAL GOVERNMENT SERVICE

(in \$ millions)

Departments	Estimates		Expenditures		
	1964-65	1963-64	1962-63	1961-62	1960-61
Agriculture.....	51.8	51.4	50.1	47.6	45.7
Atomic Energy.....	0.1	0.1	0.1	0.1	—
Auditor General.....	1.2	1.2	1.1	1.0	0.9
Board of Broadcast Governors.....	0.3	0.3	0.3	0.3	0.2
Canadian Broadcasting Corporation.....	—	—	—	—	—
Chief Electoral Officer.....	0.1	0.1	0.3	0.1	0.1
Citizenship and Immigration.....	23.8	24.5	23.0	22.1	20.9
Civil Service Commission.....	4.4	4.3	4.1	3.8	3.4
External Affairs.....	17.5	15.7	15.2	13.6	12.3
Finance.....	62.0*	33.8*	22.7	21.3	20.7
Fisheries.....	12.8	12.2	11.9	11.3	10.5
Forestry.....	6.7	6.5	6.2	5.9	5.2
Governor General.....	0.6	0.5	0.5	0.4	0.4
Industry.....	3.6	0.9	—	—	—
Insurance.....	0.7	0.7	0.7	0.6	0.6
Justice.....	25.1	22.1	21.2	19.4	17.8
Labour.....	49.8	45.6	45.6	43.1	39.7
Legislation.....	10.4	7.5	6.9	7.0	6.9
Mines and Technical Surveys.....	20.2	19.9	18.4	17.1	15.4
National Film Board.....	—	—	—	—	—
National Gallery.....	0.4	0.4	0.3	0.3	0.3
National Health and Welfare.....	26.8	24.8	21.8	22.6	20.7
National Research Council.....	20.2	19.4	19.2	18.2	16.7
National Revenue.....	78.7	74.1	72.4	69.2	67.3
Northern Affairs and National Resources..	20.2	17.7	17.9	17.0	15.3
Post Office.....	132.8	134.5	118.9	115.5	109.5
Privy Council Office.....	2.2	1.1	1.2	1.1	1.0
Public Archives and Nat. Library.....	1.0	0.9	0.9	0.8	0.7
Public Printing and Stationery.....	0.9	0.6	2.0	1.9	1.8
Public Works.....	39.4	33.0	31.9	31.5	30.3
Royal Canadian Mounted Police.....	5.1	5.2	4.5	4.1	3.4
Secretary of State.....	4.7	4.3	4.1	3.9	3.8
Trade and Commerce.....	23.2	21.5	20.6	19.7	15.8
Transport.....	82.9	81.4	75.7	71.4	64.4
Veterans Affairs.....	56.0	55.1	54.9	54.1	53.0
	785.9	720.7	675.7	646.0	604.7
Defence Production.....	14.0	12.1	9.4	8.5	7.8
National Defence.....	182.3	194.6	195.4	190.1	183.5
	196.2	206.7	204.8	198.6	191.3
	982.1	927.4	880.5	844.6	796.0

(Details may not add to totals owing to rounding)

\* Includes amounts in the General Salaries Vote intended for allocation to other Departments:  
1964-65 — \$35.0 million  
1963-64 — \$10.8 million

Treasury Board Staff  
June 9, 1964.

## APPENDIX "G"

## SOUTH SASKATCHEWAN RIVER DAM

The Agreement between Saskatchewan and Canada was completed on July 25, 1958.

The cost-sharing arrangement is as follows:

- (1) By Saskatchewan
- 25% of the cost of the reservoir with the provision that this amount is limited to \$25,000,000;
  - All cost associated with the irrigation development, recreational development and powerhouse development, except that Canada pays 25% of the construction costs for installing penstocks.
- (2) By Canada
- 75% of the cost of constructing the reservoir for all costs up to \$100,000,000;
  - all costs of constructing the reservoir in excess of \$100,000,000;
  - 25% of the cost of construction of the penstocks;
  - the cost of all engineering, administrative and legal services related to the construction of the reservoir.

## Current Estimated Cost

Cost to Canada—Reservoir and penstocks .....\$ 86,000,000

## \*Cost to Saskatchewan

Reservoir .....	\$25,000,000		
Other Developments—			
Irrigation .....	\$45,000,000		
Power .....	30,000,000		
Recreation .....	15,000,000	90,000,000	115,000,000
		<hr/>	<hr/>
Total .....			\$201,000,000

## Expenditures to date:

	<i>Federal</i>	<i>Provincial</i>
1958-59 .....	\$ 1,378,916	\$ 124,984
1959-60 .....	5,381,267	1,233,803
1960-61 .....	8,832,537	2,529,006
1961-62 .....	12,661,443	3,845,888
1962-63 .....	15,223,516	4,001,128
1963-64 .....	11,701,207	4,017,199
1964-65 (to 26/5/64) .....	539,085	179,695
	<hr/>	<hr/>
	\$55,717,973	\$15,931,706

\*Information in regard to the provincial program and cost has been provided by the South Saskatchewan River Development Commission of the Province of Saskatchewan and the Saskatchewan Power Corporation.

Treasury Board Staff

June 17, 1964.

## APPENDIX "H"

## COMMONWEALTH AGRICULTURAL BUREAUX

Commonwealth Agricultural Bureaux are a group of organizations financed by British Commonwealth countries, together with the Republic of Ireland, and operating under an Executive Council of representatives of all contributing countries. The Bureau was formed in 1933. The principal function of the Bureaux is the maintenance of a world-wide agricultural abstracting service, together with the publication of fourteen, and support of four additional abstracting journals. The Commonwealth Institute of Entomology and the Commonwealth Mycological Institute, and to a lesser extent the Bureau of Helminthology, also provide important identification services. The Commonwealth Institute of Biological Control, as its name indicates, is concerned with the collection, multiplication and distribution of beneficial parasites and predators. The Institute of Biology Control is located in Trinidad; the other Institutes and Bureaux are located in the British Isles.

Funds to cover the operation of the Bureaux and Institutes are principally derived through direct contributions from the participating countries of the Commonwealth. Smaller amounts are received from sales, etc., while the Commonwealth Institute of Biological Control contracts a high proportion of its projects.

Participating Countries	Contribution %
United Kingdom .....	28.86
Canada .....	19.00
Australia .....	18.30
New Zealand .....	7.04
India .....	4.22
Dependent Territories .....	3-4
Ireland, Nigeria, Fed. Rhodesia and Nyasaland .....	2-3
Pakistan, Ceylon, Ghana, Malaysia Tanganyika, Uganda, Kenya .....	1-2
Sierra Leone, Jamaica, Trinidad .....	0-1

The journals published by the various Bureaux and Institutions are listed in the attached Appendix. Free quota copies of the abstracting journals are placed in various units of the Departments of Agriculture and Forestry. At least one full set of each of the fourteen journals is given to each Canadian University where there is an agricultural faculty, and other sets go to university libraries for the use of certain science faculties and to research foundations and councils for the use of their scientists working in companion disciplines. In excess of 550 separate subscriptions are distributed yearly as part of Canada's free quota.

Canadian institutions are unable to purchase or subscribe to all of the journals numbering more than 10,000, which are abstracted by Commonwealth Agricultural Bureaux workers, and are also unable to provide translations of all work in foreign languages. Many of these journals are foreign language publications, which would require translation services. Students and research workers must be provided with abstracting journals or it would be necessary to provide a similar organization to secure this required research information. If each member of the Commonwealth were to duplicate this effort the overall costs would be much greater. By co-operating financially, and maintaining the

actual services in Great Britain, the cost to Commonwealth countries is minimized.

The total annual budget of the Commonwealth Agricultural Bureaux is currently about \$1,670,000. Income is derived from contributions amounting to \$1,250,000, and from the sale of publications estimated to amount to \$420,000.

Actual Contributions by Departments of Agriculture and Forestry

1933-34	\$ 21,000	1959-60	\$131,211
1939-40	32,607	1960-61	132,494
1944-45	33,440	1961-62	141,482
1949-50	65,583	1962-63	256,173
1954-55	125,964	1963-64	254,088
	1964-65 (forecast)	\$243,470	

## PUBLICATIONS OF COMMONWEALTH AGRICULTURAL BUREAUX

Institution	Title	Published
Commonwealth Institute of Entomology	Review of Applied Entomology Series A	Monthly
	Review of Applied Entomology Series B	Monthly
Commonwealth Mycological Institute	Review of Applied Mycology	Monthly
	Review of Medical and Veterinary Mycology	Quarterly
Commonwealth Bureau of Animal Breeding and Genetics	Animal Breeding Abstracts	Quarterly
Commonwealth Bureau of Animal Health	Veterinary Bulletin	Monthly
Commonwealth Bureau of Animal Nutrition	Nutrition Abstracts and Reviews	Quarterly
Commonwealth Bureau of Dairy Science and Technology	Dairy Science Abstracts	Monthly
Commonwealth Forestry Bureau	Forestry Abstracts	Quarterly
Commonwealth Bureau of Helminthol- ogy	Helminthological Abstracts	Quarterly
Commonwealth Bureau of Horticulture and Plantation Crops	Horticultural Abstracts	Quarterly
Commonwealth Bureau of Pastures and Field Crops	Herbage Abstracts	Quarterly
	Field Crop Abstracts	Quarterly
Commonwealth Bureau of Plant Breeding and Genetics	Plant Breeding Abstracts	Quarterly
Commonwealth Bureau of Soils	Soils and Fertilizers	Alternate Months

The Commonwealth Agricultural Bureaux also publish or subsidize the following four journals:

- (1) Weed Abstracts; produced and edited by the Weed Research organization of the United Kingdom Agricultural Research Council, printed and published by CAB to which all revenue from sales accrues.
- (2) Agricultural and Horticultural Engineering Abstracts; produced and published by the National Institute of Agricultural Engineering of the United Kingdom, and subsidized by CAB in the amount of £ 5,000 per annum.
- (3) World Agricultural Economics and Rural Sociology Abstracts; published by the International Association of Agricultural Librarians and Documentalists in co-operation with the International Association of Agricultural Economists, and subsidized by CAB in the amount of £ 2,000 per annum.
- (4) Apicultural Abstracts; produced and published by the Bee Research Association, and subsidized by CAB in the amount of £ 1,500 per annum.



Second Session—Twenty-sixth Parliament

1964

**THE SENATE OF CANADA**  
**PROCEEDINGS**  
**OF THE**  
**STANDING COMMITTEE**  
**ON**  
**FINANCE**

To whom was referred the Estimates for the fiscal year  
ending March 31, 1965.

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The Honourable T. D'Arcy Leonard, *Chairman*  
The Honourable H. De M. Molson, *Deputy Chairman*

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TUESDAY, OCTOBER 13, 1964

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No. 5

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WITNESS:

Dr. George Davidson, Secretary of the Treasury Board.

THE STANDING COMMITTEE

ON

FINANCE

The Honourable T. D'Arcy Leonard, *Chairman*

The Honourable Senators:

Baird	Macdonald ( <i>Brantford</i> )
Beaubien ( <i>Bedford</i> )	McCutcheon
Beaubien ( <i>Provencher</i> )	McKeen
Belisle	Méhot
Bouffard	Molson
Buchanan	O'Leary ( <i>Antigonish-Guysborough</i> )
Burchill	Paterson
Choquette	Pearson
Connolly ( <i>Halifax North</i> )	Pouliot
Crerar	Power
Croll	Quart
Denis	Rattenbury
Dupuis	Reid
Farris	Robertson ( <i>Shelburne</i> )
Flynn	Roebuck
Gershaw	Savoie
Grant	Smith ( <i>Queens-Shelburne</i> )
Grosart	Stambaugh
Haig	Taylor ( <i>Norfolk</i> )
Hayden	Thorvalson
Hnatyshyn	Vaillancourt
Horner	Vien
Isnor	Welch
Lambert	Woodrow
Leonard	Yuzyk—(50)

*Ex Officio members*

Brooks

Connolly (*Ottawa West*)



## ORDER OF REFERENCE

Extract from the Minutes of the Proceedings of the Senate, May 20, 1964.

"Pursuant to the Order of the Day, the Senate resumed the debate on the motion of the Honourable Senator Connolly, P.C., seconded by the Honourable Senator Hugessen:

That the Standing Committee on Finance be authorized to examine and report upon the expenditures proposed by the Estimates laid before Parliament for the fiscal year ending 31st March, 1965, in advance of the Bills based on the said Estimates reaching the Senate; and

That the said Committee be empowered to send for persons, papers and records.

After debate, and—

The question being put on the motion, it was—

Resolved in the affirmative."

J. F. MacNEILL,  
*Clerk of the Senate.*

REPORT OF THE

COMMISSIONERS OF THE LAND OFFICE

IN RESPONSE TO A RESOLUTION PASSED BY THE HOUSE OF REPRESENTATIVES

ON FEBRUARY 2, 1892, RELATIVE TO THE LANDS BELONGING TO THE STATE

AND TO THE LANDS BELONGING TO THE FEDERAL GOVERNMENT

IN THE STATE OF TEXAS

PREPARED BY THE COMMISSIONERS OF THE LAND OFFICE

AND PUBLISHED BY THE GOVERNMENT PRINTING OFFICE

WASHINGTON, D. C., 1892

THE COMMISSIONERS OF THE LAND OFFICE

ARE PLEASED TO ACKNOWLEDGE THE RECEIPT OF THE

AMOUNT OF THE PURCHASE MONEY FOR THE LANDS

HEREIN DESCRIBED

AND TO EXPRESS THEIR GRATITUDE TO THE

COMMISSIONERS OF THE LAND OFFICE

FOR THE PROMPT PAYMENT THEREOF

AND TO STATE THAT THE LANDS

HEREIN DESCRIBED ARE NOW

UNDER THE MANAGEMENT OF THE

## MINUTES OF PROCEEDINGS

TUESDAY, October 13, 1964.

Pursuant to adjournment and notice the Standing Committee on Finance met this day at 3.00 p.m.

*Present:* The Honourable Senators Leonard (*Chairman*), Baird, Belisle, Burchill, Croll, Flynn, Gershaw, Haig, Isnor, Lambert, Macdonald (*Brantford*), Méthot, O'Leary (*Antigonish-Guysborough*), Pearson, Pouliot, Reid, Roebuck, Smith (*Queens-Shelburne*), Taylor (*Norfolk*), Vaillancourt, Woodrow and Yuzyk.—(22).

The Chairman read the Minutes of the meeting of the Steering Committee of August 12, 1964, to the Committee.

After discussion, the recommendations contained therein were agreed upon.

On Motion of the Honourable Senator Lambert it was RESOLVED to report recommending that the Committee be empowered to sit during adjournments of the Senate, and that Rule 85 be suspended in relation thereto.

On Motion of the Honourable Senator Isnor it was RESOLVED to report recommending that the quorum of the Committee be reduced to seven (7) members.

The following witness was heard:

Dr. George Davidson, Secretary of the Treasury Board.

On Motion of the Honourable Senator Pouliot it was RESOLVED to print as an appendix to a future proceeding of the Committee the Organizational Chart of the Treasury Board.

At 5.15 p.m. the Committee adjourned until Tuesday next, October 20, at 3.00 p.m. unless the Senate should sit on October 19, in which case the Committee would meet a 10.00 a.m.

Attest.

F. A. Jackson,  
*Clerk of the Committee.*

## REPORT

TUESDAY, October 13, 1964.

The Standing Committee on Finance to which was referred the Estimates for the fiscal year ending March 31, 1965, reports as follows:

Your Committee recommends:

1. That its quorum be reduced to seven (7) members.
2. That it be empowered to sit during adjournments of the Senate, and that Rule 85 be suspended in relation thereto.

All which is respectfully submitted.

T. D'ARCY LEONARD,  
*Chairman.*

## THE SENATE

### STANDING COMMITTEE ON FINANCE

#### EVIDENCE

OTTAWA, Tuesday, October 13, 1964.

The Standing Committee on Finance, to which was referred the Estimates laid before Parliament for the fiscal year ending 31st March, 1965, met this day at 3 p.m.

Senator T. D'ARCY LEONARD (*Chairman*) in the Chair.

The CHAIRMAN: Honourable senators, it is 3 o'clock and we have a quorum.

Our last meeting was held on June 17, and for a number of reasons we have not met in the interim. However, the Steering Committee met in August, and the program agreed upon by the Steering Committee, which I shall run through briefly, was as follows:

First of all, that we should not meet again until the Senate resumed regular sittings. We are now assuming we have resumed regular sittings today.

Secondly, the committee planned eight successive Tuesday morning sittings at 10 a.m., contingent upon the Senate meeting on Mondays. Otherwise the meetings will be held on Tuesday afternoons at 3 p.m., the earliest possible date for the first meeting being September 29.

These are the minutes of the meeting held in August. We assumed then that we would not meet before September 29. We are just two weeks out in our calculation.

Thirdly, with the understanding that the dates be tentative, the following agenda be adopted:

On September 29, it was planned to have Dr. George Davidson, Secretary of the Treasury Board, and Mr. G. G. E. Steele, Under Secretary of State, appear before the committee.

On October 6, Dr. Davidson and/or Mr. Steele again to appear before the committee.

On October 13, Mr. H. R. Balls, Comptroller of the Treasury.

On October 20, Mr. A. M. Henderson, Auditor General.

On October 27, Mr. Henderson again.

On November 3, Mr. R. B. Bryce, Deputy Minister of Finance.

Fourthly, that any further meetings be held to consider the preparation of the report of the committee.

Fifthly, the Steering Committee recommended that the members of the committee be informed of the proposed agenda and that they be requested to study pages 87 to 113 of Volume 1, (Abridged Edition), of the Glassco Commission Report.

On motion of the Hon. Senator Lambert it was resolved to report recommending that the committee be empowered to sit during adjournments of the Senate, and that Rule 85 be suspended in relation thereto.

On motion of the Hon. Senator Isnor it was resolved recommending that the quorum of the committee be reduced to seven (7) members.

The CHAIRMAN: The program that I have suggested does not need to be formally adopted by the committee, but is there any discussion as to what we now plan to do in the way of our meetings and the procedure?

Today we have present Dr. George Davidson, Secretary of the Treasury Board. We shall hear from Dr. Davidson again next Tuesday. It may be possible to do some telescoping of these meetings. The procedure that we have been faced with over a period now is that the Senate meets every Monday night or Tuesday night, and the sittings are finished on Thursday. It is difficult to work in any meetings of this committee on either Wednesday or Thursday, and until we can be sure of a meeting on Tuesdays then it is going to be difficult to work in any additional meetings of the committee, but I think before we are through we may have to do that.

Senator WOODROW: Did you mention that the meetings would take place in the morning?

The CHAIRMAN: If the Senate sat on Monday night then we could sit on Tuesday morning.

Senator WOODROW: At what time?

The CHAIRMAN: Ten o'clock. But, if the Senate is not sitting until Tuesday evening then the best we can do is to meet on Tuesday afternoon when senators from Toronto and Montreal will not find it difficult to be present.

Senator POULIOT: When the Senate sits on Monday night then this committee meet on Tuesday morning?

The CHAIRMAN: That is right, at 10 o'clock.

Senator POULIOT: And if the Senate sits on Tuesday evening we will sit at 3 o'clock in the afternoon?

The CHAIRMAN: Yes, just as today.

Senator POULIOT: We have Dr. Davidson for the next two meetings. At the third meeting the only witness will be Mr. Balls. Then the auditor general will take up the next two meetings, and the witness at the sixth meeting will be Mr. Bryce. What will be the length of time of each committee sitting?

The CHAIRMAN: I think that is in the hands of the committee. For example, Dr. Davidson has some material to put before us. He is going to be subjected to questioning and examination, and when we are through with that and we have no other witnesses then we are through with our work.

Senator POULIOT: But then you have Mr. Steele. Will the same procedure be adopted with respect to Mr. Steele as with respect to Dr. Davidson?

The CHAIRMAN: No. Perhaps I should explain that. It is because of the change in positions. Mr. Steele was the secretary of the Treasury Board when this committee commenced sitting. Dr. Davidson took over from him almost at the beginning of our sittings, and they have been throwing the ball one to the other so that we would have the benefit of either of them, or both of them if they were both available. But, in essence, they constitute one witness, if I can put it that way.

Senator POULIOT: Do you have Mr. Steele in attendance?

The CHAIRMAN: No, he is not here today but he will be with Dr. Davidson next week, if it is possible.

Senator POULIOT: Then, what about Mr. Allen?

The CHAIRMAN: I think he is ill at the moment, but he is the departmental official to whom Dr. Davidson or Mr. Steele can turn if they want some additional material.

Senator POULIOT: So you expect to deal with the three of them in two sittings?

The CHAIRMAN: Yes, but we have already had them for four sittings.

Senator POULIOT: Do you expect to complete Mr. Balls' evidence in one sitting? Mr. Bryce is mentioned for one sitting only, and then there are two extra meetings.

The CHAIRMAN: That is right.

Senator POULIOT: Whom do you intend to call at the two extra meetings?

The CHAIRMAN: If there is any further material as a result of the other sittings of the committee then we have those meetings in which to call witnesses. If no other material is needed then there is the question of the report of the committee. The committee will sit without any witnesses to deal with its report.

Senator POULIOT: The committee would sit to discuss its report?

The CHAIRMAN: Yes, that is right.

Senator POULIOT: Without asking for more witnesses?

The CHAIRMAN: That is right.

Senator POULIOT: You will remember that I gave you a lot of documentation concerning the Printing Bureau and the Bureau of Translations?

The CHAIRMAN: That is right.

Senator POULIOT: That will be postponed until next year?

The CHAIRMAN: Well, it can be dealt with at any of these meetings, including the last two. I have that material in my office, and it has been brought before the Steering Committee. The feeling of the Steering Committee was that we should continue with our consideration of the report of the Glasco Commission, and with the evidence.

Senator POULIOT: For me it is immaterial because if it does not come up during this session it will next session.

The CHAIRMAN: I am in the hands of the committee with respect to that. The material is definitely in my hands. It has been brought before the Steering Committee, and it can be placed before this committee at any time. In the meantime the feeling of the Steering Committee was that we should proceed with our consideration of the recommendations of the Glasco Commission in relation to the estimates, and not get into any departmental business. If we do go into the departments we shall find ourselves in a pretty big field, and we shall have to make some decisions as to how far we should go. In the meantime I would make it perfectly clear that in this program any question dealing with the estimates is relevant to the committee's inquiry. In other words, any question that relates to any item in the estimates is relevant in the consideration of this committee.

Senator POULIOT: You have to have a bird's-eye view of the whole outlook in the first place.

The CHAIRMAN: Particularly on these recommendations of the Glasco Commission.

Senator POULIOT: Concerning finance.

The CHAIRMAN: Concerning the estimates.

Senator LAMBERT: I would suggest that it is not only desirable but possibly necessary that the subject matter of any one of these meetings which are scheduled here would be subject to prolongation to another meeting.

The CHAIRMAN: Absolutely. This is not fixed.

Senator LAMBERT: It is not exhaustive?

The CHAIRMAN: No, it is a program for the consideration of the committee, recommended by the Steering Committee with the idea that we would proceed along these lines.

I would say also that if there is any question which any member of the Senate desires to ask on interim supply bills, and which is relevant to the work of this committee, and we have dealt with such questions in our previous meetings, and if those questions are not answered on an interim supply bill, then we should have the evidence before this committee that deals with those questions.

Senator **POULIOT**: It is not your intention to finish any item before it is completed? That is, it is not your intention to finish with it until the questioning is completed?

The **CHAIRMAN**: I think that is a fair statement, Senator Pouliot. I have also said that we have one main job; that is, what does this committee think about the Glassco Commission recommendations with respect to the form, the presentation and the preparation of the estimates?

Senator **POULIOT**: If I ask a question of Dr. Davidson and he cannot answer now, it will certainly be postponed until the next sitting?

The **CHAIRMAN**: That is right. There will be no closure. Is there any further discussion?

Shall I ask Dr. Davidson, then, to proceed, to take up his evidence from where we last left him?

Hon. **SENATORS**: Agreed.

**Dr. George F. Davidson, Secretary, Treasury Board**: Mr. Chairman, I am greatly heartened by the last question put by Senator Pouliot, because I think it can very well happen that one or other of the senators may find himself moved to ask me a question that I cannot answer; and I would not like to have the record left at that point, if there is a chance that by the next meeting I can find the right answer to give.

I must express my regret also that at this meeting I am left alone to carry the ball, having been abandoned by Mr. Steele and Mr. Allen. Mr. Allen unfortunately is ill at home with a quite severe attack of flu. Mr. Steele, having helped me through the initial weeks and months when I was before this committee as the newly appointed Secretary of the Treasury Board, now has come to the conclusion that I should be able to stand or fall by myself, having had five months on the job. Consequently he has asked me if I would carry on in his stead and discuss some of the matters relating to the implementation of the Glassco Commission's report which were active at the time he left the Treasury Board. He has asked if I would take on those bits of his evidence and carry them through with the Finance Committee of the Senate. Consequently I am going to endeavour to deal with the subjects which, as of our last meeting in June, it was announced that Mr. Steele would endeavour to deal with in my place.

It may be a little difficult to recapture all of the atmosphere in which the discussions took place in this committee during the meetings we held last June. I would like quickly to re-establish a point of departure, if I may, by reminding you that we were concerned at that time primarily with the concepts developed by the Glassco Commission's report on financial management. This is the second of the 24 reports appearing in the series published under the auspices of the Glassco Commission.

The Glassco Commission's report presented to the Government for consideration some 27 separate recommendations, which are set out in the pages of the commission's report to which the chairman made reference earlier this afternoon. Some of those recommendations have to do with the form and manner in which expenditure estimates should be presented to Parliament for the purpose of giving Parliament a clear and coherent picture of what it is that the various departments propose to spend money on. Others of those recommendations had to do with what you might call internal administrative arrangements, what should be the relationships between the central agencies of control and management, such as the Treasury Board, acting on behalf of the cabinet, and the departments—for example, to what extent should decision making in broad policy areas be that of the department, and to what extent should it be that of the central management agency?



The same is true of the more detailed individualized decisions that have to be made somewhere along the line in the course of the day-to-day administration of any program.

Senator POULIOT: Dr. Davidson, you spoke of 27 special recommendations of the Glassco Commission?

Dr. DAVIDSON: That is correct.

Senator POULIOT: And you are to give explanations about it now. I wonder if you would mention one recommendation, what has been recommended by the Glassco Commission, and then mention your observations on the matter, so that we would know what they have said and what you can tell us by way of explaining the position of the Government. Do you understand?

Dr. DAVIDSON: Yes sir.

Senator POULIOT: I have the Glassco Commission report upstairs but it is so bulky I did not bring it. If you can proceed in that way, and if it is the pleasure of the committee too, we would be in a position to understand your remarks much better.

Dr. DAVIDSON: Yes, sir. Mr. Chairman, Senator Pouliot may recall that at some of the earlier meetings of this committee I did discuss certain of the recommendations of the Glassco Commission, notably those which had already been announced as approved in principle by the Government. I referred to some of the recommendations which are actually being implemented, such as that the number of votes in the estimates be reduced, and that a greater degree of decentralization of authority be given to the departments to administer and manage their own financial affairs. I will be referring to some of these by illustration in the course of my remarks. However, since I want to say something this afternoon about the four financial management surveys that have been carried on in four separate departments of Government, to find out the extent of which it is practicable to implement the Glassco Commission recommendations as a whole in the individual departments, I think it would be more useful if I merely use certain illustrations as I go along, rather than try to deal with each one of the 27 recommendations seriatim.

Senator POULIOT: There is just one question before you start. Is the administration of each one of the departments or crown companies similar to that of the others?

Dr. DAVIDSON: Far from it. Mr. Chairman, there are very substantial differences.

Senator POULIOT: There is no uniformity?

Dr. DAVIDSON: There is no necessary uniformity. There is in particular a substantial degree of difference between the administration of crown companies and the administration of individual departments.

Senator POULIOT: It makes your task much more difficult.

Dr. DAVIDSON: That is correct. One of the things which the Glassco Commission is endeavouring to establish is a base of consistent principles from which the central management authority—namely, the Government, the cabinet and the Treasury Board—may operate with respect to the different departments and agencies of the Government. As the members of the Senate are well aware, particularly with respect to crown corporations, but even with respect to the various departments of Government, these agencies and departments have come into existence at various periods of time. The crown corporations have been established by acts of Parliament passed at different stages of the evolution of the Government of Canada and there is no necessary uniformity or consistency in the details of the legislation that was passed establishing the several departments or crown corporations in the Government of Canada. Since Parliament, in passing, for example, the National Film Board

Act or the Central Mortgage and Housing legislation or the Department of National Health and Welfare Act, makes different provisions in the text of the legislation itself, it is understandable that there will not be complete uniformity in the structure or the organization of the administration of these several departments. What we are trying to do here, Senator Pouliot and gentlemen, is to develop some common principles by which we can be guided in our financial management of the affairs of these different organizations, even though their outward form and structure will be somewhat different.

Senator POULIOT: There is one thing I do not understand. You have in each department and in the crown companies chief treasury officers who are under the Comptroller of the Treasury.

Dr. DAVIDSON: Not in the crown corporations. This is a very good illustration of the point I am trying to make. In the departments of Government there is centralized accounting and pre-audit and commitment control established through the central office of the Comptroller of the Treasury, who has his staff units established in each department, and exercises central control. But that is not the case in all crown corporations, some of which have complete independence so far as their financial affairs are concerned, and which are not subject in any way to the control or supervision of the Comptroller of the Treasury.

Senator POULIOT: But treasury officers must receive the same instructions from the Comptroller of the Treasury, I presume?

Dr. DAVIDSON: The departmental treasury officers are the employees of the—

Senator POULIOT: But they must receive the same instructions from him concerning their duties?

Dr. DAVIDSON: Oh, yes.

Senator POULIOT: And there should be no difference between the instructions applicable to the Department of Public Works or to the Department of Northern Affairs and National Resources?

Dr. DAVIDSON: In broad terms, that is correct as far as various departments are concerned; but there are crown corporations with varying degrees of independence.

Senator POULIOT: I am not speaking of crown corporations, for the moment, but of the departments.

Dr. DAVIDSON: Well, that is quite correct. At the present time the Comptroller of the Treasury does have units established in each of the departments of Government, each one of which is responsible to him for carrying out the duties he is responsible for carrying out under the Financial Administration Act.

Mr. Chairman, I was saying, before Senator Pouliot raised this question, that a certain number of these specific Glassco recommendations have to do with the form and manner in which the annual estimates are presented to Parliament. Others have to do with the financial affairs of the departments, and the question, which I mentioned earlier, of the degree of responsibility invested in the central management agency and in the several departments to administer the financial affairs of the department. Others of these recommendations have to do with what you might call the aftermath of expenditure, the role of the Public Accounts document in reflecting accurately the expenditure patterns of the Government through the year that is the subject of the Public Accounts report. Here we have, therefore, a continuous picture, dealt with in the Glassco Commission's report, of the various stages through which financial management goes, from the early planning of expenditures right through to the

stage when the final accounting of the expenditures is made in the report of the Auditor General.

In order to illustrate the detailed phases through which the process of financial management has to pass, I have jotted down a sequence of stages I would like to read into the record so that the members of the committee will appreciate the different stages that have to be followed through in examining the total financial management policies and procedures of the Government, taken as a whole.

First of all, we have in the period of the year through which we have just passed—July, August and September—a period devoted to the assembly of information and planning of estimates requirements for the year ahead by the departments and by the various branches and divisions of the departments. This planning of next year's expenditure requirements takes place at a point in time which is anywhere from 9 to 21 months in advance of the time when the dollars that they are asking for will have to be spent—because it is at the beginning of July in one year that the process of developing plans and expenditure requirements for the ensuing fiscal year is first set in motion.

After the assembly and planning of expenditure requirements in the departments, there follows a series of meetings between the departmental officials and the Treasury Board staff, at the staff level. The purpose of these meetings is, first of all, to examine the elements of the planned departmental expenditure for the year ahead, and to find out where by common agreement among the staffs concerned, as distinct from the ministers concerned, possible changes and alterations, and, hopefully, some reductions can be made in the estimates as originally developed by the departments. This series of encounters between the Treasury Board staff and the departmental staffs is due to begin this year about October 22, and will last through to December 1, a five- or six-week period. Our task will be to examine at the staff level between Treasury Board staff and departmental staffs, all of the expenditure proposals and plans as they will be made to the Treasury Board for the ensuing year.

It is following that period, and during the last few weeks of each calendar year—beginning, let us say, the first week in December and extending to the end of December—that the ministers of the Treasury Board meet with the various departmental ministers and their supporting staffs to resolve any outstanding differences as to what should go into the estimates for a particular department. The ministers of the Treasury Board will normally deal only with those problems which remain unresolved after the two staffs have met and tried to work out most of the difficulties.

Once the Treasury Board has approved of the estimates of the various departments and agencies for the next year, the process of printing the blue book estimates is then undertaken. This usually takes place early in January in each calendar year. Following that, the estimates are presented to Parliament, approved by Parliament, and sometimes that approval takes the better part of a year and requires the furnishing of interim supply from time to time as a means of keeping things going while Parliament is considering approval of the estimates.

Senator HAIG: Why in interim supply do you ask for one-twelfth or two-twelfths, or sometimes the full amount of the estimates? Who decides that?

Dr. DAVIDSON: May I just correct Senator Haig on one minor point, by saying that we never request the full amount. There may be a request up to eleven-twelfths. However, the assurance is invariably given by the minister that there will be a nominal amount left in the vote so that there can still be a debate on that vote at a later stage in the year.

On every occasion when an interim supply bill is required, our Treasury Board staff is required to get in touch by telephone with every department that is affected by the votes that appear in the book of estimates; and we

obtain from these individual departments any special statement of requirements that they have to make as to why they need more than the one-twelfth or two-twelfths, whatever the pro rata amount is in respect to any vote.

I can illustrate the problem best by referring to, say, the Department of Mines and Technical Surveys, which sends out geological survey parties into the north, and perhaps spends during the summer months 90 per cent of its total funds in certain votes relating to the geological survey.

Now, they have to take advantage of the summer weather to carry out the work that cannot be done in wintertime. If we were restricted to asking Parliament for one-twelfth or two-twelfths, the geological survey could not be done during those summer months.

There are certain other votes relating to agriculture, where perhaps the largest part of the entire amount is required to be appropriated by Parliament in this particular period of the year.

For that reason, you will find in each interim supply bill certain schedules which indicate that for certain votes listed there may be required an extra month's supply or even, in some cases, an extra three or four months' supply. However, I can assure you that there is never an item included in interim supply for more than the normal amount of one-twelfth or two-twelfths, unless we at the Treasury Board staff level have crossexamined departmental officials and obliged them to satisfy us that they have a valid reason for asking for the additional amount, a reason which we are prepared to defend when we present it to the Treasury Board, and which we think the ministers are in a good position to defend when they ask Parliament to pass these extra amounts.

Senator ISNOR: Could there be any objection to cutting down the discussion and asking for four-four, or three and one?

Dr. DAVIDSON: A four months supply?

Senator ISNOR: Yes.

Dr. DAVIDSON: I can assure you, Senator, there would be no objection so far as the departmental officials are concerned.

Senator ISNOR: Don't you think it would save a lot of time?

Dr. DAVIDSON: That is a matter of judgment and opinion, senator. One never knows whether these interim supply bills, based on one month or three months will save time or take additional time to get through. It depends on the mood of the members of the house, and the Senate, and we don't pretend always to be experts in assessing those moods. But certainly from the point of view of the departmental management or the Treasury Board officials, it would be much more satisfactory to be able to have a quarter or one-third of the annual estimates voted periodically on an interim supply basis.

Assuming we do get approval of the estimates by Parliament—and this, in theory but not always in practice, takes place prior to April 1, the beginning of the new fiscal year—then, the moneys having been voted by Parliament, the problem becomes one of managing and controlling during the year the expenditures for which authority has been granted by Parliament. This is a responsibility which is shared between departmental management and the Treasury Board, because, as honourable senators know, when supply is granted this does not mean the money is voted for the use of the individual department in whose name the item stands in the estimates. This is supply that is voted to Her Majesty the Queen in the Right of Canada for the carrying on of the affairs of government, and it is to the central authority these funds are voted and, therefore, the central authority still has the responsibility for ensuring that the departmental expenditures are carried on in conformity with the wishes of Parliament and within the framework of the wishes and judgment of the executive authority.

During this period in which there is responsibility for managing and controlling expenditures that have been approved by Parliament, there is also the problem of who does what, and whose responsibility it is to carry on certain of the functions relating to financial management and financial control. Here we have the departmental responsibility, on the one hand, for actually administering the program and using the financial resources voted by Parliament to administer the program. Along with this we have, under the present arrangement, the Financial Administration Act which requires the Comptroller of the Treasury to pre-audit all the expenditures which the department proposes to make.

Further to that, in certain policy areas and also, I have to add in a great many of the detailed decision-making areas, we have to consider the role of the Treasury Board, which functions, in effect, as the Finance Committee of the Cabinet. The Treasury Board has certain responsibilities for laying down principles or guide lines of policy for the guidance of departments in the expenditures they are making after Parliament has approved these expenditure plans. We have also the problem of accounting for these expenditures in the maintenance of the books of account and in the reports that are presented both to the executive authority and to Parliament with respect to how these accounts have been managed, and how the expenditures of the various departments and agencies have been carried out in the course of the year.

Finally, of course, we have the report of the Auditor General which is the final, one might say, "post mortem" on the actions of the departments in the carrying out of their program as far as financial management is concerned.

Senator POULIOT: This is the work of your personnel, of your staff?

Dr. DAVIDSON: Some of this is, Senator Pouliot. But, of course, when I refer to Treasury Board I am referring to the committee of ministers as distinct from the Treasury Board staff.

Senator POULIOT: What is the size of the personnel of the Treasury Board?

Dr. DAVIDSON: The establishment of the Treasury Board at the present time is some 177.

Senator POULIOT: Are they studying the management of all the departments, or are there some of your staff who are attached to some of the departments?

Dr. DAVIDSON: No, the Treasury Board staff is not organized on the same basis as the Comptroller of the Treasury's staff, for example. The Comptroller of the Treasurer's staff is assigned to and located in each department it serves. We, on the other hand, operate as a central group and while various of my officers carry particular responsibility for knowing the program and the expenditure requirements of individual departments, they are carrying that department as a portfolio rather than being located physically in the department.

Senator POULIOT: How is the work amongst the members of your staff?

Dr. DAVIDSON: The Treasury Board staff, Mr. Chairman, is divided into three main groups. One is the personnel policy division of Treasury Board, which deals with all personnel policy questions requiring the board's attention.

Senator POULIOT: The civil servants of each department?

Dr. DAVIDSON: Yes, and also the prevailing rates employees and other employees who are not civil servants within the meaning of the Civil Service Act.

Senator POULIOT: They are temporary?

Dr. DAVIDSON: Prevailing rates or otherwise specially employed. There is a wide variety of questions affecting personnel policy, affecting not only

civil servants but a great many other employees who do not come under the Civil Service Act.

Senator POULIOT: What you mean by "personnel policy" is mostly salaries?

Dr. DAVIDSON: Salaries, working conditions—

Senator POULIOT: And working conditions too?

Dr. DAVIDSON: Yes, and what we call, establishment problems: the numbers of personnel required by each department, hours of work, problems relating to leave, and so on. There are many problems in the personnel policy field that are not the responsibility of the Civil Service Commission, and there come partly or wholly under the responsibility of Treasury Board. This is one division of the Treasury Board which has a substantial proportion of my staff attached to it.

There is a second division called the Program Analysis Division. This is the division of the Treasury Board staff which has attached to it officers each one of whom has the special responsibility for knowing of the problems and difficulties arising in those departments of government which are assigned to him. He may have assigned to him, for example, the Department of Mines and Technical Surveys. He may have assigned to him other departments, such as Health and Welfare or Veterans Affairs. One officer might be carrying two or three departments. Any problems that come up from that department, and any submissions from that department requesting authority from Treasury Board are examined by that officer, who is in constant touch by telephone or otherwise with key officers of the department for which he takes the responsibility. He examines and furnishes advice to me and my colleagues in respect of matters affecting his particular department and those matters are then reported to the Treasury Board minutes for decision.

Senator POULIOT: You have a chart of the Treasury Board?

Dr. DAVIDSON: Yes.

Senator POULIOT: Were you asked to table it?

The CHAIRMAN: I do not think it has been tabled Senator Pouliot.

Dr. DAVIDSON: I will be very glad to table it, if that is the wish of the committee, Mr. Chairman.

Senator POULIOT: When would it be possible to have it published with the report of this committee, as an annex?

The CHAIRMAN: We will have it published as an appendix to our proceedings when available. Is that what you request?

Senator POULIOT: Please.

The CHAIRMAN: Is that agreeable?

Hon. SENATORS: Agreed.

On motion of the Hon. Senator Pouliot it was resolved to print as an appendix to a future proceeding of the committee the organizational chart of the Treasury Board.

Senator REID: At what stage does a member of the Cabinet explain what is the demand of the department?

Dr. DAVIDSON: At what stage, senator?

Senator REID: At what point does the Cabinet minister come?

Dr. DAVIDSON: Come before the Treasury Board?

Senator REID: Yes.

Dr. DAVIDSON: That is usually in the month of December.

Senator REID: They are usually called before the Treasury Board to explain?

Dr. DAVIDSON: Yes. Between October 22 and the first week of December we will be holding discussions on the staff level, with the Treasury Board staff sitting down with each group of departmental officials and trying to iron out most of the differences and to narrow the gap between the money they want and what we think, at staff level, they should be expected to get along with. Following that there are meetings scheduled with the ministers of the departments, and they come before the Treasury Board supported by their officials, and we then make a presentation, in their presence, to the ministers of the Treasury Board raising issues we have not been able to resolve satisfactorily ourselves. The department, through its minister, has the opportunity to give to the Treasury Board direct the reasons why they think this money is required; and the Treasury Board ministers then have to decide whether they are going to give into their colleague's demands or whether they are going to maintain the position that the Treasury Board staff has recommended they take in the matter.

Senator POULIOT: The chart shows the hierarchy of your establishment?

Dr. DAVIDSON: The chart will be an organizational chart.

Senator POULIOT: It comes from the Minister of Finance, up?

Dr. DAVIDSON: Down.

Senator POULIOT: And other ministers?

Dr. DAVIDSON: Legally, at the present moment—

Senator POULIOT: I do not mean to interrupt, but you are under the cabinet of the ministers?

Dr. DAVIDSON: Legally, the Treasury Board staff is part of the Department of Finance at the moment.

Senator POULIOT: But you have several heads, all the ministers who form the Treasury Board?

Dr. DAVIDSON: That is correct.

Senator POULIOT: They are all on top. It is not only the Minister of Finance, but all the ministers who make up the Treasury Board. They are all on top.

Dr. DAVIDSON: The correct way of putting it is that the Treasury Board is a committee of the Queen's Privy Council, but the staff is part and parcel at the present time of the Department of Finance. If you ask me who my minister is at the moment it is the Minister of Finance.

Senator POULIOT: But it is the association of ministers—the associates of the Minister of Finance who make decisions for the Treasury Board. So when a decision is made by the Treasury Board it is not made by you but by the group of ministers.

Dr. DAVIDSON: That is correct.

Senator POULIOT: On your recommendation.

Dr. DAVIDSON: It may not always be consistent with my recommendation.

Senator POULIOT: They may not agree with your decision.

Dr. DAVIDSON: But the decisions of the Treasury Board are the decisions of the ministers presided over by the Minister of Finance who is Chairman of the Treasury Board at the present time.

Senator POULIOT: And it puts the ministers at the top.

Dr. DAVIDSON: I can prepare a chart in such a way that it will show this.

Senator POULIOT: And then the staff under you?

Dr. DAVIDSON: I would have to say that the staff is under the Minister of Finance.

Senator POULIOT: But you would have to mention the other cabinet ministers?

Dr. DAVIDSON: Correct, but we are attached to the Department of Finance for administrative purposes, though we serve the committee of ministers which comprises the Treasury Board.

Senator BURCHILL: Is every item of expenditure in every department brought forward for approval by the Treasury Board?

Dr. DAVIDSON: Yes. But that does not mean, Senator Burchill, that every item is examined individually by the ministers on the Treasury Board because if that were necessary it would require an endless number of meetings. It is necessary because of the sheer size of the estimates to bring to the attention of the ministers only those unresolved issues which remain after the Treasury Board staff has gone after the departmental officials and threshed out most of the less important points of conflict.

Senator POULIOT: You would not give them routine matters to consider?

Dr. DAVIDSON: That is correct.

Senator POULIOT: The routine matters are not submitted to the Treasury Board.

Dr. DAVIDSON: I would like to be able to say truthfully that that is the case, but I have to state, since there are some senators present who were themselves once ministers, that a great number of routine matters do go to the Treasury Board. They are dealt with routinely, but it is unfortunately made necessary, by the provisions of a great many of the acts on the statute books, to have certain rather insignificant questions decided by the Governor in Council or by the Treasury Board.

Senator POULIOT: Do statutory expenditures go to the Treasury Board?

Dr. DAVIDSON: Yes. That is insofar as the estimating of amounts is necessary. For example in estimating next year's requirements for family allowances to be printed in the bluebook, the Treasury Board have to take a look at that and say "Yes, we think that is a reasonable amount to appear in the estimates."

Senator POULIOT: But salaries established by statute—there is no reason to send them?

Dr. DAVIDSON: They are included for the sake of the record but they are not subject to Treasury Board decision.

Senator SMITH (*Queens-Shelburne*): I should like to ask Dr. Davidson one short question. In your experience as a deputy minister and as Treasury Board secretary, do the meetings between the staffs of a particular department of Government and the staff of the Treasury Board generally result in a grinding down or reducing of overall expenditure because the Treasury Board finds lack of reasons for including certain items in the estimates, or are they watched to make sure that unnecessary sums are not included?

Dr. DAVIDSON: There is a substantial amount of elimination.

Senator TAYLOR (*Norfolk*): You try to find the items once or twice a year which you are convinced could wait? Is this an important function of Government, this action of the Treasury Board?

Dr. DAVIDSON: It is an important part of the process of expenditure control. To give an example, at the early stages, and in advance of the following year's actual expenditure program, we see what the plans and programs of a department, as formulated by them, amount to. These plans are examined, in what I would not call more objective terms without saying also less sympathetic terms, by the Treasury Board staff who will ask a variety of questions as to whether cabinet authority for certain particular items included has been



obtained, or whether this particular project and that expenditure program should be included in the estimates. If there has been no specific cabinet authority given, we will probably say "We think you will have to take this out of the estimates until such time as cabinet approval is obtained." We may undertake an examination as to the numbers of staff which the departmental officials think may be required to carry out a new program of expenditure; and we may bring pressure on them to reduce their estimates of staff requirements. We may examine more closely the financial requirements, even if we accept the fact that the department may need a certain number of staff, because we may ask them to examine more realistically the rate at which they will be able to recruit the staff even after they have got the authority. This may result in the maintenance of the number of staff positions they have asked for but a reduction in the dollar requirements for those positions during that particular fiscal year. In a variety of ways, of which I have given three illustrations, there is a process of boiling down or squeezing the water, if there is any water, out of the original estimates as formulated by the department. It might be, for example, that the Department of Citizenship and Immigration would like to open one or two new citizenship courts or that the Department of External Affairs might feel it wise to open one or two new missions. We do not usually accept those as valid for inclusion in the estimates unless there has been some form of cabinet approvals which indicates that the cabinet has formally approved the proposal to open up such a court, or such a mission in a country where there has not been one before.

Senator POULIOT: Does it happen that the deputy minister makes a recommendation or a requisition for \$10 million and the Treasury Board itself would want to reduce it by one-quarter to \$7½ million? What do you do in those circumstances? You have a conference with officials of the particular department and you see what can be done and what reduction you can make in order to achieve that decrease in the estimate of that department?

Dr. DAVIDSON: Before such a request is made by a deputy minister it must first be endorsed and submitted by his minister, after which it is examined by the Treasury Board staff. It is examined very closely. We do not take the responsibility at the staff level of making the reduction unless the deputy minister himself agrees to our doing so. If we cannot reach agreement with the deputy minister on a smaller sum that we can recommend, or if we are not ourselves convinced that the sum is required and can be approved in principle for this purpose, we will put a recommendation to the Treasury Board stating that in our judgment the full amount requested is not required and that a lesser amount will suffice for the purpose. The Treasury Board must then take the position that they are or are not prepared to go beyond a certain amount.

Senator POULIOT: Now, I have one last question to ask you. Are the estimates submitted to the Treasury Board before they go to the Privy Council?

Dr. DAVIDSON: Yes, sir.

Senator POULIOT: Sometimes are there estimates that have been passed by the Privy Council but which are referred to you?

Dr. DAVIDSON: Not to my knowledge, sir.

Senator POULIOT: The first step is the Treasury Board?

Dr. DAVIDSON: That is correct.

Senator POULIOT: And they reach the Privy Council only after they have been screened by the Treasury Board?

Dr. DAVIDSON: You are referring to the annual estimates as contained ultimately in the Blue Book here? These expenditure proposals are reviewed, examined and to all intents and purposes decided upon by the ministers acting as a treasury board, but before the book is printed Treasury Board makes a

report to the Cabinet and says, in effect: "We have examined the departmental requirements for the next fiscal year, and here, in our opinion, are the expenditures required to carry on the business of government for the next fiscal year".

Senator POULIOT: Does it happen that some curtailments are made by the Privy Council?

Dr. DAVIDSON: I have never been through this part of the exercise myself, Senator Pouliot and, therefore, I cannot state with any certainty.

Senator POULIOT: You have not checked it?

Dr. DAVIDSON: I have never checked it, but I do know it is possible at that stage for any minister who feels that he has not been dealt with in accordance with his department's requirements by the Treasury Board to raise the matter again in Cabinet. It is always open to him to raise in Cabinet his claimed need for more funds than the Treasury Board may have given him.

Senator POULIOT: Do they say: "We will stop it for this year, but we will see what we can do next year"?

Dr. DAVIDSON: The Cabinet has the final decision. All decisions of the Treasury Board are subject to review by the Governor in Council.

Senator LAMBERT: Does not all this boil down to the relationship between the minister and his deputy?

Dr. DAVIDSON: The estimates have to be signed, Senator Lambert, by the minister before they are receivable by the Treasury Board.

Senator LAMBERT: Very well; we have in those estimates every year, I think, items that reflect the carryover from the estimates into the subsequent year. In other words, this happens when the estimate has not been quite on the mark.

Dr. DAVIDSON: That is right.

Senator LAMBERT: Is that not a matter of close and analytical contact between the minister and his deputy and those in his department who prepare the estimates for that department before they go to Treasury Board?

Dr. DAVIDSON: That is correct.

Senator LAMBERT: Then my observation is that there is in some departments not quite as strict a supervision in the beginning as there is in some of the other departments?

Dr. DAVIDSON: That I am sure would be true of any group of departments—

Senator LAMBERT: All right; then, the Treasury Board comes into this and it may make recommendations which the minister has agreed to in relation to the estimates that his deputy and the other members of his staff have recommended?

Dr. DAVIDSON: That is right.

Senator LAMBERT: Then, does he accept the Treasury Board's overriding his recommendation?

Dr. DAVIDSON: The decision of the Treasury Board is, of course, final as to what goes into the Blue Book of estimates, unless the minister feels so strongly about the matter that he decides in effect to appeal the decision of the Treasury Board to the full Cabinet.

I told Senator Pouliot that I had not enough experience in Treasury Board to know how this works, but I can say that in the 20 years I was a deputy minister—the permanent Civil Service head of a department—I never knew of a single instance in which my minister, after having had his day in court with Treasury Board, felt justified in appealing to the full Cabinet over the

heads of his Treasury Board colleagues in order to get more funds than the Treasury Board had approved for him.

Senator POULIOT: But it could be done?

Dr. DAVIDSON: Yes, in theory it could be done, but I do not know what reception the minister would get at the Cabinet level.

Senator LAMBERT: The secretary of the Treasury Board requires a high degree of omniscience.

The CHAIRMAN: Dr. Davidson, in the procedure that you have outlined, either by the staff of the Treasury Board or by the Treasury Board itself, consideration is not given as to whether the over-all figure of all expenditures will produce such a deficit or such a surplus in relation to the revenues so that some change may be brought about in the overall total amount of expenditures? Am I correct in my assumption that this kind of analysis or consideration of the estimates does not take place in the proceedings through the staff of the Treasury Board or through the proceedings of the Treasury Board itself, but if there is to be any consideration of an overall reduction or a possible increase in the expenditures by reason of the total overall deficit or surplus of the government's revenues, that that consideration would take place only in Cabinet after the Treasury Board has dealt with it?

Dr. DAVIDSON: That is not quite correct, Mr. Chairman. I have described the process of planning and developing and analyzing and approving the estimates as the basic process, but I have to add that in recent years, particularly as we have been endeavouring to look a bit further ahead into the future than merely on a year-to-year basis, we have been endeavouring to get from departments what we call forward forecasts. We ask the department at the time it is presenting its estimates to us to give us not only its firm requirements for 1965-66 but an expenditure forecast, on the basis of all they know about their present programs, of what they will carry forward as requirements into 1966-67 and even into 1967-68. So, we are beginning to be able to see two years ahead, not with the same degree of accuracy as we can assess the estimates requirements for next year—because a great many new requirements are going to emerge and some are going to disappear—but at least we have some idea of the size and shape of the future expenditure pattern of the Government taken as a whole two years ahead.

In the course of each year, in May or June, there is usually a supplementary set of estimates presented to Parliament for approval, and at that time we ask the departments to up-date their expenditure forecasts so that we can have a second review each year of the three-year forecast that we have established.

Senator POULIOT: Would it be possible to do enough planning so that we can dispense with the supplementaries?

Dr. DAVIDSON: I would doubt it, Senator Pouliot. I would doubt very much that it would be possible to achieve a result where you could foresee and forecast and obtain advance decisions on every matter that is likely to require a decision in the course of the year.

Senator POULIOT: Now, Mr. Davidson—

Dr. DAVIDSON: Could I just continue, Senator Pouliot, because I think this has some significance for the members of the committee.

Senator POULIOT: Yes.

Dr. DAVIDSON: We have, on the basis that I have just explained, the two-year forward forecast revised at six-monthly intervals. On the basis of that, we presented this year to the Cabinet, even before our discussions with the departments commenced, a report containing our projection of the likely expenditure requirements of the Government for the year 1965-66. That was so far

as we could foresee in June of this year. We said, in effect, to the ministers of the Treasury Board and to the Cabinet: "On the basis of what we know now we think that we have a reasonably good chance of containing the expenditures of departments and agencies of Government in 1965-66 within the figure that we have stated in our Cabinet paper," which figure, for reasons you understand, I am not at liberty to state to this committee. However, we did specify a figure which we thought could be set as the target within which we should endeavour to keep our expenditure program for next year.

This was examined and revised, I might say, by the ministers and given to us as a general target which we are now endeavouring to achieve. Therefore, when we approach each department, while we have no individual target for that department, we are operating against a general target, and we try to keep the total volume of governmental expenditures next year as chargeable to current revenues within the target figure. Whether we succeed or fail in this is something we cannot tell you now because we do not know ourselves.

Senator POULIOT: Dr. Davidson, with regard to all estimates, in the first place they are suggestions, I shall say, by the chiefs of the branches to their deputy ministers? Then the deputy minister puts the whole thing together and submits it to the minister and if the minister approves, and only if he approves, it goes to the Treasury Board, and if the Treasury Board approves, and only if the Treasury Board approves, it goes to the Privy Council.

Dr. DAVIDSON: That is correct.

Senator FLYNN: I think he can appeal to the Privy Council, even if the Treasury Board says no.

Dr. DAVIDSON: Yes. The Treasury Board submits the report to the cabinet. Mind you the staff has to prepare that report and submit it to the ministers of the Board for approval. They might change it and revise it, but they finally authorize the report to go from the Board—not from the staff—to the full cabinet.

Senator Pouliot was asking a question, is it possible to visualize a future year in which, because of more sophisticated methods of forecasting, we could anticipate all the possible expenditures and not require supplementary estimates. The answer to that is yes, if you give us a fund of \$50 million or \$75 million, without any strings on it as to how it shall be spent. There are always unforeseen and unforeseeable questions arising. Might I just illustrate. We had a drought situation in the prairie provinces this summer, which we had no means of forecasting when the Department of Agriculture estimates were prepared a year ago. The cabinet takes account of this, decides in the course of the year that there is a situation there which requires some kind of financial help to be given in terms of assistance in transporting fodder into the drought area. And that authority is granted for that purpose. This money may be taken for the time being out of a vote for Miscellaneous and Unforeseen Expenditures which appears in the Department of Finance estimates each year, but the terms of this vote require the Department of Agriculture to come later in the year to Parliament and have that money voted as a supplementary item in the usual way; and then that money is reimbursed to the Miscellaneous and Unforeseen Expenditures vote in the Department of Finance estimates. So this is really a revolving fund that we use.

Senator SMITH (*Queens-Shelburne*): How much is that fund?

Dr. DAVIDSON: I will tell you in a moment. It is vote 15.

Senator LAMBERT: The extent to which that fund is drawn upon in the final analysis is dependent upon the local organization in the municipalities and the provinces that check those claims, as I understand it?

Dr. DAVIDSON: Not in this particular situation, because this again in the case I have cited depends on the actual expenditures which the Government

incurred in transporting fodder into that area. But this Contingencies vote can also be used for other purposes. For example, we conduct a cycle of pay reviews, with different groups of Civil Service employees having their pay reviewed at different periods of the cycle. In the middle of this year, in August of this year, we had a review for what we call group B, the administrative clerical and other employees, about 73,000. This review or decision as to the extent to which their salary rates should be adjusted was based upon data which was collected on October 1 of last year and has been processed and examined and analyzed since that time. There was no means of determining, as of last autumn, when the estimates were being prepared, what the cost of future salary revisions, coming later in the 21-month cycle, would be. Consequently we have no means of including a reliable estimate of the cost of these not-yet-decided-on salary increases.

Again, therefore, we resort to this contingencies vote and to the device of a supplementary estimate by which we will reimburse the Miscellaneous and Unforeseen Expenditures vote for any expenditures that may result from the decision in August 1964 to adjust salary levels for this particular group of employees.

There are countless other examples. There is the Winter Works Program of the Department of Labour, which has not appeared in the main estimates of last year. It has not appeared in the supplementaries for this spring. The Government decides from year to year, depending upon the economic and the employment situation, whether the circumstances this next winter require the continuation of the Winter Works Program or the Winter House Building Program.

It is only when that decision has been taken, that it is necessary—and it is necessary—to include in the supplementary estimates provision for the Winter Works Program or the House Building Program.

Senator POULIOT: You would agree that the job was a case of force majeure? It was unexpected and unforeseen. But in the supplementary estimates there are many items which could be foreseen before and brought into the main estimates.

Dr. DAVIDSON: I think that is true, Senator Pouliot, I agree with you on this. May I give another example?

Senator LAMBERT: Is the revolving fund associated with the distress conditions of work in Canada with regard to crops?

Dr. DAVIDSON: No.

Senator LAMBERT: That decision is taken each year when they have conditions to justify it?

Dr. DAVIDSON: There are special programs on that, but some of these special problems arise which do not fit the requirements for which provision has already been made. Senator Smith has asked for the amount of this item. Finance Vote 15, Contingencies—

Subject to the approval of the Treasury Board, (a) to supplement the payroll provisions of other votes; (b) for miscellaneous minor or unforeseen expenses; and (c) for awards under the Public Servants Inventions Act; including authority to re-use any sums repaid to this appropriation from other appropriations.

Regarding those awards, it is obviously impossible to foresee when a public servant is going to invent something which merits an award. The amount of this total vote is \$6 million for 1964-65.

Senator LAMBERT: Would that include crop condition reports, distress?

Dr. DAVIDSON: It would include the program to which I made reference, Senator Lambert, but there are other kinds of crop insurance provisions and

prairie farm assistance provisions which are made under continuing legislative authority and I am not suggesting that those items are covered by this vote.

Senator LAMBERT: Thank you.

Senator HAIG: If a department presents its estimates, as you have indicated, during the year previous, are they allowed with your permission to change or discontinue a program and move it to another part?

Dr. DAVIDSON: Senator Haig, you will recall that the Book of Estimates gives a breakdown into two parts. There are the items which are voted and then there are what is called the Details of Services. You follow me in the distinction I am making?

Senator HAIG: Yes.

Dr. DAVIDSON: Parliament is asked to vote by vote number a certain amount of money for a certain stated purpose; and the words which are included in the vote description, but those words only, have legislative effect and are governing and binding on the administration. In addition to the wording, which is governing and binding because it has the force of law—being words written into the Appropriation Act—there are also printed in the estimates what are called Details of Services. These are the familiar Standard Objects of Expenditure. They include the salaries in detail, the travelling and removal expenses, postage, telephone—what we call the standard objects of expenditure. Those details are not part of the legislation and therefore they do not have binding legislative effect on the administration; but the Financial Administration Act says that, once Parliament has voted these items, the standard objects of expenditure which are printed as part and parcel of the estimate shall be binding on the departments, unless they have, prior to the beginning of the new fiscal year submitted for the approval of the Treasury Board an alternative breakdown of their proposed expenditures within each vote, prior to the beginning of each fiscal year. You can assume, therefore, when you vote in accordance with the Estimates Book a certain amount for administration and operation of the Emergency Measures Organization, that the E.M.O. prior to the beginning of a new fiscal year, will either establish expenditure controls for the year in its own organization that conform to the standard objects of expenditure as set out in the Book of Estimates, or alternatively, they will submit to the Treasury Board for approval an alternative method of controlling the same amount of money through an alternative breakdown, perhaps by regional offices rather than by salaries, travelling expenditures, telegrams and so on.

Senator HAIG: Does the Treasury Board know these details?

Dr. DAVIDSON: Yes; and once that pattern of expenditure has been approved by the Treasury Board the department is locked into that pattern, unless it comes to the Treasury Board in the course of the year and says, "We are running short of money in our primary vote for repairs and upkeep of buildings and works, and we have some surplus funds available in travelling expenses, in informational publications, and so on, and we propose to reduce these primaries by \$10,000 and transfer that amount into the primary where we need the money." And Treasury Board routinely approves these reallocations.

Senator HAIG: You have a general, large amount divided into several sections, and within those sections, if the Treasury Board approves, one can be transferred to the other?

Dr. DAVIDSON: That is right.

The CHAIRMAN: They do not have to come back to Parliament for any changes.

Dr. DAVIDSON: That is right. I am glad you mentioned this, Senator Haig, because this does illustrate the kind of decision which under the present law is

required of the Treasury Board, which frankly becomes a routine decision, because when you have these minor amounts required as between primary six and primary 17, perhaps, involving only \$500 of a shift to come out even at the end of the year, there arises the question of whether each one of these transfers should have to go to a committee of six ministers of the Crown, and whether they should have to sit in solemn judgment on such detailed matters. Personally, I think that carries you beyond the realm of matters that are important enough to require the collective decision of half a dozen ministers.

The CHAIRMAN: Is there some suggestion as to changing that?

Dr. DAVIDSON: One of the things the Glassco Commission recommends is that once the decision as to the overall size and shape of the estimates is made—and this should be determined more objectively, the Glassco Commission says, than it is at present—the expenditure programs of the department should be broken down by programs of activity rather than by standard objects of expenditure. Once an allocation has been made for the total cost of carrying on a program that Parliament has approved, the officer responsible for administering that program should be given a great deal more leeway than at the present time to shift the money that has been voted to him within the limits of that total sum of money, and he should be held accountable on this basis for the total performance for which he is responsible rather than that he should be required to live within each of the little segments of the operation precisely as set out in the Standard Objects of Expenditure as set out in the Estimate Book.

This may be controversial. I believe it is sound, personally. I believe this will shift the gaze of the central management agencies, and eventually shift the gaze of Parliament, from preoccupation with the individual details of expenditure, to the overall purposes and objectives of expenditure as well as the results flowing from the expenditure. I think this is wholly a good thing, but we may have some difficulty getting through the intermediate stages.

Senator ISNOR: How can they approve the overall picture if they do not have the individual items?

Dr. DAVIDSON: We may still have to have the individual items, Senator Isnor. We may still have to have a picture presented both to the ministers and also to Parliament which will give the information that the members of Parliament require. This may involve presenting the requirements of an individual vote, first of all, by standard objects of expenditure, and, secondly, by activity programs, so that Parliament will have a full understanding not only of the purposes of the programs but also of the individual expenditure items that comprise the program. But once Parliament has seen and understood that and has voted the money, the thing that Senator Haig is concerned about now is—how is control of that expenditure maintained during the year once Parliament has voted it. It is here, I think, that we will tend to shift from controlling expenditure by standard objects to controlling expenditure by programs and activities, each one of which will be set up as a separate operation and controlled on the basis of the budget for program itself.

Senator ISNOR: I think the point which was raised by Senator Haig is important. Industrial firms today are not only extending their programs, but they are estimating expenditures for a period of five years. I have in mind a number of electrical firms I know of whose expenditures run five years in advance. It is not so much that their programs are looking forward as the control of those programs after they once get started. Now, I was wondering, following Senator Haig's question, what control you have after already having sanctioned or given your approval to expenditures for the various departments? What do they do to report to you that they are living within the balance of their means?

Dr. DAVIDSON: Well, Mr. Chairman, the present arrangement is one which shows up very quickly any pressure points and controls very effectively departments from overspending—by the simple device, which Glassco does not approve, incidentally, of taking certain authorities out of the hands of the departments and placing them elsewhere, namely, in the hands of the Comptroller of the Treasury.

If you look at section 30 of the Financial Administration Act, you will see that, what we call commitment authority is in the hands not of the departmental official who is responsible for the administration of the program, but in the hands of the Comptroller of the Treasury; and, therefore, once the expenditure breakdown is established for each vote for each year—either in accordance with the printed estimates, or by some alternative means approved by Treasury Board—once that pattern is established for each vote for the year, the Comptroller of the Treasury then sets up what are called “commitment controls,” and every department which is desirous of entering into any future commitment chargeable to a given Vote must register that commitment with the Comptroller, who sets up the control, who encumbers from the amount of money in that primary the amount of money which it is estimated will be required for that particular commitment in the course of the fiscal year; and once he has encumbered the full amount of that particular primary, he stops. If then you want to enter into a further commitment for travelling expenses, or another building or repair job, you prepare your encumbrance and present it to the Comptroller and he will say, “I am sorry, but you have already fully committed the amount of money that was allocated for this particular purpose in this vote during the particular year, and I cannot allow you to over-commit yourself beyond that which is provided; you will either have to forego this item or tell me that you are prepared to withdraw or cancel out some other item that has already been encumbered for; or else you will have to go back to Treasury Board and get a transfer of allotments, which will take money that has not been encumbered in certain other primaries, and transfer into this primary, so that I can allow you to set up a commitment authority for this new project.”

Do you follow me, senator?

Senator ISNOR: I think so.

Dr. DAVIDSON: Therefore the departments are really controlled from the outside on this basis; and this is something that the Glassco Report criticizes quite strongly on the grounds that this tends to weaken the sense of departmental responsibility. The Glassco Commission, in conformity with its general philosophy of turning back a great deal of the responsibility for disciplining itself to the department and holding department officials accountable for their failure to do so, recommends that this commitment control from the outside be done away with and that the departments themselves be made responsible for living within the strait jacket they have fashioned for themselves with the help of the Treasury Board; that there be a periodic examination by Treasury Board, not of every individual transaction that they enter into but of how well, generally, they are living up to their obligations of self-discipline; and that sanctions be taken against officials who repeatedly show themselves unwilling or incapable of living by the rules that have been laid down for them.

This will certainly expose the departmental officials concerned to much greater pressure; they will be much less protected than they are at the present time. But this is the essential difference between the approach taken by the Glassco Report in this area and the approach with which we have been living for some 30 years now.



Senator ISNOR: Their recommendation for procedures are very similar to those carried on by outside organizations, where the directors and shareholders know what their program is for the next year. The same applies to universities, with their five-year programs. I do not see why the Government cannot follow the principle laid down in the Glassco Report.

Are you going to comment, Dr. Davidson—or would it be a fair question to ask you?—on individual recommendations made by the Glassco Commission, as to your opinion as to the value of them?

Dr. DAVIDSON: Am I going to comment on them?

Senator ISNOR: Yes.

Dr. DAVIDSON: I will be very glad to comment on any particular ones you have in mind; and perhaps we can give some attention to this at the next meeting. I have already given my opinion on a good many of them at previous meetings. You will recall, so far as the financial management recommendations are concerned, 27 of them appear in the report. Seventeen of them have already been officially approved by the Government; and I would certainly not be one who would appear before the Senate committee and say that any of the 17 that have been approved by the Government should not have been approved by them.

Senator ISNOR: I would not like to put you in that spot!

Dr. DAVIDSON: I think they are sound recommendations. When I was head of the Bureau on Government Organization it was my responsibility to select these recommendations and recommend to the Government that they should be approved.

What I would like now to touch on—either at this stage or at the next meeting—

Senator ISNOR: Before you start on that, why I asked that question, to get your views on the report, was because I was rather struck with the statement made that while there were 50 million letters a year sent out by the Government it cost \$50 million to send out those 50 million letters. In other words, for every letter written it is costing the Government \$1, on the average. I do not think in business it costs a dollar a letter.

Dr. DAVIDSON: Senator Isnor, could I ask you a question? Have you examined the basis upon which that statement was made?

Senator ISNOR: Well, of course, they were broad in their statement. They said it cost from 15 cents to \$1.75; but the fact remains their summing up was that it cost the Government, or the country, a dollar for every letter written.

Dr. DAVIDSON: I appreciate the point. What I am really trying to bring to the attention of the committee is that there are some estimates which are made in a number of reports of the Glassco Commission for which I cannot myself find the mathematical base—if I can just put it as politely as that. I think this was a nice round figure. It works out nicely—50 million letters costing \$50 million, about a dollar a piece; but I question very much whether in the report on paperwork and systems management, in which this statement appears, or in the working papers there is anything in the way of a thoroughly researched computation made that would support that statement. The significance of this statement, to me, is that there are undoubtedly procedures in the paperwork and systems management field in Government operations which are pretty wasteful, old fashioned and uneconomic. Certainly, I believe the paperwork and systems management report is correct in trying to encourage, stimulate and even provoke Government departments into re-examining their procedures, sharpening them up and making use of all the devices for progressive utilization both of manpower and machines in the work process

that we can possibly develop. But it is not really quite as simple as is suggested in the paperwork and systems management report; and you will not be surprised when I suggest to you that if you set out to mechanize an office, making use of machine methods of accounting and all the modern devices that now exist to make for office efficiency, with a maximum of machine equipment and a minimum of manpower, you can expect you will get repercussions. This invariably happens when you mechanize an office and find you have some surplus staff that is going to have to be found jobs elsewhere in the Government service or outside the Government service; if you proceed all the way that should logically proceed in the mechanization of your office procedures.

I had some experience of this 15 or 20 years ago when I was Deputy Minister of Health and Welfare and was responsible for carrying out the large-scale paperwork exercise involved in the family allowances program. I know something of the concern which was expressed to me by Members of Parliament when we began to substitute certain kinds of indexing equipment in our family allowances offices at a cost at several thousands of dollars but which allowed us to reduce significantly the number of positions in our local offices.

These are factors that enter into the equation, and while I have no doubt whatever that we can adopt practices and procedures in our office routines which will be more economical than those we have grown up with, I think it would be presumptuous of me, and I would question the accuracy of the figures of anyone else who presumed to put a specific price tag either on what the cost of our present arrangement is or what the savings are that would accrue from modernization.

The CHAIRMAN: I think perhaps we are getting on in time, and Dr. Davidson has been very good. I believe he has some more that he would like to present to us today before concluding—is that right?

Dr. DAVIDSON: What I would really like to do, if I could, Senator Leonard, is to set the stage for next week. Could I do that? I assure you, senators, I will not take much longer in doing so.

The CHAIRMAN: Very well.

Dr. DAVIDSON: What I have tried to do today is to pick up from where we left off last June, to give you some indication of the processes through which the principles of financial management have to be applied in the Government service, so that you will understand, I hope, better the relevance of the Glassco Commission's recommendations to the total process of financial management in which we are engaged, from the planning phase to the final phase of the post-audit and appraisal of performance. The Glassco Commission recommendations, if you will look at the report, are directed to these various stages of the financial management operation. Some of them are directed to planning and the preparation of estimates, to the form in which the estimates are presented to Parliament, to the management and control of expenditure once the estimates have been approved, to the accounting, in the bookkeeping sense, for the expenditures, and to the audit and the appraisal of performance that takes place at the end of this cycle of activity.

When it made its first examination of the report of the Glassco Commission on financial management, the Government came to the conclusion that there were certain of the recommendations of the Glassco Commission it was prepared to accept in principle right away. Some were fairly obvious and could be accepted in principle.

It was really a question of judgment as to how far you wanted to go in the direction advocated by Glassco. Other recommendations were more obscure, if not debatable. For examples, it was obvious to the Government that it would be desirable, if possible, to reduce the number of votes in the estimates and

present them in a clearer and more concise and understandable form. I illustrate this by the fact that it takes the Canadian Parliament approximately 495 separate votes to obtain the funds required for the carrying on of the Government of Canada. It takes the Parliament of the United Kingdom something in the order of 130 to 150 votes. This in itself is not significant but when you think of the time consumed by calling 495 votes and the debates which are provoked or stimulated by each of these votes as they are called, I think you will agree that if there is a proper way of reducing the number of votes in the estimates so that the members of Parliament will not be deprived of any proper and necessary control of expenditure, this is something to be achieved if at all possible.

The Government was therefore able to accept some of these recommendations but it also felt it wanted some further guidance on the extent to which it should implement other basic recommendations,—for example that greater responsibility be placed in the hands of the individual departments and that they be held accountable to a greater extent for the handling of financial matters. That is fine but you could interpret it in thousands of ways; you could say "We will give to departments an inch more of rope or we will give them a mile of rope and let them hang themselves properly." How much additional responsibility should be shifted from the rather tightly centralized control which now exists in the Treasury Board and through the Comptroller of the Treasury, and how much should be vested in the departments? This is a matter the Government wanted further advice on.

There was a recommendation to adopt accrual accounting and a recommendation to submit the estimates on the basis of net votes, reducing the gross amount of each estimate by the net amount of revenue accruing to that program. There were others of these that the Government wanted further advice on. Consequently, a little more than a year ago the Government decided that before accepting or rejecting completely all of the 27 recommendations in the report, it would be better to go as far as seemed prudent at the beginning with the acceptance of a certain number of these, and then to examine in closer perspective in a number of departments the extent to which it was desirable to go or not to go in respect of the rest of the recommendations. This led to setting up four intensive studies in four separate and different kinds of government departments, and engaging the services of a group of outside management consultants for each study and asking them to examine in depth the procedures of the department in question for financial management and control and to report to the Government indicating (a) the extent to which it was desirable to apply the remaining Glassco recommendations to the operation of this department and (b) the nature of the changes in structure and organization and the nature of the changes in quality of personnel that would be required to make this new regime of financial management the responsibility of the individual department.

The Treasury Board staff was authorized by the board to explore this question with the interested departments, and we established four departments as being interested in proceeding immediately—to have themselves used as guinea pigs, so to speak. The departments were Northern Affairs and National Resources, Transport, Agriculture, and Veterans Affairs. These departments are quite different in nature. Some are fairly highly centralized, and some are decentralized. They represent a wide variety in the kinds of services and programs which they give, and provide the diversity against which we need to examine the validity of the Glassco recommendations under a variety of different situations.

We sat down with each of these four departments and worked out terms of reference.

Senator ISNOR: When you say "we" you are speaking of the Treasury Board staff?

Dr. DAVIDSON: Yes, we of the Treasury Board staff.

Senator ISNOR: Did the Government engage an outside company?

Dr. DAVIDSON: We authorized each of these departments to arrange for a survey and for this purpose to establish terms of reference with which we helped them. We then asked a number of the better known management consultant firms in the private business world not to submit tenders—because that is not a good word to use in the professional field of management consultants—but to submit proposals as to how they would proceed if they were retained for this purpose and to submit some estimate as to the number of days required to complete the job and what the approximate cost would be.

As a result we had a variety of proposals from a variety of management consultant firms and these proposals were examined and analysed in depth by ourselves on the Treasury Board staff working with the departments concerned. Finally, we selected four firms which we thought had submitted the best programs of work and the best proposals in advance. For six months this year—between last fall and this year until last June—these firms were at work in the individual departments to which I have referred. I can best describe their task in simple terms as trying to fit the Glassco suit of clothes on the particular department, in order to see what adjustments to the suit, in terms of staff and procedures within the terms of the Glassco recommendations, are required to provide a safe and workable plan of financial management for the department.

We set up teams to work with these people in each department. We attached to these teams officers from other departments of government, having in mind that this process would possibly be repeated at a later stage in respect of other departments. We asked the management consultants to examine in detail the financial management procedures and controls by which the department now manages its own financial affairs—with the generous help and control of the Treasury Board from the outside; and to tell us whether in their opinion that system was working well or whether it required any changes or whether it was desirable to move in the direction of the Glassco recommendations which are, in effect, that you should lessen the amount of outside control, protection or interference—whatever you want to call it—and build more controls into the heart of the departments so that they can manage their own affairs under a different kind of supervision and appraisal of the performance from the outside. We also asked the firms to report to us whether or not they found the Glassco recommendations consistent with the principles of good financial management inside the department, and, if so, what changes would be required in the financial management procedures of the department and what strengthening, if any, of the personnel would be required, to make it safe for the Government to shift over to this new regime of financial management.

We have now completed these four financial management surveys. They are now in the hands of the Treasury Board staff and the departments concerned. There has been a reassuring degree of unanimity on the part of the management consultants working under completely different sets of circumstances as to the feasibility and soundness of most of the Glassco recommendations. They have drawn our attention to the need for caution in approaching certain of these recommendations, accrual accounting being one of them.

Senator SMITH (*Queens-Shelburne*): I did not catch your last words, Dr. Davidson.

Dr. DAVIDSON: Accrual accounting being one of them, and the netting of revenues against expenditures being another one. Not that they reject these,

but they think the process here of introducing new systems has to be more slowly developed with respect to some of these recommendations than with respect to others.

They have also given us their views on the very important and still unresolved question of the extent to which outside controls on the departments should be removed or weakened or lessened in their extent, detail and severity in favour of a strengthening of the management and control mechanisms from the inside.

I would think that that is where I would want to stop, Mr. Chairman, because I have set the stage for saying something to the members of the committee at the next meeting which would carry forward our consideration of the recommendations of the management consultants in certain directions, which I think can profitably occupy the time of the members of the committee at the next meeting.

Senator ISNOR: There is one question I would like to ask before you conclude, Dr. Davidson. Did you engage one, two, three or four consultants?

Dr. DAVIDSON: Four separate consultants.

Senator ISNOR: That is what I was wondering, because I could not visualize a company looking after, say, the Department of Transport and also the Department of Agriculture.

Dr. DAVIDSON: Frankly, we came to the conclusion, Senator Isnor, that if we gave more than one of these assignments to one management consulting firm we might well put a strain on the resources of that particular firm that might result in our not getting in all instances their very best personnel to do the job for us.

Senator ISNOR: Not only that, but they specialize in certain aspects.

The CHAIRMAN: Gentlemen, I am sure we are grateful to Dr. Davidson for the knowledge, experience and courtesy he has again displayed in presenting his evidence to us. We look forward to having him with us a week from today, providing the Senate endorses the report that will be submitted to it for adoption. Are there any other matters to be brought before the committee before we adjourn?

Senator SMITH (*Queens-Shelburne*): I move that the committee adjourns.

Hon. SENATORS: Agreed.

The CHAIRMAN: Then, we meet again next Tuesday. If the Senate sits on Monday night we will meet at 10 o'clock in the morning. If the Senate is not sitting next Monday we will meet at 3 o'clock on Tuesday afternoon, providing the Senate adopts the committee's report.

The committee adjourned.





Second Session—Twenty-sixth Parliament

1964

# THE SENATE OF CANADA

PROCEEDINGS

OF THE

STANDING COMMITTEE

ON

## FINANCE

To whom was referred the Estimates for the fiscal year  
ending March 31, 1965.

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The Honourable T. D'Arcy Leonard, *Chairman*

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TUESDAY, OCTOBER 20, 1964

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No. 6

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WITNESS:

Dr. Geo. Davidson, Secretary of the Treasury Board.

APPENDIX:

"G" Organization of Treasury Board Secretariat.

THE STANDING COMMITTEE

ON

FINANCE

The Honourable T. D'Arcy Leonard, *Chairman*

The Honourable Senators:

Baird	Macdonald ( <i>Brantford</i> )
Beaubien ( <i>Bedford</i> )	McCutcheon
Beaubien ( <i>Provencher</i> )	McKeen
Belisle	Méthot
Bouffard	Molson
Buchanan	O'Leary ( <i>Antigonish-Guysborough</i> )
Burchill	Paterson
Choquette	Pearson
Connolly ( <i>Halifax North</i> )	Pouliot
Crerar	Power
Croll	Quart
Denis	Rattenbury
Dupuis	Reid
Farris	Robertson ( <i>Shelburne</i> )
Flynn	Roebuck
Gershaw	Savoie
Grant	Smith ( <i>Queens-Shelburne</i> )
Grosart	Stambaugh
Haig	Taylor ( <i>Norfolk</i> )
Hayden	Thorvaldson
Hnatyshyn	Vaillancourt
Horner	Vien
Isnor	Welch
Lambert	Woodrow
Leonard	Yuzyk (50)

*Ex Officio members*

Brooks

Connolly (*Ottawa West*)



ORDER OF REFERENCE

Extract from the Minutes of the Proceedings of the Senate, Wednesday, May 20th, 1964:

“Pursuant to the Order of the Day, the Senate resumed the debate on the motion of the Honourable Senator Connolly, P.C., seconded by the Honourable Senator Hugessen:

That the Standing Committee on Finance be authorized to examine and report upon the expenditures proposed by the Estimates laid before Parliament for the fiscal year ending 31st March, 1965, in advance of the Bills based on the said Estimates reaching the Senate; and

That the said Committee be empowered to send for persons, papers and records.

After debate, and—

The question being put on the motion, it was—

Resolved in the affirmative.”

J. F. MacNEILL,  
*Clerk of the Senate.*



## MINUTES OF PROCEEDINGS

TUESDAY, October 20th, 1964.

Pursuant to adjournment and notice the Standing Committee on Finance met this day at 3.00 p.m.

*Present:* The Honourable Senators Leonard (*Chairman*), Buchanan, Connolly (*Ottawa West*), Croll, Gershaw, Grosart, Hayden, Lambert, O'Leary (*Antigonish-Guysborough*), Smith (*Queens-Shelburne*), and Stambaugh.—(11)

The Chairman brought to the attention of the Committee that Supplementary Estimates "B" had been tabled in the House of Commons and were now available to all members.

The Estimates for the fiscal year ending March 31st, 1965, were further considered.

The following witness was heard:

Dr. Geo. Davidson, Secretary of the Treasury Board.

After discussion, it was agreed that Dr. Davidson supply to the Committee sample Votes for comparison as to format and information with Votes of preceding years.

Dr. Davidson submitted Appendix "G", Organization of Treasury Board Secretariat, to be printed by authority of a prior Resolution, to the proceedings of this day.

At 5.55 p.m. the Committee adjourned until Tuesday next, October 27, at 3 p.m.

Attest.

F. A. Jackson,  
*Clerk of the Committee.*



**THE SENATE**  
**STANDING COMMITTEE ON FINANCE**  
**EVIDENCE**

OTTAWA, Tuesday, October 20, 1964.

The Standing Committee on Finance, to which was referred the Estimates laid before Parliament for the fiscal year ending 31st March, 1965, met this day at 3 p.m.

Senator T. D'ARCY LEONARD (*Chairman*), in the Chair.

The CHAIRMAN: Honourable senators, we have a good quorum in numbers as well as in quality. I have just one or two preliminary remarks to make.

Senator CONNOLLY (*Ottawa West*): I think the record should show that there are 11 senators here at the moment, at least, and that others are coming.

The CHAIRMAN: There will be others before we are finished, and the names will appear in the record. I think before we are finished the chances are that there will be quite a few more. As I said, there is a good quorum here. I think we should also put on record that the Senate approved of the report of the committee passed last week authorizing the committee to sit during adjournments of the Senate and have reduced the quorum from nine to seven.

I would like to say also that supplementary estimates B have been tabled in the House of Commons and distributed to the senators' boxes today, so that if there are any questions with regard to these supplementary estimates senators will have an opportunity of studying them between now and our meeting on Tuesday next and any questions in connection with those estimates can be asked at that time.

Now you will recall that Dr. Davidson was our witness last week, as he had been on previous occasions, and he contemplated being able to finish his evidence today subject to whatever examination or cross-examination honourable senators think appropriate. Therefore, unless there are any other preliminary questions or comments I shall ask Dr. Davidson to resume his evidence. Perhaps I should say also that we did feel that we would sit not only today but every Tuesday notwithstanding adjournments of the Senate and even though the Senate has adjourned until November 3, subject to recall, I propose to carry on with a further meeting next Tuesday at the same time, when we shall have Mr. Balls, the Comptroller of the Treasury, as our witness, and he in turn will take up the same program as Dr. Davidson has been dealing with. Dr. Davidson has been dealing with it from the standpoint of the Treasury Board; Mr. Balls is in a different capacity which affects him and his department differently. Consequently it will also be important in connection with these changes.

I think I should say also that we have Mr. Allen with us today. Last week, you will remember, Mr. Allen was unwell and we are glad to see him well and with us today.

**Dr. George F. Davidson, Secretary, Treasury Board:** Mr. Chairman and gentlemen, Senator Pouliot requested that a chart of the Treasury Board organization be prepared and presented to the members of the committee at this meeting. With your permission, Mr. Chairman, I would like to have circulated now the organization chart which represents the present position so far as the Treasury Board secretariat is concerned.

The CHAIRMAN: I think it probably should be incorporated into the minutes of this meeting if that is agreeable.

(See Appendix "G")

Dr. DAVIDSON: Perhaps it would be worth-while just to spend three or four minutes looking at the chart once it has been distributed, because it gives a reasonably clear appreciation of the way in which the Treasury Board secretariat is organized. I would direct the attention of the members of the committee first of all to the fact that this is an organization chart reflecting the organization at the secretariat level only, that is at the level of paid officials.

The Treasury Board, of course, is the committee of ministers representing the cabinet and consisting of six ministers of the Crown under the chairmanship of the Minister of Finance. This situation is to be changed and later we will have a president of the Treasury Board. This committee holds meetings throughout the year at which the secretariat presents the requests and requirements of the departments on a week-by-week basis; the decisions of the Treasury Board are the decisions of the committee of ministers who are members of the Treasury Board.

Under the direction of the committee of ministers and under the more immediate direction of the chairman of the Treasury Board, the Secretary of the Board is responsible for carrying out the day-to-day work that comes to the board's attention in the fields of financial and personnel management, as well as in relation to other matters.

Senator SMITH (*Queens-Shelburne*): Could you tell us who the ministers are?

Dr. DAVIDSON: The chairman of the Treasury Board is the Minister of Finance under the law. This is in the process of being changed. The Government has already announced its intention to separate the board from the Department of Finance and to create a new cabinet post, President of the Treasury Board, and it is the intention to have the present President of the Privy Council, Mr. McIlraith, take over as President of the Treasury Board, once this legislation becomes effective. The additional ministers who are members of the Treasury Board are: Mr. Nicholson, Postmaster General, Mr. Lamontagne, Secretary of State of Canada, Mr. Teillet, Minister of Veterans Affairs, Mr. Laing, Minister of Northern Affairs and National Resources—have I mentioned five or six?

Senator SMITH (*Queens-Shelburne*): Five.

Dr. DAVIDSON: Well, then, there is one other and I must ask you to forgive me for not recalling offhand, who it is. Did I not mention the Minister of Finance and Mr. McIlraith as well as the four whose names I have just given?

At the same time there is also a group of alternate ministers, and it is not always easy to distinguish who are the alternates and who are the regular members. I say this because the alternates turn up frequently on occasions when the regular ministers cannot be present.

Senator SMITH (*Queens-Shelburne*): They are also ministers?

Dr. DAVIDSON: Yes. Mr. Tremblay, Minister of Citizenship and Immigration, Mr. MacEachen, Minister of Labour, and Mr. Pickersgill, Minister of Transport—these are three of the alternates, and the others are ministers as well. To complete the picture I should add that during the summer months it is the custom, as it has been for some years, in order to ensure that during the expected parliamentary recess there will be a sufficient number of ministers available in Ottawa to constitute a weekly meeting of the Treasury Board—as I say it is the custom for the Government of the day to name all of the ministers as alternate members of the Treasury Board for the summer months.

Turning now to the chart, Mr. Chairman and honourable senators, you will notice that the secretariat of the board breaks down into three main branches and three subordinate units or divisions. The three main branches come under the immediate direction of three assistant secretaries to the board. The first is the assistant secretary in charge of program analysis; this branch is concerned with the analysis and examination of the various programs and proposals of the different departments and agencies as they are presented for the approval of the board throughout the course of the year.

The Assistant Secretary in charge of Personnel Policy deals with all matters arising in the personnel management field which are of concern to the Board. The Assistant Secretary in charge of Administrative Improvement—this is a post that has been created in the course of this present year—is responsible for a number of rather specialized functions related to the development of better administrative procedures and management practices in the departments and agencies of government.

You will notice under the three boxes which represent these three main branches of the secretariat certain sub-divisions. For example, in the Personnel Policy Branch there are three main units or divisions,—one dealing with questions of pay and classification, another dealing with terms and conditions of employment, and a third dealing with man power policy which includes such matters as training, management development, and so on.

Likewise, under the Assistant Secretary in charge of Administrative Improvement you will find listed special units or divisions, such as the special study group concerned with the four financial management surveys, a telephone services unit, a contracts unit, an administrative regulations unit, and a research and development unit.

Under the central box for the Assistant Secretary in charge of Program Analysis you will find four divisions numbered 1, 2, 3 and 4. I think that this requires a brief word of explanation. The staff in Division No. 1 under Program Analysis deals with a selected group of agencies and departments, for all aspects of which, in terms of programs, they are responsible. Division No. 1 deals with all questions that are presented to the Treasury Board relating to the Department of Agriculture, the Board of Broadcast Governors, the Canadian Broadcasting Corporation, the Canadian Wheat Board, the Department of Citizenship and Immigration, the Farm Credit Corporation, the Department of Finance, Fisheries, the Fisheries Research Board, Forestry, Insurance, the National Film Board, the National Gallery, the Department of National Health and Welfare, National Revenue, the Public Archives, the National Library and the Unemployment Insurance Commission. I list these as a sample of what you might call the portfolio of departments, agencies, programs and problems for which Division No. 1 of the Program Analysis Division, staffed by ten individuals, both officers and supporting staff, is responsible. If any question arises that requires a decision of the Treasury Board in respect of any of the programs of the agencies I have listed, that question comes to the attention of the appropriate officer in Division No. 1 of the Program Analysis Division who makes the necessary inquiries and conducts a review of the problem. He then prepares a written analysis of the problem. This comes up through the Assistant Secretary of the Program Analysis Division, and at the first available meeting of the Treasury Board, is presented to the ministers; and a decision is then taken by the ministers, which then goes back to the department or agency concerned.

In the same way—without listing all of the details as to which departments and agencies are assigned to Divisions Nos. 2, 3 and 4—I can say to the members of the committee that each of these divisions has an equally comprehensive list of agencies or departments, for the work of which it assumes the primary responsibility.

Senator STAMBAUGH: Are the numbers in the corners the numbers of employees?

Dr. DAVIDSON: The numbers given in the corners are the number of positions, but they are not necessarily filled in all cases. Those are the numbers of positions attached to those particular units. If you take the trouble to add them up you will find that the total will equal the figure of 177 which is given as the total establishment. But, of the total establishment, the actual strength in numbers of bodies that we have on the payroll as of October 1, 1964 is 143, so we had a shortage of some 34 positions as of that date.

Senator SMITH (*Queens-Shelburne*): Does the figure 10 with respect to Division No. 1—which is the one that covered so many programs—include the secretaries and that kind of people?

Dr. DAVIDSON: Yes, but I think you will appreciate that there is also a pool in the Administrative Services Unit, which is over to the side of the chart, and about which I have not spoken yet. There is a central pool of secretaries, stenographers and clerical help which to some extent supports and reinforces the work of the staff of these divisions. So far as the ten positions in Program Analysis Division I are concerned they are not all program officers, but even if they were they would have a substantial variety of departments and agencies to be responsible for.

Senator SMITH (*Queens-Shelburne*): Yes, indeed.

Dr. DAVIDSON: Each one of these four divisions is headed by a division chief. I will not ask you to turn around and look at the back of the room, but if you did you would see a number of division chiefs who are sitting there. They are the officers who are responsible for giving direction to these groups, and who take the responsibility for processing the submissions made to the Treasury Board by different departments and agencies.

The CHAIRMAN: And these four divisions cover all the spending departments of the Government?

Dr. DAVIDSON: And a good deal more, Senator.

The CHAIRMAN: But there are some Crown companies that are not within the compass of these divisions?

Dr. DAVIDSON: Well, the Financial Administration Act provides that so far as the operating budgets of the Crown companies are concerned they are the responsibility of the Minister of Finance, as are the capital budgets, but the Minister of Finance has in practice used the staff of the Treasury Board to analyse for him any requests that come from the Crown corporations in respect of their operating or capital budgets. They are required, under the Financial Administration Act, to submit annually for the approval of the Minister of Finance and of Treasury Board, and in the case of the capital budget the approval of the Cabinet...

Senator LAMBERT: The Minister of Finance is not a member of the Treasury Board, is he?

Dr. DAVIDSON: Yes, he is the chairman. Yes, I had mentioned that he is the chairman of the Treasury Board, Senator Lambert. He uses the staff of the Treasury Board to analyze any requests or submissions that come from the Crown corporations in respect of either their capital or their operating budgets.

Senator HOLLETT: Do I understand that you are understaffed at the present time?

Dr. DAVIDSON: We have very substantial shortages at the present time, and we are in the process of recruiting.

Senator O'LEARY (*Antigonish-Guysborough*): Dr. Davidson, I was going to ask how the present strength compares with that of a year ago.



Dr. DAVIDSON: I would have to check that. Mr. Allen tells me that it is not greatly changed from a year ago. I have not personal knowledge of that because I was not with the Board at that time, but I should point out to you that in the upper right hand corner of the chart here is a box showing the Bureau of Government Organization. The Bureau of Government Organization was moved to the Treasury Board at the time I became associated with the board.

I should also draw the attention of the members of the committee to the three small boxes that are inserted at intervals between the boxes showing the functions of the assistant secretaries. The one in the centre is the unit or division of the Treasury Board which is called the Estimates Procedure Division. This is the division for which Mr. Allen, who is at my right, takes the responsibility. It is his responsibility to ensure that the necessary instructions go out to departments at the beginning of July or August, instructing them as to the preparation of the estimates requirements for the ensuing year. He issues directives to these departments laying down the procedures, to be followed, and ensures that when the returns are brought in, that they are consolidated and assembled in the proper way. He is the officer who, with his staff, is mainly responsible for the production of the book of estimates that is presented to Parliament each year. He and his group are also responsible for the preparation of the interim supply bills, and also for getting in touch through the program officers with the various departments or agencies to find out what supplementary estimates are required from time to time. This entire field of interim supply legislation, the estimates proper and the supplementary estimates, all lies within the area of responsibility of the Estimates Procedure Division which is under the direction of Mr. Allen.

We have recently separated out from the Estimates Procedure Division the unit shown in the middle right hand side of the chart called the Administration Services Division. This is what you might call the housekeeping unit of the Treasury Board. It looks after our personnel problems, our records, and our internal management problems, including our own financial management problems. It is, as its name implies, the unit responsible for providing the routine administration services to the board as a whole.

Finally I should draw your attention to a unit which is newly created and which is known as the Central Data Processing Service Bureau. The Glassco Commission drew attention to the fact that with the advent of electronic data processing and the era of the computer and of automation, any government of the size of the Government of Canada is going to have to invest increasingly large sums of money in expensive and advanced types of machine equipment, computers and electronic data processing installations which are more and more necessary in the high speed kind of government operations that are now the order of the day.

Many departments consider that they could justify the purchase or the rental of machine installations of this kind for the purpose of automating their work or to increase efficiency. Needless to say, every department would like to have its own installations, and it is for the purpose of ensuring that we do not over-buy expensive equipment of this kind or indulge in too many installations, and that we make the best possible use of installations that are provided, that we have established what has been called the Central Data Processing Service Bureau. This bureau at the present time does not own or operate any of this equipment itself, but it is finding out where the equipment is located, the kinds of work best suited to the different machine installations, and what time is available for use by other departments and agencies over and above the time that is already blocked off for the use of the department which purchased the equipment in the first place.

As additional requests for new installations come from other departments, or as additional requests for machine time comes forward, it will be the task

of the Central Data Processing Service Bureau to locate a suitable installation somewhere in the Government service where there is available time. It may require the putting on of a second or third shift, and the utilization of that installation on a 16 or 24-hour basis; but rather than install new items of equipment for the purpose, it is the task of the service bureau to see to it that the machine time requirements of other departments and agencies of the Government are met by the fullest utilization of the machine equipment already installed.

The CHAIRMAN: Is there any thought that if a new machine is required, it should be handled through this Central Data Processing Service Bureau, rather than through a department?

Dr. DAVIDSON: It is expected that as the Central Data Processing Service Bureau acquires the experience and the expertise and comes to utilize to the fullest possible extent the installations already in place, and as new installations come to be required, these may very well be purchased and located centrally by the Central Data Processing Service Bureau. Going beyond that, it is quite conceivable, as existing installations become obsolete and have to be replaced by new and more modern equipment, that the new and more modern equipment will be installed at some central point, rather than returned to the department which originally owned and installed the earlier equipment.

I think that covers, Mr. Chairman and gentlemen, most of the points I would like to draw to your attention with respect to the present organization of the Treasury Board secretariat.

I should conclude by saying perhaps just one final word on the subject, and that is, I would ask you not to assume that this will be the organization of the Treasury Board a year from now. We are in the process of change. We are considering a good many other important organizational changes.

One of the points I would mention, in passing, is that we do not consider that we should be responsible as a Treasury Board for the telephone services unit of 27 persons, the largest single unit in the whole Treasury Board secretariat. This unit is concerned with the most economical provision of telephone services and telephone switchboards for governmental administrative purposes in Ottawa and in a number of strategic centres across Canada. We feel that the technical know-how for this resides in the Department of Transport. As far as I am concerned, I am endeavouring now to work out an arrangement with the Department of Transport and the Department of Public Works which will involve the relocation of this telephone service unit in that department which has the technical knowledge to deal with the problems arising in the communications field. The same goes for other changes which will be reflected in the organization chart, which will be seen to have developed perhaps a year from now if or when this committee reconvenes.

Senator SMITH (*Queens-Shelburne*): Referring to the number of personnel—10 in two divisions and 8 in each of the other two divisions, under the program analysis, do you have some technical staff attached to each of these divisions, in the sense that you mention technical staff in connection with the telephone service? Do you have an engineer or someone qualified to advise Treasury Board of engineering problems, for example?

Dr. DAVIDSON: Not exactly, Senator Smith. It is not the function of the Treasury Board to try to provide itself with what you are referring to as technical staff, that would enable us to second-guess departments on the purely technical or professional aspects of every problem that they have to deal with. We are concerned rather with the way in which the proposal that they are presenting to the Treasury Board fits into the budgetary limitations and over-all program plans which have been established in the process of developing estimates and having them approved by Parliament.

We are concerned that the technical proposition which they present to us fits into the developing program and policy of the department as it has been laid down or approved by the Government. However, we do not pretend that we have a staff of people who are looking at every last technical aspect of the program presented to us by, say, the Department of National Defence or by the Department of Public Works. We think this would be an unwarranted duplication.

Senator SMITH (*Queens-Shelburne*): I was thinking more in terms of certain operations of certain businesses, where engineers, who have also graduated in law, become highly valuable agencies in the law branch by reason of that combination of knowledge.

Dr. DAVIDSON: If we were to break down the qualifications of the members of the Treasury Board staff, I have no doubt that we would in fact find people with a variety of technical knowledge in different fields. Sitting right behind you is a professional accountant who is also a professional engineer.

Senator SMITH (*Queens-Shelburne*): He is a highly qualified man.

Dr. DAVIDSON: That is another question. But you will see that if one were to take his qualifications and those of other members—one of whom is a trained engineer out of the armed forces, and many of whom have served in other departments of government—taken as a whole we have a group of knowledgeable public servants at intermediate or senior levels of responsibility, whose main task it is to ensure that the proposals made by departments fit into the financial provisions which have been made by the Parliament of Canada, and into the policy framework that the Government of Canada has developed for the department in question.

The CHAIRMAN: In order to clarify a point which comes to my mind, let me take a single item at random at page 395 of the estimates for 1964-65. I see an item for an administration building for the Department of Agriculture in Ottawa, at \$3,200,000. Now, my understanding of what you said is that in so far as that estimate of cost is concerned, presumably it is on the basis of the advice of engineers and architects in the department that is charged with that expenditure, and that the Treasury Board itself does not check that figure with any expert evidence of its own.

Dr. DAVIDSON: The Treasury Board deals with a situation of this kind through what is called the Treasury Board Advisory Committee on Accommodation. This is an interdepartmental committee, chaired I believe by the Department of Public Works, with representatives of various departments sitting on it. When the Department of Agriculture, for example, comes to the conclusion that it needs to have built for it an administration building, it presents a statement of its requirements to this advisory committee, after clearing its basic proposal with its own minister.

The proposal is reviewed by the Treasury Board Committee on Accommodation. Here, the statement of requirements is set off against the relative priority of needs of other departments and agencies; a proposal is worked out between the Department of Agriculture and the Department of Public Works, which provides some over all picture as to what the size of the proposed building is to be, how many staff have to be accommodated and so on.

This proposal is reviewed at various stages by the Treasury Board Committee on Accommodation. On that basis the Treasury Board at some point receives a submission to the effect that this item for an administration building for the Department of Agriculture should be included in the Government's over all construction plan for the year ahead. The costs will ordinarily be phased over a number of years so far as dollar costs are concerned, and the Treasury Board takes its decision on that basis.

Mr. Chairman, if we could leave the chart now and go on to the matters that were reserved for discussion at this meeting of the committee, honourable senators will recall that last Tuesday I outlined, in general terms, the main features of the system of financial control and management that is presently in effect in the Government of Canada, both at the executive—that is to say, the central agency—and at the departmental levels. I also mentioned the various stages of the financial management process to which the Glassco recommendations are directed.

In this connection, to refresh our memories, perhaps I should recall that last week I outlined the various stages under certain broad headings, among them the following:

- (a) The planning and preparation of estimates;
- (b) The form in which the estimates are presented to Parliament;
- (c) The management and control of the expenditures once the estimates have been approved;
- (d) The accounting for the expenditures; and,
- (e) What I call the "post mortem"—that is to say, the audit, both internal and external, that takes place at the end of this cycle of activity, and along with the purely financial audit, the audit or appraisal of performance, which is just as important in terms of assessing the effectiveness of a unit's operation as is the purely financial audit of what is laid out on a balance sheet.

It is my intention, Mr. Chairman, to summarize at today's meeting the recommendations of the Glassco Commission in these various sectors of financial management I have just referred to, and to relate these recommendations to the views of the consultants who were engaged to examine these various concepts in the light of their application to four operating departments of Government. I mentioned the names of these four departments of Government—Agriculture, Northern Affairs, Transport and Veterans Affairs—at the last meeting, these being the four departments where management consultant teams were retained to work for a period of some six months, ending in June of this year, for the purpose of testing out the validity of the Glassco concepts in the actual work setting of the departments referred to.

As I mentioned at the last meeting, many of the recommendations contained in the Glassco Commission report had already been accepted in principle by the Government before the consultants began their work; but it was thought to be advisable to test these recommendations in the departmental environment in order to develop the precise details necessary for their incorporation into a working system. It is one thing to approve a recommendation in broad principle, but it is another thing really to fit it into the mechanics, the processes of administration that continue on a day-to-day basis in a given Government department. In addition, we wanted the other recommendations contained in the second report of the Glassco Commission on financial management which have not yet been approved to be fully tested under actual operating conditions in the departmental and governmental structure.

At our last meeting several committee members raised a number of questions on planning, control and management of expenditures, which I think are directly relevant to the fields and problems which have been examined in these four departments by the consultants to whom I have already made reference. I hope my remarks today will complete the picture I sketched in in our earlier discussion, and that I will be able to describe for you today the changes in the present system of financial management and controls which the Glassco Commission has recommended and which have, in turn, been endorsed, supported, qualified or, in part, discarded by the consultants who undertook these four financial management studies.

In assigning the various recommendations or proposals of the Glassco Commission to the broad categories I have already used to describe the entire process, I have had to do this in somewhat arbitrary fashion, inasmuch as there are some of the Glassco recommendations which fit in under more than one heading. However, I am sure that honourable senators will appreciate the reasons why I have more or less arbitrarily listed each of the Glassco recommendations under one of the four or five categories, so that I can deal with them at one point in my remarks rather than coming back to them at various times.

First of all, under the heading of "Planning"—the planning and preparation of estimates—this was the first of the several stages of financial management I referred to earlier. Under the heading of "Planning" we discussed at some length last week the question of planning in relation to annual estimates of expenditures and revenues, and the efficacy of long-term planning in producing a better control, analysis and balance of expenditure. A number of the Glassco recommendations relate to this concept of planning for financial management.

Perhaps I might be forgiven here for pausing to note that in talking about planning in this context I am echoing sentiments in relation to planning which come from the Glassco Commission and the business management consultants who were retained on the Glassco Commission teams. It is their views in planning rather than any other doctrinaire views relating to the concept of planning that I am discussing when I am discussing these various recommendations.

Here are the recommendations the Glassco Commission has put forward in relation to the planning processes for financial management:

First of all, all departments and agencies should be required, according to Glassco, to prepare and submit to the Executive—that is, to the Cabinet—long-terms plans of expenditure requirements broken down by programs.

Secondly, an overall forecast of Government expenditures and prospective resources—that is, revenue resources—for a period of five years ahead should be developed and employed, both by the heads of the departments in relation to

Thirdly, more objective standards for analysis and comparison should be developed and employed, both by the heads of the departments in relation to their own programs and also by the Treasury Board; and these standards for analysis and comparison should be the instruments of appraisal that are used by the Treasury Board and the Departments in the annual estimates review process.

Fourthly, the establishment review—that is, the review of the personnel requirements, the numbers and types of positions required by a department—which is undertaken at the time of the actual preparation of the estimates, should be undertaken as part of the overall program review process and not conducted as a separate exercise.

Here we have four recommendations of the Glassco Commission, all relating to forward planning of expenditure, either in the short term or the long term.

With reference to all these points I have listed, the four management consultants in these four departments have expressed the view that the function of both short-term and long-term financial planning needs to be strengthened very substantially in the Government service; that there is a notable weakness in the effectiveness of our planning machinery, in terms of our ability to develop intermediate and long-term plans and in terms of our capacity to use objective tools of measurement for assessing the relative value of the programs which are put forward by departments for the consideration of the Treasury Board. The consultants have suggested that all departments should be required to prepare each year, for their own use and for the consideration of the Treasury Board, a formal planning document that will cover their short-term—that is, one to

three years in the future—and their long-term program requirements—five years or more. This document, in addition to serving the purposes of the department for its own internal management purposes, would also be the document that would serve as the basis of the estimates preparation process for each year by the Treasury Board.

This planning document which has to include both a short-term and a longer-term plan, should endeavour to define for each program and for each activity which is the responsibility of a given department or agency the objectives and the goals of each of those programs and activities. The department should be required in this planning document to set down in writing clearly and concisely what are the purposes of the program and of the activities which it has been asked to carry out by the Government, and what are the goals that the department is setting for itself to achieve in relation to this program, both in the short term and in the longer term.

The planning document should contain information on those points. It should also contain information setting out the factors and criteria that the department proposes to use in achieving its goals, and the specific plans the department has developed for achieving its objectives in the short-term and long-term perspective. If a department is required each year in a planning document to think through and set down for its own use and for that of the Treasury Board the objectives and goals relating to each of the programs for which it is responsible, the standards and criteria which it proposes to apply in making up its programs and presenting its overall plan as to how it will achieve its objectives, this planning document will carry both the department and the Treasury Board a long way forward in relating these plans to the dollar requirements that may be needed to carry out the objectives which the department has set forth.

Annual budgets of course are nothing more than the translation of these short-term plans into resources of money, manpower and materiel. Departments require that after planning their programs, their budgets be translated into resource requirements, and later into dollars. These budgets according to the consultants should be prepared by departmental managers not only at the central headquarters of the department, but on down the line at the local management centres. The responsibility and the emphasis should be on a decentralized, flexible system. This will require each person who is in charge of a particular activity or level of responsibility, whether it be at a local office, a regional office, a branch or at central headquarters—each responsible official will be required to include in his plan a statement setting out precisely those things which he and his office will need if it is to continue functioning. He will have to set out what his programs are, what is needed to carry them out, and what activities will require to be carried on in that office. He will be expected to explain what goals and objectives he has set for himself, and what are his plans for carrying on the work of that particular office for the 12 months lying immediately ahead in the next fiscal year. Once these plans are down on paper it then becomes necessary to translate them into three elements or types of resources—money, manpower, and materials. How many people will be required to carry out the objectives? What are all the other requirements in the way of space, supplies, telephones, and other materials and services? All this will have to be translated into dollars in a way which will enable the financial management people at central headquarters to examine the data and assemble it into a planning document—into a composite statement, showing the estimates of the financial requirements of the department or agency for the fiscal year that lies ahead.

Now you might say that to a greater or lesser degree some or all of these things are already being done in the process of preparing the department's

estimates. It is of course true that some or all of these things are being done. How much of it is being done at the present time depends to a great extent upon the casual, informal and largely unorganized efforts at planning programs which are organized at the various departmental levels in the various departments or agencies. From my own experience in a good many situations, this is done in a pretty informal and casual way. It tends to be done in the headquarters rather than on a decentralized basis at various levels of responsibility. It tends to be done in terms of trying to estimate future requirements on the basis of past history—what we have had in the past in terms of staff and money and what we probably will need in the future. These processes do not, in the opinion of the consultants, involve to a sufficient degree the skills, ability and the energy of the people who are closest to the operation of the programs. Neither does this method require to a sufficient degree the departmental managers to think through and continue to justify each year the programs for which they are responsible. Under the present system there is a tendency to accept all the programs which have ever got into the machine as being automatically justified because they got into the machinery last year. On this account, they tend to be included more or less automatically this year without anyone pausing to ask whether the investment in money, manpower and material on this particular program continues to be justified for the year ahead.

The emphasis that the departmental consultants place on the development of a formal planning document of the kind I have described arises from their conviction that it is only by requiring such a formal planning document to be developed annually that we will succeed in getting the departmental managers to think through again clearly and precisely each year the purposes of the programs which in many cases they have carried forward more or less automatically for a good many years.

Senator GROSART: Would that be a public document?

Dr. DAVIDSON: I think it would not be the intention to have a document of this kind, a departmental document, produced as a public document. There might be some variation of it produced as a public document, but one of the problems, as you know, Senator Grosart, when you begin to produce a document with an eye to publication, is that you may begin to deprive the document of its capacity for objective analysis. It would then acquire a second purpose which sometimes affects its value as far as its primary purpose is concerned.

The CHAIRMAN: The estimates themselves will, however, reflect by way of its programs the material prepared by the local and regional offices.

Dr. DAVIDSON: Yes, and I will come to that a little later in my testimony. As I said, every planning document will require each of the programs and activities of the department to be examined by the department under the various headings I have mentioned. They will have to be examined at the local centres of responsibility, as well as at central headquarters. Consequently when you begin to convert those programs and activities into dollars for budgetary purposes, you will bring together a budget dealing with the activities and programs, first of all at the local level, and then you will combine it into a total program budget at the central headquarters level, and then the central program budgets for each separate program will be combined into a total departmental budget.

Departmental expenditure plans and programs prepared along these lines will be presented, we expect and anticipate, in the estimates book to be presented to Parliament in due course. This will enable the members of Parliament to see the proposed expenditure of each department broken down according to the programs which the department is instructed to carry out. The program budget breakdown will be accompanied of course by other material. It may

well be accompanied by the present material, broken down on the basis of detailed objects of expenditure, so that the parliamentarians will have before them the kind of detailed information they are accustomed to now as well as the new material. They will have that as long as they express any desire to have it; but they will also have the other which we think will be a more meaningful breakdown and which as an administrative tool, once the money has been voted, will be a much better instrument for exercising financial control throughout the year.

Senator GROSART: Will those tools be external since they are related to the performance of the program in the economy?

Dr. DAVIDSON: No, not necessarily, unless the program happens to be a program which is designed to achieve some overall economic effect in terms of the outside world.

Senator GROSART: Surely all programs are.

Dr. DAVIDSON: I would question that. I would question that all programs that are embarked upon by a government, and endorsed by a parliament, are deliberately related to the effect that they will have on the economy.

Senator GROSART: Perhaps I might be specific. Take ARDA which you mentioned several times. In the statement of goals would it be expected that the goal would say that in 1965 so many farmers will have so many projects under ARDA, and so many in 1966, and so many in 1967?

Dr. DAVIDSON: I would think that the application of this philosophy applied to the ARDA program would require the ARDA administration, first of all, to set down its program goals as derived from the legislation, and then to break down those program goals in terms of the specific objectives that they, with the knowledge and consent of at least their minister, if not the Government, are setting for themselves in certain areas, whether these be functional areas or geographic areas. From that point on they would try to translate those general area goals into specific goals by saying: "We will endeavour over a period of five or ten years in this area, where the survey has demonstrated there are so many more people living on the land than the land itself will support, to introduce certain kinds of new activity which will enable that area to support a larger number of individuals, or relocate some of those individuals into more profitable activity elsewhere." This is where you could bring the broad overall objectives down to earth in terms of specific program objectives.

Having laid that out for the long term you would expect in the short-term planning document that is closely related to the annual estimates to have the ARDA administration say: "We propose to do this by phasing our program over a period of years; for Phase 1 we require so much in the way of personnel, so much in the way of funds, and so much in the way of equipment and materiel." You will then have something to which you can relate your immediate requirements in the next fiscal year. You will also have an indication of what are the long term and short term consequences of approving certain programs and projects. For example, if you approve the inclusion of certain programs in Year I which clearly have to be phased over several years, you will not be surprised thereafter in Year 2 to find that certain of the programs you approved for Year 1 come back to you more or less automatically requiring twice as many dollars of expenditure as you had approved for Year 1,—because it will be shown clearly in the five-year ARDA plan that the buildup of this program requires you to start with a minimal amount in Year 1, and to build up to a peak in Years 2, 3 and 4, before it tapers off in the final year of the forecast.

Senator GROSART: Is this really an extension of what the Minister of Finance does when he predicts the effect of his budget in terms of dollar return



to the Government, and also its effect on industry, and is it what the average minister does when he introduces legislation? For example, Mr. Gordon introduced the Student Loan Bill and gave the exact number of students year by year. I ask if this is an extension of that, because I think it is a useful yardstick of the effectiveness of any program.

Dr. DAVIDSON: I think it is a very much elaborated and detailed extension of that, Senator Grosart. It is in the same spirit as that attempt to forecast or predict, but you will appreciate that in the presentation of a new program to Parliament any minister who is making predictions or forecasts as to how the program will work has very little in the way of background experience in that program to go on. Here you will have over a period of time the actual experience of the program as it has been carried out in past years to go upon. We have always had that in terms of on-going programs.

By requiring those responsible for a program to set down at a certain period of time each year its objects, and to re-examine its purposes, you will require those in charge to think through and justify the goals and objectives of the program, and where it is that they want the program to go. I think it is quite fair to say, for example, that in the present estimates process—and the Glassco Commission brings this out—an abnormal amount of time is spent on justifying the additional numbers of people that you require and the additional amounts of money that you require, while a relatively small amount of time is spent each year in justifying all over again the people you already have and the dollar amounts that you already have been accustomed to using in the departmental programs.

What this means is that,—just as in the case of the iceberg which is only one-seventh above water—you are concentrating all your attention on the 10 per cent, perhaps, of new bodies that a department wants to employ, and on the 10 per cent of new dollars that are asked for; and you are not asking questions that you should be asking about the 90 per cent of the program costs which represent the people that you have already had on the staff for years, and the programs that have been carried on more or less automatically for some considerable time.

Now, by trying to develop in the planning document a means by which the department is forced to re-examine the objectives and purposes of the total program each year it is hoped that we will be more successful in directing attention to the total expenditure requirements of the department, and the objectives that its programs are expected to achieve, rather than to the marginal increment that occupies so much of our time at present.

The CHAIRMAN: I am thinking of suggesting to Dr. Davidson that in due course he submits to us a draft sample of a vote which would be set out on a program basis, together with a draft sample of a vote such as has been suggested which would consolidate the votes that are presently being put into the estimates, so that one vote would take the place of two or three other votes as now set out. If we had those samples we could see more clearly what the intended change is.

Dr. DAVIDSON: Mr. Chairman, we would be very glad to supply the committee with samples of this kind. As you know, in our estimates book for 1964-65 we have already carried the consolidation process quite far. We could take, for example, one of the consolidated votes that we have in this year's estimates and set alongside it the three or four votes in previous years' estimates which it consolidates, as a sample of one of the two things you have requested.

We can also either develop, or filch from the Glassco Commission report, a sample of a vote broken down on a program basis to indicate how these votes would look in the estimates in the future if they were to be presented to Parliament solely on a program basis.

I should add, however, particularly in view of a comment that Senator Isnor expressed at an earlier meeting, that in presenting the proposal that we should present the estimates to Parliament broken down on a program budget basis, we are not necessarily suggesting that this should be a substitute for what you are getting now, or that you should be deprived of what you are getting now. We would be perfectly in accord with the proposition that for a number of years at least we should provide you with both kinds of information. We think that if we can do that for a number of years you will eventually come to agree with us that the information broken down on the basis of program budgetting is more meaningful than what you are getting now, and we would hope that at some time you will agree that we can cut down or eliminate a good deal of the expenditure information that we are giving at the present time. But, there is nothing to prevent those kinds of information being given to Parliament in the estimates book at the same time. It would be satisfactory, Mr. Chairman, I take it, if we were to present samples of this to you at the next meeting, or at the meeting after?

The CHAIRMAN: Yes, thank you.

Dr. DAVIDSON: Now, in determining the level of financial resources that the departments will need for implementing their short term plans, and for their annual programs, the consultants came to the conclusion that objective standards must be developed for the measurement of requirements wherever it is feasible to do so, and that we should rely increasingly, as we can develop these objective standards, on objective standards rather than on mere historic experience.

I have already touched upon the fact that at the present time we tend to rely more upon historical experience in preparing our requirements in terms of establishments and funds, and to build on past years' records without re-examining the justification of past establishments and appropriations. The consultants as well as the Glassco Commission say we should be trying to establish objective standards of measurement and that these criteria should increasingly take the place of historic experience.

I am well aware of the fact that in a great many governmental programs it may not be as easy to develop objective standards of measurement as criteria for assessing the value of a program, as it may be in the outside business world. We cannot reduce everything in government to a strict cost value analysis. There are some programs of which one might even say that regardless of how much they cost, public opinion and the will of the legislatures requires that these programs should be carried on in the public interest. However, even in those programs it will be helpful at least to have some objective means of measuring what the program is costing, so that we will at least know what it is that we are saying is justified, regardless of the cost involved.

The consultants were of the view that the Government should be more concerned with the objectives rather than the objects of the expenditures, and that financial estimates should be determined by the application of standards and other means of measurement up to an acceptable level of performance or production, developed on policy grounds, and set off against competing priorities and financial demands. The consultants therefore endorsed the view that the examination of the numbers and levels of staff required by a department or agency should be carried out concurrently with the programming of estimates, and be a by-product of the determination of overall requirements at the approved level of a program.

If the numbers required by a department are to be determined in the light of the assessment of the department's programs, this is really a reversal of what we do at the present time, because the present system of establishment review is in fact carried out as the first step in the estimates process well in advance of the submission of the over all program and financial estimates of departments.

This may not easy to credit, but in fact what we do at the present time, and have done for a number of years, is to examine first the personnel requirements of departments and decide with them how many people they require, probably a month before we sit down with departments to examine what they are programming and what their financial requirements are.

Now, the Glassco Commission has said, and the consultants agree, that this process should either be reversed or at least combined so that the decision as to the number of people required in a department flows from a decision as to how much shall be done and what programming funds shall be required, and should be a by-product of that decision, rather than the reverse which calls for the numbers of persons to be determined first, and the extent and scope of the programming to be considered later.

You are well aware, Mr. Chairman, of the fact that so far as the form of the estimates is concerned, the Government has already announced certain decisions. In dealing with this next section of my statement, I am moving from Part A, which is the planning of the financial management process, to Part B, which is the form and manner of presentation of the estimates to Parliament.

Here again, I would like to start off by indicating the four or five recommendations of the Glassco Commission which were made on the form and shape of the estimates, and to indicate also, at the same time, the extent to which these have been endorsed by the consultants or already carried into effect by the Government.

The first recommendation of the Glassco Commission is that the number of votes in the estimates should be reduced substantially. This has already been done.

The second recommendation is that the departmental estimates should be prepared increasingly, wherever practicable, on the basis of programs of activity, rather than by standard objects of expenditure.

I think I have already said enough about that, and do not need to dwell on it again. However, so far as the estimates presentation is concerned this is one of the most significant, if not the most significant, in the Glassco Report on financial management. We want to present to you as members of the Parliament a book of estimates, a statement as to our financial requirements for the year that will be based upon programs of activity which are meaningful to you, rather than simply a catalogue showing that we want so much money for so many salaries, or travelling expenses, telegrams and postage and so on. This somewhat monotonous breakdown of every department's and every vote's actual requirements on the basis of these standard items, gives to the members of Parliament very little means of understanding or appreciating what it is that the Government wants to accomplish with the money and to spend it on. We feel that by shifting to programs of activity and continuing to give you this same information the result will be more meaningful as far as you are concerned, and that it will also give us, incidentally, a better means of achieving proper financial management and control in the carrying out of the programs of the departments through the year.

The third recommendation of the Glassco Commission is that where appropriate, revenues should be offset against related expenditures in individual votes, and that this should be controlled on a net basis rather than a gross basis.

This means that if there is a program of activity that costs \$1 million, and that program is carried on in a manner which results in certain revenues from fees or charges accruing to the Government, then instead of asking Parliament to vote \$1 million as the true cost to the taxpayer of the program and recovering the \$500,000 in fees and charges, and putting that back into the Consolidated Revenue Fund, the Glassco Commission takes the view that the true cost of this

program should be shown by setting off against the gross expenditure of \$1 million, the \$500,000 that is expected to be derived by way of revenues in the course of the year. We would then ask Parliament to vote the net amount of \$500,000 which is the true amount that the taxpayers are being asked to provide in support of this program.

Senator SMITH (*Queens-Shelburne*): Are there many instances where you would expect revenues of a certain amount, to make it important to know what they are going to be in order to reduce the amount of the expenditure?

Dr. DAVIDSON: Well, I have taken the position on this recommendation, and I think that the consultants have done the same, Senator Smith, that there are a limited number of situations in which this approach to net voting should be adopted. With some of them we already adopt this method; with others we do not. Take, for example the Citizenship Registration Branch of the Department of Citizenship and Immigration. The revenues accruing to the citizenship courts from citizenship application fees, and so on, are not set off against the gross requirements of the citizenship registration branch, with only the net amount voted by Parliament. In fact, the gross amount is voted by Parliament, and the revenues, which amount to almost half the gross cost are shown in memorandum form only in the Estimates.

In the case of D.V.A. Treatment Services, on the other hand, the gross amount of the cost of services is given in the estimates book and there is subtracted from that the expected amount of revenue to be derived from provision of those services, and only the net amount is asked to be voted by Parliament.

I think this net voting procedure has limited applicability. One of the arguments in its favor is that it prevents a situation from arising in which members of Parliament are not even aware of the relationship between the cost of a program and the revenues to be derived from the program. It could well be the case that in some situations members of Parliament could be under the impression that the fee structure developed as the result of legislation, or otherwise, to support a program was sufficient in fact for the purpose of supporting that program; whereas a presentation of the estimates for that service on the net basis which I have just described, would reveal the true facts in the balance between expenditure and revenue.

One of the difficulties that we have encountered, arises from the fact that when a fee structure is developed for a particular service, it quite frequently is either written into the legislation at the time, or it is written into regulations or prescribed by the Governor in Council, and tends to take on a rather fixed and permanent quality, whereas the cost of producing those services continues to mount from year to year.

Senator SMITH (*Queens-Shelburne*): If the Government decides to raise the fee, it would be difficult to do.

Dr. DAVIDSON: That is right, it would be difficult to do; and perhaps there might be circumstances that justify leaving a difference between the expenditure and the revenue side. But at least the Government and the members of Parliament should be aware of the extent of that difference and should decide deliberately that they are going to subsidize a program rather than have it subsidized without a full knowledge of the facts of the situation.

Another thing that tends to result from the inclusion of the revenues in the estimates picture is that it tends to direct more attention, on the part of department management, to the revenue possibilities of their programs. I confess that, in my own experience, after being a deputy minister for some 20 years in charge of two departments, I am all too well aware of the fact that my principal preoccupation when I was the deputy minister was with the expenditure side of the program. I was concerned primarily with getting on with the job that was mine to do in terms of getting my program moving,

getting the personnel to do the job, and getting the job done. While I was concerned that I should remain within the limits of the money Parliament had appropriated, I was relatively less concerned with the possibilities on the revenue side of my departmental operation. In fact the way in which the estimates are set up, providing as they do for the gross amount required to carry on a service to be voted by Parliament, and providing that the revenue, whatever it is, accruing from the service goes directly into the Consolidated Revenue Fund, and does not accrue in any way to the credit of the department—this tends to create an attitude of mind within departments that you must keep within your gross expenditure limits, but little or no incentive is provided for good departmental performance in terms of the revenue possibilities of the programs.

Senator GROSART: Would there be any difference between the present and the proposed treatment of this program in relation to the self-supporting or profit-making program?

Dr. DAVIDSON: I am sorry, but I did not get the first part of your question.

Senator GROSART: Would there be any difference between the present and the proposed treatment of a self-supporting or profit-making program within a department?

Dr. DAVIDSON: I would think the effect of switching to net voting in the case of a self-supporting or profit-making program in a department would be to increase the amount of interest of departmental management in the revenue side of the program. Let us take a program that is self-supporting, that breaks even; and let us suppose you go to the extent of grossing the costs, setting up the complete amount of offsetting revenue and voting a dollar item in the estimates as the only amount you require to authorize the continuation of that operation as a government operation. The minute you do that, Senator Grosart, you are putting the departmental manager of that operation on the spot, to ensure that his revenues do, in fact come up to expectations—because if they do not he is either going to be in the hole or has to come back to Parliament and say, "I am sorry, but I am \$50,000 short of meeting my expenses." Then he has to justify either why expenditures went out of control or why revenues did not come up to expectations. I think that by requiring that person to operate on a net rather than a gross basis, even in situations which are break-even or profit-making situations, you are putting him more on his mettle to attend to both sides of the ledger than is the case at the present time. At the present time, under the system of gross voting, you get your money from Parliament for the total requirements for the year; and whether the Consolidated Revenue Fund gets \$100,000 or \$200,000 eventually in the way of fees, rebates or refunds, or whatever it might be, it really does not affect your ability to carry on with the program for which you are responsible. Therefore, you tend to direct all of your energies and attention to the management of your gross expenditures and let the revenue side take care of itself.

Senator O'LEARY (*Antigonish-Guysborough*): Dr. Davidson, isn't it true that estimating the revenues for the ensuing year might be a rather difficult problem?

Dr. DAVIDSON: Yes, in some situations that is undoubtedly true, Senator O'Leary; but I think the record will show that in a good many situations—and the Citizenship Registration Branch of the Department of Citizenship and Immigration is one I am familiar with—there is a fairly reliable history on which you can base your estimate as to the revenue possibilities.

Let us take a look, Mr. Chairman, at this citizenship registration vote in the Department of Citizenship and Immigration, on page 65 of the Estimates

for this year. This is a vote which covers administration, operation and maintenance, including grants and contributions for language instruction and citizenship information. This is for the administration and operation of the citizenship branch as a whole. One of the major elements in the vote is the Citizenship Registration branch for which Parliament is asked to vote \$856,700 this year. But the memorandum of expenditure and revenue, which is shown in the supporting details in the Estimates Book, reveals that for the last two years the revenues for the Citizenship Registration branch's operations are: \$451,685 in 1961-62; \$494,683 in 1962-63; and there are estimates of \$490,000 in 1963-64. If you vote \$846,700 to that Citizenship Registration branch—I do not suggest this is their attitude, and I use with care the words—they could not care less whether a dollar of revenue or \$490,000 comes in on their revenue side, because you have appropriated \$846,700 and said, "Don't exceed that amount." On the other hand, if you were to net this vote and say, "Well now, you say you need \$846,000. We see you are estimating \$490,000 as your revenue. All right, we will give you \$350,700 of public funds and we will "make you stretch to achieve the revenue estimate you have put in the book," you can see what the effect would be in putting a greater amount of stress on the importance of the revenue possibilities of these programs.

The CHAIRMAN: If the revenue goes up \$50,000 above the estimate, is there authority to spend another \$50,000?

Dr. DAVIDSON: This would depend on the wording of the vote.

Senator O'LEARY (*Antigonish-Guysborough*): As I understand it then, the vote would be simply the net operating loss of that estimate.

Senator GROSART: You would hardly want Citizenship and Immigration going out to promote citizenship applications merely to obtain money?

Dr. DAVIDSON: That is correct.

Senator GROSART: This would apply in many cases. You would not want a department promoting revenue-producing activities merely for the sake of money? There are other considerations.

Dr. DAVIDSON: Yes.

Senator STAMBAUGH: Would this apply to the administration of crown corporations?

Dr. DAVIDSON: Of course, Senator Stambaugh, the fact they are crown corporations really means this is what happens at the present time. A crown corporation has a degree of independence from Government at the present time. You will see, for example, in the estimates certain amounts that are required by crown corporations, and you are asked to vote money for them. These are invariably the net amounts rather than any gross budget. You are not asked to approve the gross budget of the C.N.R., but rather the deficit of the C.N.R.

I would like to come back to Senator Grosart's point. I do not deny at all there are other considerations, and one would have to look pretty carefully at these various situations where there are substantial revenues accruing as a result of the operations. I merely cite the Citizenship Registration branch votes, Senator Grosart, to indicate what I think is the fact, that by the device of net voting you do direct the attention of the administration to the revenue as well as to the expenditure possibilities. If there are reasons why you should not want them to push this, to direct too much attention to it, then you should not presumably, net vote in respect of that particular item.

Senator GROSART: There are a number of cases that come to mind. For example you would not want the Department of Mines and Technical Surveys to go out exploring merely to get money from exploration. There might be some other good reason for doing so, but you would not want to bring pressure on the mining companies to go and explore so as to reduce the deficit.

Dr. DAVIDSON: This ties up with what I was trying to say earlier about the requirement that the department should set down the objectives and purposes of its program. If it did this properly the objective in raising a certain amount of money from its operation would be kept in perspective in relation to the objective of the program.

Senator LAMBERT: It is very elusive to try to estimate the revenue from the administrative expenses of departments either separately or as a whole.

Dr. DAVIDSON: This brings me back again to the point that the Glassco recommendation is merely that "where appropriate" it should be done. It may well be true that there is a limited number of situations where net voting would be significant and useful; where that is the case, these situations should be examined on their merits so that where it is possible to predict with any degree of certainty what the revenue possibilities are, or where it is reasonable to assume that the programs purposes will not be unreasonably distorted by putting them under the pressure of the kind Senator Grosart referred to, the case for net voting will be fairly assessed and action taken accordingly.

Senator LAMBERT: Is it not correct that the increased interest originating from the Glassco Report has arisen because of the accumulation over the years of deficits, and that brings to mind where the final outcome of this research and application is reflected in the showing of the budget. I realize I am asking a very nebulous question. I am not trying to get down to deficit financing or anything of that kind, but surely the results of the very meticulous work done by you and your associates must have been reflected in the estimates, and deficit financing is a way out of trying to capitalize the future potential to develop the country. That may be general, but it seems to me this is what we are searching for, to get a more even balance between expenditures and returns.

Dr. DAVIDSON: Perhaps I would be saying the same thing if I said that in my judgment the concern which led to the decision to establish the Glassco Commission was a concern with the ever-mounting costs of government, whether that resulted in a deficit position or whether it did not. There seemed to be a continuing rise in the cost of government, and therefore since government was coming to occupy an increasingly large segment of our total economy, the conclusion was reached that it was important to ensure that this ever-increasing segment of the national life was being carried on with reasonable efficiency and reasonable dollar value given for the dollars spent. I think the Commission's work was directed towards two objectives—the possibility of making governmental operations as efficient and economical as possible, and along with that and equally important, in my judgment, the best means of ensuring that whatever dollars were spent are spent well. This may not always have the result of reducing expenditures; but even where expenditures are not being reduced it is equally important that for the dollars spent there should be assurance given to the taxpaying public that they are spent with reasonably full value being achieved for the expenditures involved. I think that this concern of the Glassco Commission shows up at several points in its reports. The instances reported in which services are rendered to the public on a semi-paying basis, with a fee structure that is inadequate to support the cost of providing the services, these reflect the concern of the Glassco Commission that the Government should not drift into situations where it would justify the inauguration of a program on the ground that it is a service rendered that would pay for itself on a self-supporting basis, only to find in a few years that the expenditures had run away ahead of the revenues involved. The Patent Division of the Secretary of State's department is an example of this. I suspect it would be most unusual for the argument to be advanced that companies or individuals really need to have a subsidy from the official registration agency of the Government through

being charged less than the cost of providing that service. Yet for years because we did not pay sufficient regard to the cost of operating the division as compared with the revenues derived from the fees we have been running at substantial deficits in the operation of the Patent Division. Perhaps I am wrong in assuming this was an inadvertent deficit. I suspect however that largely it was. The Glassco Commission says the fees structure of the Patent Division should be raised to a level that will normally produce enough revenue to operate the division, just as the Insurance Department operates almost entirely on a self-supporting basis because of the contributions of the insurance companies. The post office and passport offices are other examples, although they are somewhat different situations because, for example, in the case of postage rates there is a definite policy involved in terms of decisions of the Government and Parliament of Canada to assist certain kinds of activity. For example, certain classes of newspapers and periodicals are assisted because it is national policy that they should not be required to pay the full cost of services.

Well, Mr. Chairman, the final recommendation of the Commission is that the form of the Estimates themselves should be reviewed, and this comes to the door of the Finance Committee. They should be reviewed so that the votes will more truly describe the purpose of the proposed expenditures and so that more reasonable and supporting information will be provided and unnecessary detail eliminated. These are the recommendations, four in number, that the commission has made and the consultants have examined and largely agreed upon with reference to the question of the form and manner of presentation of the estimates to Parliament.

There was one other recommendation that the commission made in this field, one that has up to now not been fully accepted by the Government. There was a recommendation that all of the cost elements of individual programs be consolidated within the same vote. There are reasons why the Government has up to now been uncertain as to how far it should go in this. We have discussed some of the issues here before; the question as to whether each department should be charged by the Department of Public Works with the rental cost of the space that the Department of Public Works provides to the department concerned. This is an illustration, and there are many others, that can be taken as an example of the principle that the department's estimates should show the true total costs of carrying on the work of that department whether the cost is being borne at the present time through one of the other departments of government or not. But there are some difficult decisions to make in this field as to how far it is reasonable to break down the costs of these essential services and charge them out to the separate departments, and it is for that reason that the Government has up to the present time reserved its opinion on this particular recommendation.

I have also noted, for example, that the Government moved, very shortly after the Glassco Commission reported, to give effect to the recommendation that the number of votes in the estimates be reduced. With the concurrence of the Public Accounts Committee, you see in the 1964-65 estimates which are now before Parliament the effects of our first attempt to reduce substantially the number of separate votes by consolidating certain ones which, in our opinion, belong quite properly together. In fact, the vote breakdown in the estimates has for some years been very largely on a program basis, even though the votes were broken up and fragmented to an excessive degree. What we have done in our first attempt to consolidate the vote structure, and reduce the number of votes, is to group together in the consolidated vote structure votes which we consider, as a result of our examination, belong together because they are parts of a total program and should not be separated as they have been.



Again, may I use, Mr. Chairman, the example of the Department of Citizenship and Immigration to illustrate my point. Previously in the field of citizenship activities there used to be two separate votes. One was for the Citizenship Branch, for the carrying on of educational activities largely in connection with newly arrived people in Canada. This was an educational program. Alongside that was the Citizenship Registration Program which involves the citizenship courts among other things, and which in its turn carries a certain element of citizenship education and preparation for citizenship as part of the process leading to the granting of citizenship certificates. Those two branches of the Citizenship and Immigration Department have up to this year appeared as separate votes; we have now consolidated them into a single program, thus bringing together what used to be Vote No. 5 and Vote No. 10 in the estimates of the Citizenship and Immigration Department. We now have a single vote which represents the combined citizenship and citizenship registration program, and we have done that without depriving the members of Parliament of any of the detail that they used to get in the two separate votes.

The CHAIRMAN: Theoretically it would cut down the time of Parliament by half.

Dr. DAVIDSON: Theoretically you are right, sir, and perhaps in fact it will have some effect in reducing the amount of time that is spent on separate parliamentary votes.

I have already mentioned that the purpose of this grouping by programs is to give emphasis to the objectives of the program rather than to the standard objects of expenditure. Since program budgeting has for years been to some degree a characteristic of our Estimates format in the Blue Book, this explains in part why the Government was able to proceed with a consolidation of votes before the pilot studies of the consultants were complete.

We may have to undo some of the consolidation that we have ventured in this first attempt, Mr. Chairman, if it turns out, as a result of the work still to be done, that we have combined improperly certain votes which do not in fact belong properly together as a combined program. If we have done that then we may have to undo some of this consolidation, but we think we were fairly careful and cautious, and most of the work we did in 1964-65 will stand up under the test of what still lies ahead.

We also have in respect to this group of estimates the views of the consultants that the estimates should be prepared on the basis of standard objects of expenditure. I have already spent some time on that, and I do not need to make, in more laboured fashion, the distinction between a system of estimating that is based upon objectives of expenditure, which are the true programs and goals, and the system which we have at the present time which is based on the standard shopping list of ways to spend money, whether it be on salaries, travelling expenses, or whatever it is. We believe that preparation of the estimates based upon the objectives rather than the standard objects of expenditure will be much more meaningful, and that planning that is directed to the preparation of the estimates and based upon the development and objectives and goals in each program will provide a more meaningful approach, when the Members of the House of Commons and the Senate become accustomed to this new approach to the budgeting process.

I will not deal longer with the question of offsetting revenues against expenditures and voting on a net basis, except to recall that there were some words of caution uttered by Senator Grosart in this connection; and for that reason I should draw your attention to the fact that this subject was approached pretty cautiously and selectively, even by the Glassco Commission, which said that this should be done "where appropriate." It has also been approached pretty cautiously by the Government which indicated, when it

accepted this recommendation, that it considered there were relatively few instances in which net voting, would in fact really be appropriate.

It has also been found that a cautious approach was taken by the consultants who, in their reports on the four departments, referred to the fact that there were few places in the estimates where a compelling case could be made out for what we call net voting. In fact, they encountered only one instance, namely, in the report on the Department of Veterans Affairs where net voting is in effect; that is in the Treatment Services Sector of that department. There are other services in the various departments of government which probably could be handled on the basis of net voting. The Post Office is a good example. The Government Printing Bureau is another example. In each of these situations where the question of net voting arises, there also arises the question of the desirability of establishing a revolving fund arrangement which will enable Parliament to vote the net amount required, but which will also provide that the revenues accruing from that service will not go into the Consolidated Revenue Fund from which they have to be voted out again by Parliament, but rather will go into a revolving fund where the department can make use of them as well as the moneys voted by Parliament to carry on its total activities in respect of that particular program during the course of the year. So there are some situations where, in the judgment of the consultants, and in our judgment, there should be an examination with a view to the establishment of a revolving fund arrangement and a net voting arrangement.

Regardless of the extent to which net voting is used, all the consultants recommended measures to be adopted which will have the effect of improving the management of revenues. This was the point I raised earlier in my presentation. They include in this recommendation—and here it is subject to the point that Dr. Smith raised—the periodic review of fees for services, the budgeting for revenue expectations, the placing on management of the responsibility for living up to the revenue performance that has been budgeted for in the course of the preparation of the estimates.

Senator GROSART: Can I ask a specific question? In the pricing of Government documents who decides whether a specific document—usually a departmental document—will be printed entirely at the public expense, or whether it will have a net loss of so much or, perhaps in the odd situation, it will make a profit? Who makes that decision?

Dr. DAVIDSON: This is a really difficult problem, Senator. I can give you several answers.

Senator GROSART: Perhaps it is really too specific for today.

Dr. DAVIDSON: First of all, there is a technical judgment involved at the departmental level as to whether the publication should be produced. The department in the course of its preparation of estimates for the Treasury Board will include a certain amount for the printing of publications. It will list these in some detail, so that you might say that it is the Treasury Board that at that point decides whether in principle it is prepared to have these publication items costing this much proceeded with.

There has been from time to time in addition to the annual presentation to the Board, an interdepartmental committee review of the pricing of publications—which ones should be free, which ones should be priced at levels less than cost, and which ones allegedly should be sold at the full price. I would hesitate to say that the attempts to arrive at a rationale in this field have been completely unsuccessful, but to the best of my knowledge over the 20 years I have been here we have not yet really succeeded in getting a completely satisfactory policy of pricing Government publications that satisfies both requirements of maximum recovery of costs—the full recovery of costs in certain situations—and the element of the desirability of free distribution

in a good many cases. In mentioning full distribution, I am thinking of the Department of National Health and Welfare as an example.

The Queen's Printer also has a good deal to say about the pricing of publications. You may recall that one of the first steps taken by the Queen's Printer, following the appearance of the Glassco Commission's Report on Printing and Publishing, was to announce that he was going to raise the price of all publications by approximately 30 per cent, the purpose being to bring prices more closely into line with actual costs of production. However, frankly, we have not yet, in my judgment, at least, solved satisfactorily the problem of how you price publications; nor have we solved satisfactorily the problem of how you determine which ones should be put on a free distribution basis, which ones partly subsidized, and which ones placed on full recovery of cost basis.

There are some recommendations in the Glassco Commission Report on Printing and Publishing which bear upon this; and one of the purposes of the separation of the Government Printing Bureau from the Queen's Printer was to create a situation in which it would eventually be possible for the Canadian Government Printing Bureau to establish its true costs of printing government publications, with a view to charging back the full costs of this to the departments concerned.

Senator LAMBERT: You raised the point of the Printing Bureau, which used to come under the Secretary of State Department and I presume still does. Is it possible to establish anything approaching a profit and loss situation with respect to the Department of the Secretary of State, of which the Printing Bureau is a branch?

Dr. DAVIDSON: No, sir. I think that is quite clear. But it is possible to establish a profit and loss situation quite objectively and clearly in respect of the Printing Bureau operation itself, and there is in principle no reason why this should not be done on the basis of the one vote in the Department of the Secretary of State which represents the Printing Bureau operation.

Senator LAMBERT: Are you suggesting there something in the nature of the revenue producing capacity of the printing bureau similar to the Queen's press in Britain?

Dr. DAVIDSON: Yes.

Senator LAMBERT: Well, that is something to explore.

Dr. DAVIDSON: As a matter of fact, the Public Printing and Stationery Act now provides for a revolving fund to be established under the act into which the revenues received by the printing bureau are deposited and out of which certain specified costs of the printing bureau operation are paid.

We are in the peculiar position right at this moment that the Printing Bureau is producing, on the revolving fund portion of its operations, a certain amount of profit this particular year, whereas Parliament is being asked to appropriate certain sums of money to the Printing Bureau as though it were operating at a deficit or at least not at a profit. One of the things that is under consideration at the present time is some means of revising the terms of the revolving fund, as set out in the Public Printing and Stationery Act, in such a way as to make it possible for all of the costs of the printing bureau operation, as well as all of the revenues, to be embraced in this revolving fund, so that Parliament would not thereafter be asked to vote money for the printing bureau unless it was anticipated that there was going to be an actual deficit in the printing bureau operation.

Senator LAMBERT: As a matter of interest, the five volumes of the Glassco Report are elaborately produced. It is a beautiful printing job, and was printed by the bureau I presume. What was the cost of that?

Dr. DAVIDSON: I would have to find that.

Senator LAMBERT: That is just an offhand question.

Dr. DAVIDSON: I think the Queen's Printer would tell you he made a profit on the Glassco Commission Reports. I am subject to correction. It was by way of being a best seller. However, to really assess that statement properly you would have to go back into an examination of how much of the costs were really absorbed into the printing operation.

Senator LAMBERT: It should have been saleable, judging by its attractive appearance, if anyone were interested enough.

Dr. DAVIDSON: I would like to say one final word on the question I have already referred to with regard to the point that the costs of all elements of expenditure be placed in the same vote. This is one recommendation that is still being assessed, as I mentioned, by the Government, and that while a consolidation of votes has been effected in this year's estimates in order to bring together certain costs on a program basis, time has not permitted us, up to the present, to make a full analysis of common service costs which would permit us to charge accurately to each of the programs represented by a vote the costs of providing services from, say, the Department of Public Works, or the Comptroller's department, or of other common services which at the present time are provided through service agencies which receive their appropriations directly from Parliament.

When you examine more closely the wording of the Glassco Commission recommendation that all the cost elements of a program should be included within the same vote, it does raise some questions as to the desirability of going quite as far as the Commission suggests in this regard. For example, to show in a single vote relating to a program all of the elements of cost, including in one vote operations and maintenance, salaries and running costs, perhaps your capital costs and in addition the costs of grants or transfer payments—this raises the question whether it would be desirable to combine in a single vote your operations and maintenance costs, your capital costs and your grants and transfer payments.

Where these are substantial in amount, it may prove to be desirable to combine in the operations and maintenance vote all of the common service costs that we are talking about, but to keep your capital item or your item for transfer payments, or something of that kind, as separate votes.

Where the capital and grants items are very small, our practice has usually been to include these with the operating vote, but otherwise kept in separate votes, to accord with what Parliament has made clear were its wishes.

Senator GROSART: Would it make very much difference in having a vote for each separate item than a three-part vote for each item?

Dr. DAVIDSON: It would depend on the terms that were attached to that in the vote wording, Senator Grosart. If you had a three-part vote for one total program, then unless the vote wording made it clear that these must be kept separate and controlled separately and that moneys were not transferable from one item to another, you would be giving to the department quite a degree of flexibility to use a short fall on a capital item to add to their operations and maintenance costs.

For example, in our estimates preparation exercises this year, on two occasions, situations arose in which a given department, which was under pressure from us to reduce its operating expenses by say \$1 million, replied that, "We are prepared to meet you on the \$1 million, providing you allow us to take it out of the capital side of our budget." Our reply was, "No. You want us to be satisfied with your agreeing not to spend \$1 million this year on some capital project, in return for your adding \$1 million annually to your operating costs."

It is clear that Parliament would be giving up a measure of control if it were to agree to the complete integration without any reservation of capital and operations and maintenance in the one vote. Please note that I say that Parliament would be giving up that control. I should add that the executive, under the Financial Administration Act, by its control of allotments still has and would exercise control and prevent this kind of thing from happening; but, so far as Parliament itself is concerned, it should consider whether it wants to give that degree of flexibility to a department in respect of a vote which may contain a very substantial amount of capital, and which if not properly controlled could distort pretty quickly the operations and maintenance portion of the total vote.

Senator GROSART: At the present time, are those votes automatically transferred into the department unless there is a specific statement to the effect that they should be otherwise?

Dr. DAVIDSON: Moneys in a vote are automatically transferable from one primary to another, as far as Parliament is concerned, but transfers are subject to the specific control of the Treasury Board, through the fact that the Financial Administration Act states that departments cannot transfer from one primary to another primary, even in the same vote, without getting the specific approval of Treasury Board for that transfer.

I would now like to pass, if I may, to the third main area of concern, as outlined by the Glassco Commission and the consultants, in the field of financial management. That is the management and control of expenditures, once the estimates have been approved. We have gone from planning to the formal presentation of the estimates, and now to the management and control of expenditures once the estimates have been approved.

In this area the commission has recommended, and the Government has already approved, the following recommendations:

Firstly, a recommendation that is of equal importance to the one I stressed earlier,—namely, that departments and agencies be given greater financial authority and that they be held correspondingly accountable for the effective management of the financial resources placed at their disposal. What this means, in essence, is that in the view of the Glassco Commission and of the consultants, and also in the view already expressed by the Government, there must be a return of some of the elements of financial management responsibility and accountability from the central control agencies to the departments themselves.

A second recommendation: that Treasury Board should continue to lay down policies on financial and administrative matters that are common to all departments and agencies, but should do so in a less restrictive and detailed manner. There is in that recommendation a clear inference to be drawn that in the view of the Glassco Commission the Treasury Board had come to enter too much in detail into the decision-making function of the individual departments. The Commissioners say that Treasury Board should, in effect, be less restrictive and less detailed in the exercise of its financial supervision and control, and that it should lay down policies on financial and administrative matters that are common to all departments.

The third recommendation suggests how the management and control of expenditures should be re-arranged: departments and agencies should be granted more discretion within the framework of broader policies to be laid down by the Treasury Board in the negotiation of contracts. That has been implemented only recently through the issuance of a completely new set of Government contract regulations which places more responsibility in departments and agencies, and lays down broad guide lines as to how departments

and agencies shall conduct their affairs in respect to contracts, but leaves them with greater decision-making powers. We hope this will result in fewer contracts coming as recommendations from departments to the Treasury Board for final approval.

Senator SMITH (*Queens-Shelburne*): Is that new contracts publication available?

Dr. DAVIDSON: It is P.C. 1964-1467.

Senator SMITH (*Queens-Shelburne*): I wonder if I could see a copy.

Dr. DAVIDSON: Certainly it is a public document. It has been given effect so recently it may not have yet come within the 15 or 30-day requirement of publication in the Canada Gazette, but mimeographed copies are available.

Senator SMITH (*Queens-Shelburne*): You might say this is something that is going to be an improvement as far as the public is concerned. With a great backlog of such documents which must be gone through by the Treasury Board, there is always the thought, "Who is responsible for this thing not being filed so work can get under way?"

Dr. DAVIDSON: We expect, as a result of these new regulations, that the number of contract submissions coming to the Treasury Board will be cut just about in half.

Senator SMITH (*Queens-Shelburne*): Is the maximum raised?

Dr. DAVIDSON: Yes, this has generally the effect of lifting the ceilings in a lot of areas where there were fairly low ceilings before.

Senator SMITH (*Queens-Shelburne*): I notice, in reading the abridged edition No. 1 of the Glassco Report, the maximum for construction was \$50,000. It seems to me that Treasury Board has been dealing with Public Works contracts of amounts of a lesser value than \$50,000.

Dr. DAVIDSON: I believe the Public Works Act itself—or if not, some other enactment relating to contracts—contains a provision that requires that contracts which are not subject to tender or contracts where there has been only one bid, if put to tender, should be put to the Treasury Board for a decision. There are certain restrictions—and I speak subject to correction, but I am satisfied there are certain restrictions written into the Public Works Act which make it necessary that they continue to submit to the Treasury Board certain types of contracts involving quite small amounts of money, and I think that by changing the Government contract regulations we cannot change that. We will have to wait until the Public Works Act itself is changed and certain other legislative changes are made in such enactments as the Defence Production Act, for example, before we can go as far as I believe the Treasury Board wishes to go in granting a greater amount of leeway to the departments in the awarding of their contracts.

Senator SMITH (*Queens-Shelburne*): Well, let us not get into that now.

Dr. DAVIDSON: A fourth recommendation is that greater use be made of per diem rates and other measures to simplify travel regulations.

Fifthly, departments and agencies should adopt modern management reporting techniques.

Sixthly, consumable stores should be controlled by greater use of revolving fund accounts. I have already referred to this in connection with the Printing Bureau.

In addition to these recommendations, all of which the Government has approved, the Commission made a number of other recommendations in this area of financial management—that is, the management and control of expenditures after the estimates have been approved—which are still the subject of examination and which have been the subject of very intensive examination by the four departmental management consultant teams. One of the most important

of these, and one on which we are going to have, I believe, a very considerable amount of difficulty in arriving at a solution, is the recommendation that henceforth responsibility be placed on departments for certifying to the Comptroller of the Treasury that expenditures will be lawful charges and that funds are available.

At the present time, as honourable senators know, the Financial Administration Act calls for a pre-audit by the Comptroller of the Treasury of all proposed expenditures; so that it is not correct to state at the present time that the final responsibility rests on departments for certifying to the Comptroller of the Treasury in respect of their proposed expenditures. The department has to issue a requisition to the Comptroller for a cheque. It may be required to certify that the expenditures are lawful charges, that funds are available, and that the goods and services for which the proposed expenditure is to be made have, in fact, been received or performed; but under the law as it stands at the present time the Comptroller of the Treasury, who is not part of departmental management, has the final responsibility, subject only to an appeal to the Treasury Board, for determining whether or not that requisition shall be honoured and the payment made.

The companion recommendation, going along with the Glassco recommendation that this responsibility be shifted to departments, is that the responsibility of the Comptroller of the Treasury should be limited in future to ensure that the departmental officers providing this certificate are properly authorized.

If these two recommendations are adopted it will involve, quite clearly, a very substantial shift in the present alignment of responsibility from the Comptroller to the departmental management.

Senator GROSART: Historically, might not that be considered a regressive rather than a progressive step?

Dr. DAVIDSON: That is a debatable question.

Senator GROSART: I said "might not."

Dr. DAVIDSON: Certainly, there are two views on this. The history of the experience of the twenties, when departmental management was handling its own accounts and was responsible for its own expenditures, led to the installation of the Comptroller of the Treasury in the decisive position he presently occupies with regard to expenditures. There is no question that the fact this authority is exercised by an outside agency, not part of the departmental management team and not subject to the direction of the minister directly interested in the expenditure, does provide a very real safeguard in certain kinds of situations. It provides undoubtedly a second check on the validity of the expenditure and does, I think, ensure against the loose and casual exercise of departmental financial responsibility that was the cause of trouble in the 1920's and 1930's and that could recur if proper departmental controls and supervision are not provided. The point which Glassco raises is whether or not in the context of the Government administration as carried on today, and having in mind the abilities and qualifications of departmental personnel, and the concepts which he advances in terms of fixing responsibility—the question he raises is whether perhaps through this means we are not overinsuring against mistakes by duplicating many of the functions in the department as well as in the comptroller's office, and whether this arrangement by which the responsibility is divided does not in fact weaken the sense of departmental responsibility for ensuring that it does the job properly in the first place.

Senator GROSART: If that second check were removed, at what point of time would the next check come on; let us say there was an invalid governmental expenditure?

Dr. DAVIDSON: The Auditor General, of course, would eventually in the post-audit be in a position to check and pick up the mistakes that had been made. It

would be too late to prevent their being made, but he would eventually be in a position to reveal the extent to which the department had failed to live within the requirements as laid down by Parliament and Government for that department.

Senator GROSART: But it might be years before it was discovered.

Dr. DAVIDSON: Yes, it might be years and then again it might never be discovered. But actually the situation could arise where it might never be discovered now either.

I would like to point out that there is no suggestion in the Glassco Commission recommendations that the responsibility of the comptroller in the field of pre-audit be done away with without something equally effective being put in its place.

Senator GROSART: At departmental level?

Dr. DAVIDSON: Within the department—through the establishment of a chief financial officer in each department, and through the installation of a regime of financial management based on program budgeting, which we have already discussed, and through the creation of a system of internal audit and management audit,—in short, a complete system of departmental financial management and control, based upon program budgeting, and management reporting from the local units,—all of which would be designed to provide the same effective control of expenditures within the department as is now exercised on a more detailed basis by the comptroller from outside.

Glassco submits that the present system is an attempt to double-check every decision made by every department that involves a financial expenditure; and he goes on to argue that the system that the Government should install is not a system which endeavours to double-check every single decision that is made but rather an internal system of financial management and control within the department that will be effective. Once that is done, it then becomes necessary to make certain that this system continues to function properly, and this requires a system that ensures a proper monitoring or auditing of performance. Through the regime that the Glassco Commission would install, you would examine the performance of the transactor rather than each individual transaction; and it is this consideration which leads the Glassco Commission to argue that if you are going to make departmental management truly responsible for its operations and if, which is more important, you are going to hold them accountable for the effective performance of the duties they are charged to carry out, you must entrust to them the full financial management of their program and make them responsible for the integrity of that management, and not relieve them either of the consequences of this responsibility or overprotect them by building around them a protective mantle that will ensure that whatever mistakes they allow to slip through will be picked up by a later checking mechanism.

There is a very real issue of principle involved here. There are arguments that could be presented on both sides of this question and I am not concerned with arguing the case for either one of these viewpoints. I am trying to indicate what the nature of the recommendation is, and why it is that the Government has paused before accepting this particular recommendation because it is aware that there are some real issues involved here. Legislative changes would be involved and the Government wants to be sure it has the full implications of this decision before it considers making any change whatever in this area.

Senator GROSART: In your own experience would you say the departments generally welcome this pre-check?

Dr. DAVIDSON: By whom?



Senator GROSART: The pre-check you referred to—the authority—the outside pre-check and authority to go ahead before they go ahead.

Dr. DAVIDSON: I think I would have to say that most departments would welcome being given this responsibility and being held accountable for it. That is not to say that that is necessarily the view of the Government or of the Treasury Board or that that is what will ultimately be decided upon. Certainly on the basis of my discussions the viewpoint of the majority of departmental managers I have talked to is that this is a responsibility which should be departmental, subject to a much more highly developed system of internal audit and control than I think any department or almost any department is in a position to provide at the present time.

The third of the Glassco recommendations which was tied up to this and to which I have already referred is that there should be appointed a senior financial officer in each department or agency, and that this appointment should be subject to the concurrence of the Treasury Board. This has, in the minds of some, certain overtones of installing a sort of financial Gestapo in the department. It is very interesting to note, however, that in Australia, as I was informed by a Treasury Board officer from Australia recently, the departments have the responsibility in their hands which is recommended for assignment to the departments by the Glassco Commission. However it is exercised there in this way: each department has one or more certifying officers, so-called, and also an authorizing officer. The right to designate an officer in the department as either an authorizing or a certifying officer is held by the Australian counterpart of our Treasury Board. The department is not interfered with so far as the selection or deployment of its employees is concerned. Each department can nominate as a certifying authority or an authorizing agent one of its employees, who has the confidence of the Treasury Board. If the Treasury Board in Australia has confidence in the person so nominated, it then designates this particular employee of the department for this purpose, and it will issue him a formal certificate which recognizes him as the proper employee to carry out on behalf of the department the function of authorizing or certifying expenditures, as the case may be. If the Treasury Board there has any reason at a later date to question the ability of that particular officer to carry out the particular function assigned to him, it may withdraw the certificate, and from that point on the employee of that department remains an employee and he can be used for any purpose the department wants to use him for, but he cannot act as a certifying officer or authorizing agent on behalf of the Government within that department.

Senator GROSART: I think there is a Treasury Board officer watching our expenditures in the Senate.

Dr. DAVIDSON: I don't think so—no.

Senator GROSART: Senator Smith is the chairman of the committee, and that is my recollection.

Dr. DAVIDSON: No, I question that, Senator Grosart. That is an officer of the Comptroller of the Treasury.

Senator LAMBERT: The expenditures are determined by the Treasury Board, and the Senate distributes them.

Dr. DAVIDSON: And if that officer does not think that the expenditure you propose to make is justified in law and in accordance with proper procedures he can refuse to make that payment.

Senator GROSART: He is an officer under the Comptroller of the Treasury.

Dr. DAVIDSON: Yes.

Senator GROSART: He is very effective, no matter under whose control he is.

Dr. DAVIDSON: The last of these recommendations which are still under consideration, relating to the management and control of expenditure is that the

cost of common services should be charged to the department. In view of the lateness of the hour I think I should not do more than say that we at the present time are examining the findings of the four financial management consultants on these various recommendations. We are trying at the present time to formulate a report which can go to the ministers of the Treasury Board and which will put in proper perspective and in a balanced fashion the issues that arise in respect of these particular recommendations. It will then be for the ministers on the Treasury Board to take account of the recommendations made by the Glasco Commission, together with the views expressed by the financial management consultants, as well as the views expressed by the departments and agencies directly concerned; and then to come to some decision as to whether or not they will recommend to Cabinet any change in the functions of the Comptroller of the Treasury as now set out in the Financial Administration Act, or any change in the relative responsibilities of the departments and the central control agencies in the financial management and control of departmental expenditures.

I should like to say a word now about the two final sections of the Glasco Commission's recommendations—accounting for expenditures, and appraisal of performance and audit, both internal and external. These are the areas of financial management responsibility which follow on after the decisions have been made as to how the expenditure programs of the departments and agencies will be managed in the course of the fiscal year in question.

The recommendations of the Glasco Commission with respect to accounting for expenditures state that the department should be responsible for designing and maintaining the accounting records necessary to meet its requirements. The Commission recommends also that departments adopt accrual accounting. In both of these areas certain issues are raised, the first of which also involves, as do the previous recommendations I have discussed, the role of the Comptroller of the Treasury.

As is well known, the Comptroller of the Treasury at the present time is responsible under the law for the preparation of the public accounts and is obliged, because of that, to maintain central accounting machinery, and to ensure that the accounts from the separate departments and agencies are brought to some uniform basis of comparability for the purpose of presentation of the Public Accounts document. How then do we reconcile that responsibility of the Comptroller for the preparation of the Public Accounts with the requirements of a department itself for management reporting information that will enable it to carry on its particular operations more effectively?

This, again, presents a very real dilemma. The accounting requirements of individual departments, in so far as financial management reporting from the local unit of responsibility up to the centre is concerned, may differ from one department to another. It may have to be structured in one form in a highly decentralized department with numerous regional and local offices and branches and in quite a different form, with a relatively highly centralized structure of departmental accounting machinery.

Therefore, you may have here some conflict between what a department requires in the way of adequate accounting machinery for purposes of its internal financial management, and what Parliament requires in the way of a system to ensure a uniform presentation of the accounts of the Government as a whole through the Public Accounts.

One of the suggestions that has been considered in this connection is that departments should be responsible for designing their accounting structure but that the maintenance of the accounts should be the responsibility of the Comptroller of the Treasury on a service basis. This would mean that the Comptroller of the Treasury in effect would have a dual function. He would have the function of maintaining a set of accounts that will reflect in the Public Accounts a uniform picture so far as the overall Government accounts

are concerned. He would have, in addition, the function of maintaining the departmental accounting records in such form as the department might require for its own management reporting purposes. This is one of the alternatives that have been explored by the consultants in the four departmental studies that I have referred to.

The consultants have expressed the view that accounting systems should be able to support the planning, control and reporting systems which I have already outlined by classifying expenditures and revenues according to the activity concerned, according to the management centre incurring the expenditure, and also according to the object of its expenditure. They are agreed that the final product of the expenditure control and accounting system—namely, the issue of cheques—should remain with the Comptroller of the Treasury. They also consider that departments should be responsible for designing their own accounting system but that in the light of a specific analysis in each case the Comptroller's organization could, on a service basis, provide accounting services under the direction and control of departments when it would be more economical and efficient to do so.

I think I had better change those words to read "provide accounting services at the request of a department, and in conformity with a pattern laid down by the department," rather than saying "under the direction and control of departments," because the Comptroller's role here would be that of a service agency servicing a client in respect of its accounting needs which had already been laid down clearly by the service agency in advance.

As mentioned earlier, the consultants have recommended in this connection that departments should assume responsibility as part of the total regime of financial management, not only for the certification of expenditures but also for what is known as commitment control, which at the present time, under section 30 of the Financial Administration Act, is under the Comptroller of the Treasury.

Finally, the consultants concur in the view expressed by Glassco that the departments should be responsible for ensuring that expenditures are proper charges, and that they comply with all statutes, rules and regulations. If there is a violation of the provisions of the law with respect to a specific expenditure then it should be quite clear that it is the department which must carry the responsibility and be accountable for that improper expenditure, and that there should be no division or watering down of the responsibility in this connection.

Senator GROSART: Would that mean certification by the minister?

Dr. DAVIDSON: No, it would be certification, in fact, by the Chief Financial Officer, or by someone who would be acting on his behalf.

I should correct that statement. It would be certification by the line officer responsible. The financial officers in the department would be staff officers to the line managers, but the line officers will have to take the responsibility for the decision that is made. It will be the responsibility of the Treasury Board to lay down the general policies and the governing rules. It will be the responsibility of the deputy minister to hold his line managers to these policies and rules. It will be the responsibility of the financial management officers of the department to be in touch with what is going on in the branches and divisions, and to have the means by which they can bring to the attention of the deputy head of the department any serious deviation that they feel important enough to bring to his attention. The deputy minister would be, in the final analysis, the officer responsible for the integrity of the financial management system within the department, and the deputy minister would be ultimately accountable for any breakdowns in the carrying out of that responsibility.

I come finally, Mr. Chairman, to the recommendations of the Commission with respect to the appraisal of performance and the audit, both internal and

external, that takes place at the end of this total cycle of financial management activity. There are a number of recommendations here that the Government has already accepted, one of them being that further improvements must be made in the Public Accounts to eliminate unnecessary detail, and to explain variances between actual and estimated expenditures. I believe that there is some discussion of this at the present time in the Public Accounts Committee of the House of Commons, and that the Comptroller of the Treasury, who is the officer responsible for the form and shape of the Public Accounts of Canada, is presently meeting with a special subcommittee of the Public Accounts Committee on this subject.

There is a further recommendation that the Government has accepted that an interdepartmental committee on auditing be established to develop personnel and improve audit standards and procedures.

There is, of course, full recognition on the part of the Government, the Treasury Board, and the departments concerned that if the departments are to take on any of these additional responsibilities in the field of financial management that have hitherto been held as the responsibility of the central control agencies, we must ensure, first of all, that they have the personnel trained and qualified, as well as their organization structured in such a way as to enable them to discharge the responsibilities.

The Civil Service Commission, together with the Treasury Board staff, have made certain assessments of our state of readiness in the various departments of government to take on at the departmental level these additional responsibilities in the financial field; and it has been established that we have very serious weaknesses concerning personnel available, trained and equipped to deal with the kind of job that will be required departmentally, if this responsibility is to be shifted from the central agencies and vested in the departments. With that in mind, training programs are now being developed under the auspices of the Civil Service Commission—for example, the Society of Industrial Cost Accountants, at Carleton University. It is hoped to produce, over a period of a year or so, a sufficient number of qualified cost accountants so that they can be settled into position in the departments where the transfer of responsibility is likely to take place earliest, and it is hoped that the departments will be prepared to accept these responsibilities if, as and when any are transferred by government decision, from central control agencies to the departments.

The consultants, in recognition of the fact that the proposed system of financial management involves a substantial delegation of authority to and within departments, recommended a system of departmental audit that would concern itself with the prevention of error and mismanagement in the financial field, and also appraise and systematically test the financial control system.

If I could use the crude analogy of the system of wiring and fire alarms you put in a building to protect it against fire, this has relevance to the system of internal audit that would be installed in a department under this regime. The internal audit would not merely be concerned with looking over vouchers and finding out whether a mistake had been made; the internal audit would be concerned, as more important, with monitoring the entire system of financial management and control and to ensure that the department is strong enough, equipped with enough staff and competent people to give a reasonable assurance to the Treasury Board that things will not go wrong in that department. In my judgment, at least, this is a much more important aspect of the internal audit function than the actual examination of vouchers to see if some account has been added up or paid incorrectly.

Senator LAMBERT: I do not wish to interrupt you, Dr. Davidson, but I would like to ask the chairman if at some later date time will be given to the consider-

ation of this aspect of the Glassco Report, because I think there are some contentious points in connection with the suggestion of a more complete form of audit in the departments. I have read this report superficially, and this is one of the points I cannot possibly agree with. I would suggest that a little more consideration be given to it, but the hour is late now, and I am sure Dr. Davidson is tired.

Dr. DAVIDSON: I have almost finished, Mr. Chairman.

The CHAIRMAN: Perhaps we might finish with Dr. Davidson. Mr. Balls of the Treasury Board will be with us next week, who will be continuing on this very matter. Then we shall have the Auditor General, probably for at least two further meetings. Following that, we shall be able to return to the evidence we have heard, and then be in a position better to discuss differences of opinion.

Senator LAMBERT: Very well.

The CHAIRMAN: So perhaps we should let Dr. Davidson finish.

Dr. DAVIDSON: Mr. Chairman, this point of internal audit is really my final point.

Various views had been expressed with respect to the function and purpose of this internal audit in the financial control systems of departments. Some consultants have suggested that this system should be designed to include all aspects of the departmental controls which need to be appraised by the internal audit unit against the established policies, standards and regulations. How widely the mandate of this internal audit unit in the department should be extended—whether to other areas than purely management—is a debatable point on which management and the consultants have not in all cases been able to see eye to eye.

Finally, with relation to the Public Accounts. These are outside my responsibility as Secretary of the Treasury Board and are the responsibility of the Comptroller of the Treasury, and it would be better for him to deal with that before the committee on another occasion.

However, from the point of view of the Bureau of Government Organization, I have some concern in following through the recommendations, and I would be glad to make any contribution to later discussions in this connection, which the honourable senators may request. I think that perhaps the members of the committee will expect Mr. Balls to give them his views on the recommendations of the Commission in respect to the Public Accounts. Should it be the case that this is a matter which the committee wishes to return to a little later when it is considering what it should include in its report to the Senate, I should be glad to make myself available.

Mr. Chairman, that coincides with the ringing of the bells outside, and brings to an end the material I have to present to the committee, in which I have endeavoured to relate the recommendations of the Glassco Commission itself and the findings of the management consultants in the four departments which have been subjected to the closest examination.

I have only one concluding word to add, that these financial management surveys endorse generally the conclusions that the Glassco Commission recommended. They found most of them to be feasible and practicable within the various departments of government they examined. The consultants have now produced a series of more detailed recommendations which have been examined by a policy committee established by the Treasury Board. This policy committee's report is soon to be placed before the ministers of the Treasury Board itself, along with other material, so that the pros and cons of some of these most controversial issues will be presented to the ministers at the same time.

I would hope that we might anticipate that by the end of this present calendar year the ministers of the Treasury Board will have come to firm

decisions as to the extent to which it is practical to begin to make some changes in the present arrangements for financial management as between the central agencies and the departments, and we can follow on from there in the direction which the ministers themselves will have to decide.

Senator LAMBERT: I have one final question with regard to the relationship of the Treasury Board to the Auditor General. One assumes, from all that has been said here, that one of the functions of the board would be to see that the financial appropriations as approved by the Treasury Board are applied to the objectives—that in the various departmental estimates are to be voted. Of course, we have the annual report from the Auditor General, on which notes appear occasionally to indicate examples of misdirection of such expenditures, in part, or in detail. Is that the responsibility of the Auditor General completely, or it is in co-operation with the Treasury Board?

Dr. DAVIDSON: The responsibility of the Auditor General is, among other things, to report to Parliament in respect of certain types of cases which are spelled out in the Financial Administration Act, which in his judgment do not conform to the provisions of the legislation governing a particular program; or which do not conform to the wording of the votes as set out in the estimates related to that program; or which do not conform to the stated policies and directives of the Government in the carrying out of that program, as detailed in the regulations or the directives which the Government may have given. This is an *ex post facto* report by the Auditor General on what has been done that, in his opinion, was done improperly or under questionable authority or circumstances. The Treasury Board's role, on the other hand, is to try to set the policies and the directives at the time the program is being submitted for approval. The department itself puts a proposal to the Treasury Board involving an expenditure of money for a certain purpose. The Treasury Board considers whether it is consistent with what it considers to be the purposes of that particular appropriation and the purposes which the Government and Parliament had in mind when it passed the regulations or embarked on this program. If the Treasury Board is satisfied this does conform to the legislative requirements, the will of Parliament and the intentions of the Government, it will authorize that program to be carried out by the department. The department, in the execution of that program, may or may not comply completely with all of the requirements which are laid down, and it is when they deviate from that that the Auditor General later on picks up what he considers to be the deviations and reports them to Parliament.

Senator LAMBERT: Is it not one of the functions of Treasury Board to see that the appropriation passed on by Treasury Board is devoted accurately to what it is supposed to serve?

Dr. DAVIDSON: Yes, in theory. However, it would be unrealistic to assume that six cabinet ministers, with a staff of 177 on the Treasury Board, could follow the execution of every decision to the point where this kind of assurance could be given. If I may say so, this is precisely the reason why the Glassco Commission says you can never ensure the effectiveness of performance by trying to examine every decision that is made by a host of departmental managers or by making the decisions for them. You must concentrate on the development of a system which will ensure that within each department there is responsible financial management and control, because it is only in that way that you can really, in the long run, ensure effective performance.

Senator LAMBERT: Surely the officials of the Treasury Board are the strict sentinels for the ministerial membership of the Board, to see that the appropriations properly voted through that Board are applied to the object they are intended to serve?

Dr. DAVIDSON: Under the present law that is a function which is certainly shared by the Treasury Board staff with the staff of the Comptroller of the Treasury, as well as the departmental management. It is a divided responsibility.

Senator LAMBERT: And the Auditor General comes later, if there is any violation of that.

The CHAIRMAN: Are there any other questions of Dr. Davidson?

Once again, Dr. Davidson, we are indebted to you for your evidence, your patience and courtesy, as well as your knowledge of the subject. It may well be that we shall need some further information from you before we are through, after hearing other witnesses.

I might say that the proceedings of last Tuesday are already printed and distributed, though you may not have received them today. We will try and get today's proceedings printed for you by next Tuesday, when Mr. Balls will be here. Also we have the supplementary estimates. It may well be the interim supply bill will be at least before the House of Commons so, it is certainly subject to our examination in this committee next Tuesday. Therefore, I would ask, Dr. Davidson, perhaps you might have somebody from the Treasury Board before our committee, even though Mr. Balls will be our main witness, in case there are any questions with respect to the Supplementary Estimates B, or if the Interim Supply Bill is before the House of Commons and, therefore, available to us, even though it has not yet reached the Senate.

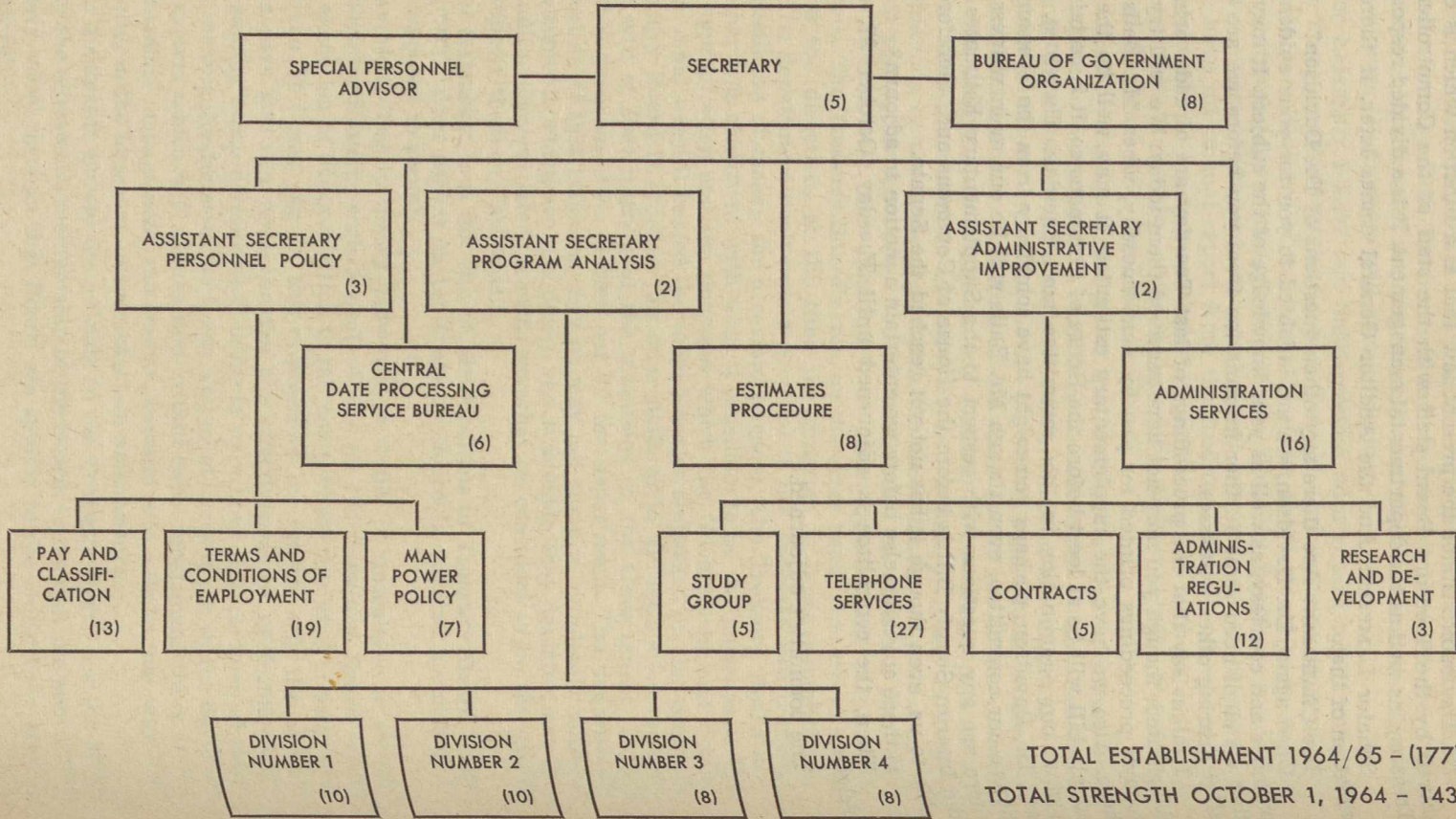
Is there anything else before we entertain a motion to adjourn?

Then, the committee is adjourned until Tuesday, October 27, at three o'clock.

The committee adjourned.

APPENDIX "G"

ORGANIZATION OF TREASURY BOARD SECRETARIAT



TOTAL ESTABLISHMENT 1964/65 - (177)  
 TOTAL STRENGTH OCTOBER 1, 1964 - 143





Second Session—Twenty-sixth Parliament

1964

**THE SENATE OF CANADA**  
**PROCEEDINGS**  
**OF THE**  
**STANDING COMMITTEE**  
**ON**  
**FINANCE**

To whom was referred the Estimates for the fiscal year  
ending March 31, 1965.

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The Honourable T. D'Arcy Leonard, *Chairman*

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TUESDAY, OCTOBER 27, 1964

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No. 7

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WITNESS:

Mr. Herbert E. Balls, Comptroller of the Treasury.

APPENDIX:

"H" Organization of the Office of the Comptroller of the Treasury and the  
functions of the Comptroller.

THE STANDING COMMITTEE  
ON  
FINANCE

The Honourable T. D'Arcy Leonard, *Chairman*

The Honourable Senators:

Baird	Macdonald ( <i>Brantford</i> )
Beaubien ( <i>Bedford</i> )	McCutcheon
Beaubien ( <i>Provencher</i> )	McKeen
Belisle	Méhot
Bouffard	Molson
Buchanan	O'Leary ( <i>Antigonish-Guysborough</i> )
Burchill	Paterson
Choquette	Pearson
Connolly ( <i>Halifax North</i> )	Pouliot
Crerar	Power
Croll	Quart
Denis	Rattenbury
Dupuis	Reid
Farris	Robertson ( <i>Shelburne</i> ),
Flynn	Roebuck
Gershaw	Savoie
Grant	Smith ( <i>Queens-Shelburne</i> )
Grosart	Stambaugh
Haig	Taylor ( <i>Norfolk</i> )
Hayden,	Thorvaldson
Hnatyshyn	Vaillancourt
Horner	Vien
Isnor	Welch
Lambert	Woodrow
Leonard	Yuzyk (50)

*Ex officio members*

Brooks

Connolly (*Ottawa West*)

## ORDER OF REFERENCE

Extract from the Minutes of the Proceedings of the Senate, Wednesday, May 20, 1964:

"Pursuant to the Order of the Day, the Senate resumed the debate on the motion of the Honourable Senator Connolly, P.C., seconded by the Honourable Senator Hugessen:

That the Standing Committee on Finance be authorized to examine and report upon the expenditures proposed by the Estimates laid before Parliament for the fiscal year ending 31st March, 1965, in advance of the Bills based on the said Estimates reaching the Senate; and

That the said Committee be empowered to send for persons, papers and records.

After debate, and—

The question being put on the motion, it was—

Resolved in the affirmative."

J. F. MACNEILL,  
*Clerk of the Senate.*



## MINUTES OF PROCEEDINGS

TUESDAY, October 27, 1964.

Pursuant to adjournment and notice the Standing Committee on Finance met this day at 3.00 p.m.

*Present:* The Honourable Senators Leonard (*Chairman*), Baird, Buchanan, Croll, Denis, Gershaw, Hayden, Lambert, Molson, O'Leary (*Antigonish-Guysborough*), Smith (*Queens-Shelburne*), and Stambaugh.—(12).

The Estimates for the fiscal year ending March 31, 1965, were further considered.

The following witness was heard: Mr. Herbert R. Balls, Comptroller of the Treasury.

On Motion duly put it was Resolved to print as Appendix "H" to the proceedings of this day a document showing the organization of the Office of the Comptroller of the Treasury and the functions of the Comptroller.

At 5.45 p.m. the Committee adjourned until Tuesday next, November 3, at 3.00 p.m.

Attest.

F. A. Jackson,  
*Clerk of the Committee.*



## THE SENATE

### STANDING COMMITTEE ON FINANCE

#### EVIDENCE

OTTAWA, Tuesday, October 27, 1964.

The Standing Committee on Finance, to which was referred the Estimates laid before Parliament for the fiscal year ending 31st March, 1965, met this day at 3 p.m.

Senator T. DARCY LEONARD (*Chairman*) in the Chair.

The CHAIRMAN: Honourable senators, we will come to order. I am very glad to see another good attendance, even though the Senate is not sitting. I think I should tell honourable senators that the proceedings of last week have been printed, have been distributed today and are in your post office boxes, if you have not received them already. Some copies are available here, on the side table, in case anyone would like to have one.

Today we are going ahead with the program we outlined of considering the estimates with particular relationship to the recommendations of the Glassco Commission with respect to the form, the matter and the presentation of the estimates and the changes recommended by the Glassco Commission. Again I should mention to you that the estimates in general are before the committee, so any questions related to them are pertinent and you are quite in order to ask any questions upon them. If the particular witness before us has not the answers then we will call a witness who can give the answers. I say this with particular reference to the fact that the interim supply bill will follow upon the resolution which is now before the House of Commons asking for a vote of interim supply, and it is designed to take care of supply after November 1. In that resolution and in the interim supply bill there will also, of course, be provision for the supplementary estimates which have been tabled in addition to the main estimates and previous supplementary estimates.

Our witness today is Mr. H. R. Balls, Comptroller of the Treasury. Mr. Balls has been in the Civil Service of Canada for a great many years, and I think he has been holding his present position for at least six years. He has been following our proceedings and, therefore, he is familiar with the matter that is under our consideration. So, without further ado—unless some member of the committee wishes to raise a preliminary question—I will ask Mr. Balls to give us the benefit of his knowledge and experience in connection with the estimates.

**Mr. H. R. Balls, Comptroller of the Treasury:** Mr. Chairman and Honourable senators, may I first of all express my pleasure at being with you today. I hope I shall be able to give some assistance in connection with your study of the Glassco recommendations.

In regard to the substance of the estimates now before Parliament, I think I must disclaim any ability to help you very much. I think that is something that comes more in the field of Dr. Davidson or the ministers of the appropriate departments.

The CHAIRMAN: May I interrupt a moment here to say that Mr. Allen of the Treasury Board is here with us again today in case we need him or in

case any questions are asked which should be dealt with by the Treasury Board.

Mr. BALLS: What I would like to do today is to speak briefly on four main areas, the problem of measuring efficiency in government, government accounting and parliamentary control over appropriations and expenditures, the relationship between the estimates and the public accounts, and, in somewhat greater detail, the Glassco recommendations.

But first, Mr. Chairman, I thought it might be helpful if I said something about the office of the Comptroller of the Treasury, its functions, and organization. I have brought with me a number of copies of an organization chart which, if it is your wish, I shall have distributed.

The CHAIRMAN: Shall we have them printed as an appendix to the proceedings today?

Some hon. SENATORS: Agreed.

(See Appendix "H")

Mr. BALLS: May I start by saying that the Comptroller of the Treasury is an officer of the Minister of Finance, an executive officer, but an officer who has been required by Parliament to perform certain statutory duties. In addition, on behalf of the Minister of Finance and of departments generally he is required to perform certain service functions. There are four main statutory duties falling upon the office. The first is to control cheque issues or payments out of the Consolidated Revenue Fund and to ensure that no payment is made except for a purpose authorized by and within limitations set by Parliament.

In the second place, the Comptroller is required to maintain accounts of all appropriations granted by Parliament, classified by allotments as authorized by the Treasury Board. Thirdly, he is required to maintain records of all commitments chargeable to these appropriations and to ensure that no contract is entered into unless there is a sufficient unencumbered balance available in an appropriation or in estimates before the House of Commons sufficient to discharge any commitments under a contract payable during the fiscal year in which the contract is made. The fourth statutory duty is to pre-audit all expenditures and to examine before payment all requisitions for cheques for the payment of departmental accounts to ensure that they comply with all relevant legislative and executive requirements. Those are the four statutory duties of the office.

In addition my office is required to undertake a number of service functions for the Minister of Finance. These include the maintenance of the central fiscal accounts, the management of the Receiver General cash balances, the preparation of cash forecasts, the receipt of the paid cheques issued by my office from the banks in order to reconcile them with the cheques issued, and to repay the banks. We are also required to prepare the Public Accounts and the government accounts section of the annual budget papers. We are required to act as custodian of securities deposited with the Minister of Finance, and since December 1963 to administer the Public Service Superannuation Plan on behalf of the Minister.

In addition there are a number of service functions we perform on behalf of departments generally. These are; to provide advice on accounting and financial administration; to provide accounting and other services in connection with the collection of and accounting for public monies; and to provide accounting services required for departmental managerial purposes. There is a specific provision in the Financial Administration Act requiring us to examine, on request of the appropriate minister, departmental revenue collecting and accounting practices, and departmental records, accounts and procedures, respecting stores and materials.



Also through the Audit Services Branch we conduct cost audits of federal contracts and verify claims under various federal-provincial cost sharing agreements. These in summary form are the duties of the office.

I might indicate to you very briefly the magnitude of the organization devoted to this task. In the approved establishment for 1964-1965 there is provision for a staff of 4,683. Of this number slightly more than half, some 2,492, are in Ottawa, and 2,191 in regional and district offices located in various parts of Canada and in some of the more strategic centres abroad. For instance, we have offices in London, Washington, Paris and also one in Metz servicing our Air division there. Of this establishment of 4,683 the total strength at the end of September was 4,354.

Senator BAIRD: Why the reduction?

Mr. BALLS: This represents vacancies that are not filled at the present time. There is a normal vacancy pattern of approximately 6 or 7 per cent which we see fairly steadily throughout any particular year due to resignation, death or other reason and the inevitable delay in filling those positions.

Well, Mr. Chairman, if I could turn very briefly to the difficulty, or at least what I consider to be the difficulty, of measuring efficiency in government. In business we have a very effective bench mark in the profit and loss statement which has nothing comparable to it in most areas of government. I thought it might be helpful if I were to quote to you a comment made in a report to the United Kingdom Parliament in 1950. In that year a committee on the form of government accounting reported to the United Kingdom Government on this whole question. It was known as the Crick report, after its chairman. Here is a quotation from that report:

. . . in Government, the aim in any branch of its manifold activities is to carry out a particular item of policy with maximum efficiency and economy, and there is no simple test of sectional or total success. Inquiry must be ad hoc—hence the importance of the laborious and wide-ranging activities, first of the Comptroller and Auditor General and subsequently of the Public Accounts Committee. It is impossible to judge by uniform accounting tests the efficiency and economy of operations involved, on the one hand, in ensuring the safety of the Realm, the maintenance of Imperial relations and the influence of the Commonwealth in world affairs, and, on the other, in the progressive improvement of social services and cultural standards. The range and form of Government activities, in other words, are determined to only a minor extent by considerations implying a financial test of success or failure.

6. In contrast, all the activities, however varied their nature, of a business undertaking are directed to one central purpose; the maintenance, over a long run, of such a surplus of current revenue over current outlay as will at least keep the invested capital intact and allow of periodical distribution to the proprietors. Hence, for example, the cost of a "free service" to customers or of staff training within a business undertaking has to be reckoned among the charges which, if the test of success is to be fulfilled, have to be more than covered by true revenue from sales or other sources. The question whether to embark on the erection of a new factory or on the installation of new plant has to be settled by close estimates of sales prospects and the yield in terms of economy in production. No such test can be applied to Government contributions to education or social services generally, to the erection of a new ordnance factory or a national museum, or to research on fighter aircraft or penicillin; . . .

This is the quotation from the Crick Committee on the Form of Government Accounts.

Consequently, gentlemen, I think in government we must seek some other criteria for determining whether or not government operations have been efficient. Other methods must be adopted in addition to those relying on the accounts and the financial statements. Some of these could be work measurement or time and motion studies; management audit programs; operations and methods studies; sampling and other statistical devices; establishment reviews or methods by which personnel requirements in any organization may be determined and the development of man-hour ratios and unit cost techniques.

With your permission I should like to come back to this point in regard to government efficiency, but may I turn briefly to the matter of government accounting and parliamentary control over appropriations and expenditures? I should like to mention four or five basic concepts underlying our financial system. First of all there is the sovereignty of Parliament in regard to finance. Parliament, of course, grants all money to the Crown. Secondly, there is the principle of the Consolidated Revenue Fund into which all public moneys from whatsoever source are paid, and out of which all public moneys are paid, with the authority of Parliament.

Thirdly, there is the principle of executive initiative which requires that all proposals for the expenditure of public moneys be made by the Government and introduced to the House of Commons with the recommendation of the Governor General. Fourthly, there is the principle of annuality which requires that the financial operations of the Government should be considered on a yearly basis, as distinct from any other. Fifthly, there is the concept of the budget which in our Canadian system represents an all-inclusive consideration of revenues and expenditures at one time.

I should mention very briefly some aspects of Government accounting. Government accounts, as distinguished from the accounts of business, are maintained for the most part on what is known as a cash, as distinct from an accrual, system of accounting. In passing I might say—and I am sure that Dr. Davidson has mentioned this to you—that the Glassco Commission's recommendations include the suggestion that the Government's fiscal accounts be maintained as at present on a cash basis, but that accrual accounting be applied where appropriate for departmental managerial purposes. The real question here, I think, is a comparison of costs and benefit; whether, in fact, the additional expense entailed in maintaining accounts on an accrual basis is worth the additional cost.

There are two or three other things I should mention about Government accounts that may be helpful to you. In regard to capital assets it is our practice—and as far as I understand the Glassco Commission has suggested no change in this regard—to charge the cost of acquisition or construction of capital or physical assets to the budgetary accounts at the time those assets are acquired or constructed. We do not follow the practice adopted by business of capitalizing such assets on a statement of assets and liabilities and applying depreciation policies. The problems that would arise if an attempt were made to thus deal with national monuments, battleships and fighter aircraft, is easily visualized. Similar considerations apply to public buildings in which you have invested more than the essential minimum amount required to conduct public services. This building itself is a case in point. For the purpose of making it a national monument something more has been put into it than is needed to make it a functional building. These are some of the problems and considerations involved in Government accounting.

Mr. Chairman, if I may I will turn briefly to the relationship between the estimates and the public accounts. I should like to make one basic point in regard to this: the public accounts must of necessity be based on the estimates

as approved by Parliament. Members of Parliament and the public must know that the amounts that have been appropriated by Parliament for public purposes have in fact been spent for those purposes. Consequently, in large measure, the form of our public accounts is based on the form of the appropriations which in turn are based on the form of the estimates to ensure that expenditures are accounted for and reported in accordance with the appropriations that have been voted by Parliament.

Successive ministers of finance have taken the position that there should be close and intimate consultation with the Public Accounts Committee of the House of Commons before there is any change in the form of the public accounts. In recent years there have been several times when the form of the public accounts has been subject to review and change. In 1961 the Public Accounts Committee established a subcommittee on the form and content of the public accounts, which reviewed in detail some suggestions as to how that document could be improved. I and the Auditor General, Mr. Henderson—who, I believe, will be appearing before this committee later—sat with that subcommittee. It made its recommendations to the main committee, which in turn submitted recommendations to the House of Commons, and these were adopted in the 1961 public accounts. At the present time there is a new subcommittee of the Public Accounts Committee sitting with the Auditor General and myself, again studying recommendations for the improvement of the form and content of the volume. It is considering and taking into account the recommendations that have been made by the Glassco Royal Commission on Government Organization in regard to the public accounts. I expect these recommendations will in all likelihood—although I suppose I should not be anticipating—reflect some of those recommendations.

I wonder, Mr. Chairman, if I could turn now to the recommendations of the Glassco Commission?

The CHAIRMAN: Are there any questions on this preliminary information that Mr. Balls has given us?

Senator LAMBERT: There are a couple of points that I would like to have clarified. Before the estimates are passed and adopted by Parliament does the Comptroller exercise any function in respect of their final form, or the amounts of the departmental estimates? The Treasury Board has a function in that respect, but I was wondering if the Comptroller's functions come into operation only after Parliament has approved the estimates.

Mr. BALLS: Your interpretation is quite correct. The parliamentary consideration of the estimates, as Dr. Davidson has mentioned to you in his earlier sessions, is entirely a matter for the Treasury Board. It is only when the estimates have been approved and passed by Parliament and are embodied in appropriation acts that my office comes into the picture. It is at this point that I have a statutory direction from Parliament to ensure that the payments made from parliamentary appropriations are made for the purposes of those appropriations and that the payments do not exceed the amount appropriated by Parliament.

Senator LAMBERT: In that connection, this point was mentioned at the last meeting. In the Auditor General's report frequently there are notes added by the Auditor General to the effect that expenditures have been made in certain departmental functions which rather go beyond the specified purposes for which they were voted. You have no recourse in connection with those?

Mr. BALLS: In regard to any departmental program of expenditure, the initial responsibility for that program must inevitably be that of the department itself. The department initiates a program which involves expenditures. The invoices and requisitions for payment are approved by departmental officials and a requisition is submitted to my officers who are stationed in the

various departmental offices. We have chief treasury officers serving all of the large departments and most of the smaller ones. The requisitions signed by departmental officers are submitted to the chief treasury officer or to one of his officials and if he is satisfied that this is a proper charge against the appropriation and if the payment does not exhaust the appropriation, then he will make the payment. There will be occasional cases when the Auditor General may not see eye to eye with my officers but when one considers that we make between 65 million and 70 million payments a year, I think the number of comments by the Auditor General is a relatively small proportion of the total. Some cases do arise. We are human and make mistakes and it is the auditor's job to find them. We try to be perfect but do not always succeed.

Senator O'LEARY (*Antigonish-Guysborough*): You stated that the form of the accounts and it is natural that it takes the same form as the estimates. In the recommendations of the Glassco Commission with respect to the forms, do you see any conflict or conflicts between the recommended form for estimates as compared with the recommended form for accounts?

Mr. BALLS: I think not. It seems to me that the recommendations of the Glassco Commission have in large measure been accepted by the Government. The first initial stages in the implementation of these recommendations are embodied in the estimates for 1964-65 which are before you; and the public accounts, I am quite satisfied, can be geared to reflect these adequately. The real question before the Public Accounts Committee of the House of Commons at the present time is in large measure the degree of detail that will be printed supporting the appropriation statements.

The CHAIRMAN: At the present time Parliament has appropriated certain sums of money representing only portions of the total estimates. In the case of most departments if not all. Presumably, in some cases at the present time for example the appropriations may be even exhausted or be close to exhaustion. Is that where you or your officers come in to determine whether or not the interim supply bill will meet the appropriation made pursuant to the last interim supply bill? You must see that there is money left out of that appropriation before authorizing expenditures at the present time?

Mr. BALLS: That is correct. At the beginning of a fiscal year normally only one-twelfth or two-twelfths of an appropriation may be granted and the controls are exercised to ensure, not that the full amount of the estimates is not exceeded, but that the amount that has been appropriated from time to time by Parliament is not exceeded. It is a matter of Parliament appropriating one-twelfth or two-twelfths, as the case may be, and then for us to see that that is not exceeded.

Senator CROLL: Under what circumstances do you provide the services of custodian of securities deposited with the Minister of Finance, as mentioned in (f) on page 2 of the chart distributed today.

Mr. BALLS: This is a function my office took over from the Department of Finance proper in 1960. We have a securities deposit division which maintains custody of something in the nature of \$6 million worth of securities. The bulk of these represents securities lodged with the Receiver General on behalf of the Superintendent of Insurance. These are securities required by him under various statutes to be deposited by various foreign and other insurance companies doing business in Canada. We also maintain custodial arrangements for any contractors securities and deposits that may be submitted in the form of Government bonds. Again, we have safekeeping facilities for the custody of these on behalf of the department concerned.

Senator CROLL: The term is "Minister of Finance". What bothered me was that it appeared to me as if the minister were walking around with these in his pocket. Is it not the department or the treasurer or the Bank of Canada that acts?

Mr. BALLS: The Minister of Finance or the Receiver General is, I think, designated in some of those acts and in the applicable regulations, as being the person responsible. Of course, the responsibility for acting on his behalf is delegated to officials. Prior to 1960 it was the Deputy Minister of Finance who was responsible for the operation of the Securities Deposit Division. Since 1960 it has been myself and my office.

Senator CROLL: Under what circumstances are unspent votes permitted to be moved around in a department? I think you understand my question.

Mr. BALLS: Yes. There is a provision in the Finance Administration Act whereby transfer votes may be made. There are a number of allotments within each item of the estimate. If a department estimates that it will require more money for one of these allotments, it may submit a request to the Treasury Board for approval to transfer the amount required to the allotment from some other allotment within that estimate item.

Senator CROLL: Would you give an example please.

Mr. BALLS: If I may take my own vote, on page 138 of the estimates for 1964-65, the provision for salaries is shown as \$18,501,000. I have a further provision for postage for family allowances and old age security cheques, amounting to \$2,152,000. I may find that there is an increase in numbers of family allowance payments and that it was greater than we had anticipated at the time this estimate was prepared and that now we may require \$2,300,000. I may find that I have been able to effect staff economies so that I will not require the full amount of \$18,501,000 for salaries. Therefore, I may request the Treasury Board, through my minister, to transfer \$148,000 from the salaries and wages allotment to the postage allotment.

Senator CROLL: That is the only circumstance under which transfer of a vote would be permitted?

Mr. BALLS: There is another vote in the Department of Finance. Vote 15 provides as follows:

Subject to the approval of the Treasury Board, (a) to supplement the payroll provisions of other votes; (b) for miscellaneous minor or unforeseen expenses; and (c) for awards under the Public Service Inventions Act;.....

This vote is available, Senator Croll, to supplement other appropriations which may be found insufficient. The amount provided in the main estimates for 1964-65 is \$6 million.

Senator CROLL: Let me ask you another question. What in money or percentage do you find unspent, on an average, in say two or three years?

Mr. BALLS: I will look at the Public Accounts for last year, which I think will give as fair a reflection as anything. For the fiscal year 1962-63 the total appropriations available, including those voted and the statutory items, were \$6,690,000,000; the expenditures were \$6,570,000,000. There was lapsed some \$93 million which was not available, and \$27 million was available under the terms of the specific legislation, to be carried forward to the next year.

Senator CROLL: What do you mean, when you say \$93 million not available?

Mr. BALLS: Appropriations are granted by Parliament to be spent in a specific fiscal year, with the further proviso in the Financial Administration Act that payments can be made 30 days after the end of a fiscal year. If

the appropriations have not been used at that time they are no longer available for the services of the department, and a new appropriation must be provided. However, there are one or two minor cases where moneys are made available beyond the period of the fiscal year.

Senator CROLL: Let me follow that up. In some instances where they are able to spend the appropriation and require the unspent amount for the next year, the result is that they come in for a very high increase. What is the attitude of the department or of the officials in that case? In other words, is it a sort of a delayed carry-over?

Mr. BALLS: I think what you have in mind Senator Croll, is the sort of thing that would occur when moneys are appropriated, possibly for a construction contract, and due to delays on account of weather, or for other reasons, all the money cannot be spent. I think most of the departments would have valid and legitimate reasons for not making the expenditures within the given time, and the Treasury Board would be able to appropriate the money again the following year.

Senator CROLL: What about the case of say a civil servant who might say, "Let us get rid of this money before the end of the year, otherwise they will grab it from us. Let's do it, even if we have to wait another year."

Mr. BALLS: I suppose there is an incentive to spend here. All I can say in answer to that, Senator Croll, is that I think the responsibility for ensuring that moneys are spent properly and not extravagantly must rest with the department concerned, the deputy minister and his officials.

Senator CROLL: What I am driving at is this, that where you see a considerable appropriation has been spent, for whatever reason, it seems to me there is a particular appeal or reason for applying to someone who can give some relief, without hurrying the expenditure, perhaps, needlessly. Perhaps I am putting this rather crudely, but for those people who are able to make savings, there ought to be some compensation in the department to make the savings. Is there any such board or any such authority to whom to appeal?

Mr. BALLS: Not to my knowledge. I am not quite sure that I get your full point, Senator Croll.

Senator LAMBERT: Would that not be the responsibility of Treasury Board officials rather than the Comptroller? I thought that point raised by Senator Croll was dealt with by Dr. Davidson and pretty well covered at our last meeting.

Senator CROLL: I was not here at that time.

Senator LAMBERT: That point was raised, regarding estimates which exceeded the amount required in any one year, and the amount was carried over into the next year. Dr. Davidson dealt with that specifically.

The CHAIRMAN: Senator Croll's question is also pertinent to this witness, because if there is a tendency to use up what otherwise might be surplus balance, then the expenditures would have to be approved by the Comptroller of the Treasury, and I imagine Mr. Balls would be pretty careful in his scrutiny of such items.

Mr. BALLS: Mr. Chairman, in partial answer to Senator Croll, the role of the Comptroller is not to judge the effectiveness of expenditure, but to judge its legality—to determine whether it is a legal expenditure. I do not think I, or my officers, would be called upon to take issue with a department, on the effectiveness of the expenditure, the appropriateness of it, and the efficiency of the departmental action to sanction the expenditure which is essentially a departmental matter. I think I must look to the deputy minister and his officials to make sure they are taking the proper care in their expenditures in this re-

gard. My concern is to see that it is a legal expenditure, a legal charge against the appropriation, and that it does not result in an over-expenditure of the appropriation.

Senator CROLL: Then why did you talk to us about efficiency when you first started?

Mr. BALLS: I still am interested in efficiency, and would still like to speak about efficiency later on. I may say that I have a real concern also with regard to the administration of my own office.

Senator CROLL: I have no doubt about that.

Senator BAIRD: How are stamps dealt with; are they paid for by the departments?

Mr. BALLS: There are two arrangements. Normally there is a franking privilege granted for the departmental head offices in Ottawa. For the postage at my offices in Ottawa this is a franking privilege for which there are no specific charges against my appropriation. However, for mail that is posted outside Ottawa by my department, and this applies to others as well, Senator Croll, we are obliged to pay for that postage. That is the reason for the \$2,152,000 provision in the appropriations for the Comptroller's office to provide postage we must pay the Post Office Department for mailing family allowances and old age security cheques.

Now, Mr. Chairman, may I proceed with matters in connection with the Glassco recommendations?

Senator LAMBERT: Before you proceed, reference has been made to crown corporations. Where a crown corporation such as the radio corporation is concerned, does the department of Government responsible to Parliament for the radio corporation determine the extent of the budget for that corporation for any one year; and, if so, has the office of Comptroller of the Treasury any direct supervision over the corporation's expenditures? This is a matter of jurisdiction, I would say.

Mr. BALLS: Yes. The normal arrangement, Senator Lambert, is that for each crown corporation there is a designated appropriate minister; in other words, a minister through whom or to whom the corporation reports. The Financial Administration Act, in Part VIII, has defined the classes of crown corporation, and they have named three distinct classes: departmental corporations, agency corporations, and proprietary corporations. The act goes on to provide that all departmental corporations shall be treated, in essence, as normal departments of Government, and that the same financial provisions that apply to departments of Government shall apply to departmental corporations, though there may be minor variations in specific instances. So, the responsibilities that are vested in me under the act in regard to those departmental corporations must be in me under the act must be applied in regard to those departmental corporations. In regard to agency and proprietary corporations—

Senator LAMBERT: Such as Polymer, for instance?

Mr. BALLS: That is correct—I have no responsibility except in regard to the National Harbours Board, whereby the National Harbours Board Act I provide the accounting services for the board.

Senator LAMBERT: What category would you place the National Harbours Board in?

Mr. BALLS: That is an agency corporation.

The CHAIRMAN: Would you give an example of the first class, a departmental corporation?

Senator LAMBERT: Would the radio corporation be that?

Mr. BALLS: I have a fairly recent list, and I can read them for you as they stood about a year ago: the Agricultural Stabilization Board, the Atomic Energy Control Board, the Canadian Maritime Commission, the Director of Soldier Settlement, the Director of the Veterans Land Act—these latter two are corporations sole—the Dominion Coal Board, the Fisheries Prices Support Board, the National Gallery of Canada, the National Research Council and the Unemployment Insurance Commission. Those are the departmental corporations and the relationship between the Treasury and those corporations is similar to that of the departments.

Senator LAMBERT: That did not include the radio corporation.

Mr. BALLS: The Canadian Broadcasting Corporation is a proprietary corporation.

I might go on, Senator Lambert, and just add that the Financial Administration Act requires each agency and proprietary corporation to submit a capital budget to its appropriate minister and to the Minister of Finance; and that budget must be approved jointly by them, submitted to the Governor in Council and approved by it and laid before Parliament. In addition, the operating budgets of all agency corporations must be submitted to the appropriate minister and the Minister of Finance.

Senator LAMBERT: Treasury Board have nothing to do with those?

Mr. BALLS: Treasury Board, in its official capacity, does not have anything to do with that, but I think possibly Dr. Davidson did mention at one earlier meeting of this committee that officers of the Treasury Board do act for the minister in reviewing the budgets and submitting their recommendation to him for his action under the Financial Administration Act.

Mr. Chairman, if I could proceed to deal with the Glassco recommendations, Dr. Davidson and Mr. Steele, I know, have given evidence before you in regard to these, but I wonder if I could very briefly go over these various recommendations? I do not propose to spend much time on specific ones that fall just in the periphery of my own interests, but there are some that are of more concern, and you might wish me to go into these in greater detail.

Mr. Glassco and his colleagues made some 27 recommendations, I think, in regard to financial management. If I could just review these briefly under the various categories. The first one was in connection with the increase of departmental responsibilities. You may recall that the commission recommended that the departments and agencies be given, what Glassco called, the necessary financial authority and be held accountable for the effective management of the financial resources placed at their disposal. This recommendation has been accepted by the Government, though in accepting it I think the phrasing of it was changed slightly, so it would read that departments and agencies be given "greater" financial authority and be held "correspondingly" accountable for the effective management of the financial resources placed at their disposal.

Secondly, in this general area the commission recommended that departments and agencies be granted more discretion in the negotiation of contracts. This has been accepted by the Government and, indeed, I think on September 23rd, last month, new contract regulations were approved by the Governor in Council granting substantially increased authority to departments in the negotiation of these contracts. I might say it was my privilege to be the chairman of the interdepartmental committee that considered these regulations and made its recommendations to the Treasury Board which, in turn, submitted its proposals to the Governor in Council, which adopted or approved them.

The third recommendation in this area was that responsibility be placed on departments for certifying to the Comptroller of the Treasury that ex-



penditures will be lawful charges and that funds are available. This, of course, is a recommendation of very considerable concern to my office, and with your permission, Mr. Chairman, I would like to return to it later.

The fourth was that departments be responsible for designing and maintaining the accounting records necessary to meet their requirements. This is still—as I think Dr. Davidson mentioned to you—under consideration, and this is something I might speak to in a minute or two.

The fifth recommendation was that departments and agencies adopt modern management reporting techniques. This recommendation has been accepted by the Government, and is in the process of implementation.

Sixth, that departmental management be responsible for establishing and maintaining a proper system of internal audit. Again, this is a matter still under consideration and no definite action has been taken.

Those were the six recommendations with regard to increased departmental responsibility.

In regard to the central control agencies the commission made four general recommendations. The first was that the Treasury Board be placed under the direction of a President of the Treasury Board who would be a minister other than the Minister of Finance, and the staff of the board would be attached to the Privy Council office. This recommendation has been accepted by the Government, with the exception that the Treasury Board, according to an announcement, I think, of the Prime Minister, will be set up in due course as a separate department of Government under a President of the Treasury Board.

The second recommendation in regard to central control agencies was that the Treasury Board continue to lay down policies on financial and administrative matters common to all departments and agencies, but in a less restricted manner. This recommendation too has been accepted by the Government.

Third, that the appointment of the senior financial officer in each department and agency be subject to the concurrence of the Treasury Board. The Government still has this proposal under consideration.

The fourth recommendation was that the Comptroller be responsible for cheque issue and for managing Government bank accounts and cash funds; for maintaining the central accounts of the Government, preparing periodic statements of the financial position of the Government on an over-all basis; for preparing the public accounts; for providing, as required, skilled assistance and advice on accounting matters to departments and agencies; for administering all superannuation and pension plans, including those of the armed forces and crown corporations; and for providing automatic data processing facilities on a service basis.

However, in respect to the authority for payment, the commission suggested that the comptroller's responsibility be limited to ensuring that departmental officers providing certificates are properly authorized. Again I would suggest that I might defer this and come back to consideration of it when I deal with the role of my office as a whole.

The third general area of recommendations by the commission on financial management was in regard to the estimates, and Dr. Davidson has dealt with those in great detail. I might list them without any great comment. First, the commission recommended that there should be a reduction in the number of votes and a consolidation of all cost elements of individual programs within the same vote; second, the preparation of estimates on the basis of programs of activity and not by standard objects of expenditure; third, the undertaking of the establishment of review as a part of the over-all estimates review process and not as a separate exercise. These have all been accepted by the Government. Fourth, the development and employment of more objective standards for analysis and comparison in the review process by senior depart-

mental management and the Treasury Board. Again this has been accepted by the Government. The fifth recommendation deals with the charging of the costs of major common services to user departments. I think Dr. Davidson indicated to you that there are considerable problems in this regard, and that this is a matter on which a final decision has as yet to be reached. The sixth recommendation dealt with the offsetting, where appropriate, of revenues against related expenditures, with votes to be shown in the estimates and controlled on a net basis. Again this has been accepted by the Government with emphasis on the phrase "where appropriate".

As Dr. Davidson, I think, suggested to you last week or the week before there are a number of areas where this can be adopted to advantage. I should add that it does raise a real problem in regard to the control of commitments particularly where the amount of revenue associated with the service may flow in throughout the year and not be entirely related to the time at which payments are made. If you have a net vote of a million dollars and expect \$500,000 additional revenue, you are limited in your commitment at any time to the amount of the authority granted by Parliament plus the revenue received at any given date. This may serve to hold back an expenditure program simply because the revenue will be received later in the year when the expenditure should be made earlier. This creates quite a problem in regard to controlling allotments, and this is one of the factors that has been in the minds of Treasury Board in this regard.

The seventh recommendation deals with the preparation and submission by all departments and agencies of long-term plans of expenditure requirements by programs. This again has been accepted by the Government and is being progressively introduced and extended, as Dr. Davidson mentioned.

The eighth recommendation was the preparation annually of an over-all forecast of Government expenditures and prospective resources for a period of five years ahead. Again this has been accepted and is being introduced.

The ninth recommendation deals with the revision of the form of the estimates so that votes described more clearly the purposes of expenditure, the provision of more comparable and complete supporting information and the elimination of unnecessary detail. Again this has been accepted and is in the course of implementation.

The fourth main heading of the recommendations had to do with accounting and financial reporting. The first recommendation in this connection was that accrual accounting be adopted by departments, although this was qualified by a suggestion that the central accounts be maintained as at present on a modified cash basis. The final decision, as Dr. Davidson indicated, has not been taken on this, although I think there is fairly general acceptance of the idea that the fiscal accounts be maintained essentially as at present on a cash or modified cash basis, and accrual accounting be applied in regard to departments wherever it would serve effectively to improve managerial controls.

The second recommendation in this area was that a further improvement be made in the Public Accounts to eliminate unnecessary detail and to explain variances between actual and estimated expenditures. This has been accepted by the Government, as I have indicated, and the matter is currently under review by a subcommittee of the public accounts committee.

Senator LAMBERT: Is that directed particularly towards a reduction of clerical assistance?

Mr. BALLS: In a large measure, yes, but I think there is more to it than that. An estimate of the cost of the public accounts shows that each page in the English edition costs \$25 to print. This does not take into account the clerical work involved. Each page in the French edition also cost \$25. From that

it will be seen that each page that can be omitted means a saving. Also the volume and the size of our present public accounts with some 1,500 pages makes it a very unwieldy document, and we are concerned, as was Glassco, that it should be easy for members of the House of Commons or of the Senate to have access to the information they want. He suggested if it was consolidated and reduced in volume it would be more acceptable, understandable and useful. We think this is an equally valid reason.

I should add that the Minister of Finance last year tabled an abridged public accounts in a very concise and condensed form containing the essential summary information in regard to the financial affairs of Canada with the view that this should be available to the public generally and to the members of both houses in a very readable form and on a basis quite similar to the way the accounts of business organizations are presented. This is the first time this has been done.

Senator LAMBERT: Its value will be more appreciated five years from now when there will be a basis for comparison.

Mr. BALLS: All we have now is a comparison with the previous year. But when we have built up a backlog on this basis it will be much more useful. There is another factor I should mention and that is the question of cost. These reports altogether cost \$19.50 for the three volumes of the public accounts.

Senator SMITH (*Queens-Shelburne*): Is that the price the Queen's Printer charges?

Mr. BALLS: Yes, and that was one of the reasons why it was produced in three volumes so that those who wanted the financial statements and the summary statements of the Government of Canada in one volume might get them at a relatively modest price of \$3.25. The second volume which is the main volume is \$13, and the volume in connection with the financial statements of crown corporations, the third volume, is \$3.25.

Senator LAMBERT: Is there sufficient demand for this at these prices to pay for the cost of printing them?

Mr. BALLS: No. Bear in mind that the basic cost for this is charged to the appropriation for my office. We do not sell all the copies. Quite a number are required by officers of my own office as well as departmental officers for their normal day to day managerial business.

Senator LAMBERT: Are copies circulated among the members of Parliament when required?

Mr. BALLS: All members of Parliament automatically receive copies. These are charged against the appropriations of the houses.

Senator LAMBERT: Thank you.

Mr. BALLS: There was a third recommendation in regard to accounting and financial reporting, and that was that the statement of assets and liabilities be replaced by a statement accounting for outstanding debt, direct and indirect, with no reference to net debt. This has reference to a long-standing practice in regard to the Government's financial system in which we produce a statement of assets and liabilities. I might say that very few governments do this, but Canada for many years has produced, in addition to a revenue and expenditure statement, what is known as the statement of assets and liabilities. It shows on one side the gross liabilities of the Government—primarily the funded debt and liabilities in connection with various insurance, pension and annuity accounts—and on the asset side the liquid cash assets and financial assets. We do not show the values of physical assets such as buildings and public works.

Senator LAMBERT: That information is usually included in the Finance Minister's annual budget statement—his preliminary statement—is it not?

Mr. BALLS: Yes, it is also included in the Government accounts section of the budget papers. This is a recommendation which has not been accepted as yet by the Government, but I can say that in my office and in the Department of Finance consideration is being given to the form of the statement of assets and liabilities.

The fourth recommendation in regard to accounting was that consumable stores be controlled by greater use of revolving fund accounts. Again, this has been accepted by the Government, and I think Dr. Davidson has discussed this with you. This provides more effective managerial control over consumable stores and inventories.

There were also two recommendations in regard to auditing. One was that the payroll audits of the Department of National Revenue and the Unemployment Insurance Commission be combined and carried out for the purposes of both authorities by auditors of the Unemployment Insurance Commission. Again, this is a matter on which the Government has not taken a final decision.

The second of these recommendations was that an interdepartmental committee on auditing be established to develop personnel and improve audit standards and procedures. This has been accepted by the Government, and I expect that action will be taken in the not too distant future to establish such a committee on auditing.

I might point out in this regard that there is a number of areas in which the audit is of concern. There is not only the pre-audit with which my own office is concerned, but there is the audit of various cost contracts, and the audit of federal expenditures under federal-provincial cost sharing agreements, both of which are the responsibility of the Audit Services Branch of my office. There is the audit in connection with taxation in the Income Tax and the Customs and Excise Tax branches of the Department of National Revenue and, of course, the auditors of the Unemployment Insurance Commission and the Auditor General are all concerned in this field. I am hopeful that this may serve a very useful purpose.

Senator BAIRD: Are they included in the 4,683 people in your organization?

Mr. BALLS: No. In so far as my department is concerned, the figure of 4,683 includes the staffs that service the various departments in providing accounting and cheque issue services, in maintaining the accounts and performing cost audits, primarily in connection with defence contracts and federal-provincial agreements. The staffs of the Department of National Revenue and the Unemployment Insurance Commission are all in addition to these.

There is one other general area of the Glassco recommendations that I would like to mention briefly, and that has to do with common services. The Glassco recommendations include a number of comments on those common services which are required by many departments. The sort of thing they had in mind would be the provision of accounting services, the provision of procurement services, the provision of printing, stationery and supplies—things that are required by all departments of government. The question was raised by the Glassco Commission in a very real way of whether these common services should be provided by an organization specifically designed to provide them, or whether each department should be authorized and permitted to provide for its own needs in its own way. The commission noted that the unity of the public service made it necessary to consider the provision of these administrative services for departments where there were these common needs, and it noted that considerations of public policy might influence the administrative practices of the Government in meeting its requirements for staff, accommodation, engineering works, supplies and equipment, leading not only to the

formulation of standards to govern such practices but also to the creation of common service agencies charged specifically with the responsibility of ensuring—and these are the words of the commission—that the public interest is recognized and served.

Senator LAMBERT: May I ask a question on that point? What does the commission mean by the words "serving the public interest"? Does it mean that there be publicity reports that would inform the public about the performances of the different departments?

Mr. BALLS: I would think that what they had more in mind is ensuring that whenever a common service is required it be rendered efficiently and at a minimum of cost.

Senator LAMBERT: I think it is debatable, whether it would do that or not. In other words, one would assume that the recommendation was based on the thought that it would eliminate all departmental activities of that kind, and have them centred in a common vehicle of expression. I doubt very much that that has happened.

Mr. BALLS: They did, I might say, Senator, set a number of criteria, or what you might call general principles, which they felt should be the basis of any decision as to whether the service should be provided centrally or permitted to be provided by each department. I might give just an indication of what these were. The first was that any arrangement for the provision of a common service should not impair the essential authority and responsibility of operating departments. This is subject to its being within any general standards established by the Treasury Board.

Obviously, if you granted departments the authority to build their own accommodation then one department might do so very economically while another might tend towards extravagance. In order to ensure that you have uniform standards you would have to have some sort of over-riding control to make sure that one department did not—

Senator LAMBERT: Would not the problem raised by this point come under the purview of the Comptroller's department?

Mr. BALLS: No. The provision of common services would be a matter primarily for the Treasury Board. I should say that it has relevance to me and my office in that in providing accounting services we are providing a common service.

Senator LAMBERT: But does it not really boil down to the advisability or otherwise of the departments concerned—that is, the ministers in the final analysis—having their own vehicles of expression; in having their own publicity agents to send out, after the newspapers have published a synopsis of a minister's speech, the full text of it, or something of that sort? A volume of that stuff is coming out, and I imagine that that is what the report is hitting at.

Mr. BALLS: I am not sure that this is the only aspect of this area of the report. There is another part of the report that deals with publicity services. I am sorry for not being briefed on this, but I cannot give you a satisfactory answer. Certainly, in regard to this general area, and speaking of common services, they do relate to the provision of office space and the provision of staff, and these are things that are common to all departments, but certainly publicity services are as well.

Senator LAMBERT: Those are departmental directives, I suppose.

Mr. BALLS: In some cases some departments have authority to undertake these things, themselves but for the most part we must look to the Civil Service Commission for the provision of staff. We look to the Department of Public Works for the provision of accommodation. We look to the Department

of Public Printing and Stationery for our printing and stationery supplies. At the present time most departments in large measure look to my office for the provision of accounting services. What the Glassco Commission is really raising here is the issue of under what conditions should these common services be provided by a central service agency, and what control should be placed on that agency, and to what extent can the departments dictate their requirements.

Senator LAMBERT: The question naturally arises to what extent would it be centralized or whether the *status quo ante* would not control.

The CHAIRMAN: Whether it would be a fifth wheel or not.

Senator LAMBERT: Yes.

Mr. BALLS: I had indicated that one of the criteria which Glassco enunciated is that such an arrangement should not mar the efficiency of the operation of departments: (a) such arrangements should not impair the essential authority and responsibility of operating departments; within any general standards established by the Treasury Board, the user of the services should define his needs and bear the costs thereof; (b) service and control should be sharply differentiated; in other words, the suppliers should exercise no control over the users, except within the strict limits of their responsibility for applying special considerations of public policy; (c) means should be adopted for ensuring that common service organizations do not become inbred and complacent; to achieve this, their direction should be in the hands of senior administrators who come within the general rotational program for the top levels of the public service and who will therefore be conscious of and sympathetic to the needs of the user departments; (d) the organization of each common service should be designed to serve the needs of its clientele; and (e) common service organizations should serve the Treasury Board and its staff as sources of technical guidance in the framing of policies and standards to govern administrative practices throughout the Government.

I think basically what the commission has done here is set what it regards as the ground rules for the provision of common services to ensure, on the one hand, there is efficiency in the provision of these services, but, on the other hand, that the user departments are protected to ensure that they get the type of service that they require.

I mention this as a general background to the recommendations in regard to accounting services, because although we have been providing accounting services on a common service basis to a department, Glassco has differentiated to some extent in this regard and has suggested that apart from the central fiscal accounts the departmental managerial accounting should be provided by the departments officers.

Again, I am trying to interpret the Glassco recommendations, but primarily what they are concerned with here is that departments should be provided with the accounting information that they believe they require for their managerial purposes; and I think this is right.

Senator LAMBERT: Is one right in assuming that there are two aspects of this problem? One is internal, that of serving the requirements of the working staff of the different departments, and the other, the form of publications for the information of the general public which go out from the departments. One must distinguish between the two. Certainly the latter classification is well served, and probably exceeds all real necessity and requirements for information.

Mr. BALLS: I am not the proper one to give the answer, senator.

Senator LAMBERT: After all there are annual reports published by all the departments, which are supposed to give a fairly clear representation of

the activities of each department during the previous year. Of course, they are available to the public.

Another matter I had in mind, is that you have talked about instructions in the departments, especially on accounting matters and so on, which is something different altogether from what I had in mind.

Mr. BALLS: I think you made a valid point here. This is something about which I personally feel keenly in regard to the administration of my own office. Most departments have a program which has as its basis the providing of some service to the public in one way or another. Essentially, my own office is providing a service to departments. It is true enough that in serving the Department of National Health and Welfare we place some 3½ million cheques in the hands of the public each month, which go out from my office, in the payment of family allowances and old age security; but in essence this is a service we are rendering to the department rather than to the public; it is a departmental program.

Senator LAMBERT: That is something altogether different from what I had in mind.

Mr. BALLS: I would like at this point, Mr. Chairman, to discuss some of these Glassco recommendations in terms of the operations of the Comptroller of the Treasury.

Some of the recommendations that I summarized briefly have been adopted by the Government, some are still under consideration, and I hope you will appreciate that I find it awkward to try to give you a personal view in regard to some recommendations which are at the present time under advisement by the Government. However, I thought it might be useful if I mentioned what I regard as some of the considerations that must inevitably be raised in connection with some of these decisions. I think this might be helpful to you in your study of the estimates and of the Glassco recommendations.

First of all, I would like to relate my own Treasury operations to this picture.

In Treasury, we have really no service to offer to the public. Our services are to departments. To the extent that we do issue cheques and place these in the hands of the public regularly and on time, this is only an indirect service to the public on behalf of departments.

As a result, what we really have to sell is efficiency. In providing Parliament and Government with some assurance that appropriations are being applied to the proper purposes and are not being overspent, we are providing a service to Parliament and to the executive. For the rest we are providing services—accounting services and cheque issue services—to departments, and unless we do this well we cannot expect departments to want us to continue. In other words, efficiency is our lifeblood. This is one reason why I am particularly concerned, and have been concerned, as are all my officers, in ensuring that the operations of the staff of Treasury are kept as efficient as possible.

I think I can indicate this to you in one of two ways. First, in the rather broad way of comparing Government expenditures as a whole with the staff strength of my office.

The office was organized in 1932 and has been in existence now for some 32 years. In the first year of its activities, federal expenditures were \$532 million, and we had a staff strength of 965. This grew to a peak of 9,200 just following the cessation of hostilities in World War II, when expenditures totalled \$5,136,000,000.

By 1951 Government expenditures had fallen and then risen sharply again with \$2,900,000,000. In 1951 we had an expenditure of \$2,901,000,000 and a staff strength of 4,035. Today we have expenditures for the fiscal year 1963-64, the last completed fiscal year, of \$6,872,000,000 with a staff of 4,476.

In other words, Government expenditures have more than doubled and the staff of the office has risen by approximately 10 per cent.

Senator LAMBERT: Between 1950 and 1951 you cut your staff in two?

Mr. BALLS: Our staff has actually grown from 4,035 to 4,476. 1946 was the speak period after the "war" years, but I did not feel this was the fairest bench mark to take, so I took 1951, when we were back more on an even keel. When federal expenditures were \$2,900 million we had a staff of 4,035. Today we have something over twice that amount in federal expenditures with a 10 per cent increase in staff.

Senator BAIRD: How much of that is accountable to automation?

Mr. BALLS: I would say there are at least three factors in regard to this. First, I think comes constant attention to good methods and systems. Recently there has been quite a marked impact due to automation. Since the earliest days of our operations, particularly since the introduction of family allowances in 1945, we have used mechanical accounting, cheque writing, and, indeed, all the mechanical devices that were available to assist us in doing our job. Two years before the Glassco Commission reported we had already undertaken feasibility studies in regard to the introduction and application of electronic data processing, and we have applied this in our central pay division, where we pay 135,000 civil servants twice a month, and in our cheque adjustment division. The decision to install that equipment was taken about 1960. These computers were installed in 1962, and have shown quite a marked effect in regard to staff savings. I could cite an instance. The cheque adjustment branch is probably the most outstanding one. This was taken over by Treasury in 1960, and in the immediately following fiscal year our establishment staff strength was 185. Today, as a result of applying computer techniques to the reconciliation of paid cheques—and I may say that we are doing a better job today than we were then—our staff strength is 110. These are some of the smaller offices for which I have the figures in front of me. When we took over the securities deposit division, which Senator Croll was speaking of, in 1960 we had a staff of 62. Today the establishment is 29.

What I am really suggesting here is that we have had very marked economies as a result of methods and systems of electronic data processing. More recently we have been introducing a very intensive program of work measurement whereby we are testing, particularly in regard to clerical operations, the time it should take a person to do his job. You can rate a person as to whether they are below, equal to or above the standard. For those that are below you may give some attention to how you can raise them to it. For those above, it may give an indication they are capable of better things. The net result is we have had very substantial staff economies.

If I could quote statistics just for one more point on this, in 1956-57 the Government expenditures were \$4,800 million, and our staff strength was 4,317. Excluding three department branches which we took over from the Department of Finance—the superannuation branch, the cheque adjustment and the securities deposit branches—our establishment today is 4,318. We have increased our establishment in ten years by one, and yet the expenditures of the Government have in that period increased from \$4,800 million to \$6,872 million.

Senator O'LEARY (*Antigonish-Guysborough*): What about your overall expenditures?

Mr. BALLS: I can quote them, and here you have the reflection of the higher costs. There has been quite a substantial increase in the levels of salaries, but if we had had a larger establishment we would have had substantial costs too.

Senator SMITH (*Queens-Shelburne*): Your staff is classified by the Civil Service, or you use the Civil Service terminology—Clerk Grade so-and-so?



Mr. BALLS: Yes, they are classified entirely by the Civil Service Commission. I could give you a very quick rundown on the organization. We have approximately 890 people who are in the classes that we call senior treasury officers, treasury officers, treasury accountants, treasury auditors.

Senator LAMBERT: Are they class 4?

Mr. BALLS: These are various classes, but they are in the technical and professional areas.

The CHAIRMAN: Have you any idea how many chartered accountants you have?

Mr. BALLS: I would judge we have approximately 150 to 200, but I am speaking here entirely from memory, senator, and I am not at all certain as to the precise number.

We have a substantial body of professionally qualified people, and particularly in our audit service branch where we are giving departments a service which is comparable to what a professional chartered accountants' firm would provide.

Senator LAMBERT: Would the balance be clerical, stenographers, and so on?

Mr. BALLS: There are approximately 2,900 clerical people, and then we have approximately 600 of what the Commission classifies as equipment operators and supervisors, senior electronic data processors and computer systems programmers. These are the new technical people who are operating these rather complicated electronic data processing machines.

Senator SMITH (*Queens-Shelburne*): Mr. Balls, sometimes I receive communications indicating that someone is having difficulty in getting his bill paid by the Government. Eventually I get in touch with what is referred to in the telephone book as the accounts section of the particular department. Do you have personnel in the accounts section, or is that departmental personnel?

Mr. BALLS: I would think that is probably a departmental accounts section. When services have been rendered by a supplier or contractor, the normal procedure would be for his bill to be sent to the department. The departmental staff, the engineers concerned, if it is a construction contract, will certify as to the acceptability of the work or the goods and services. They will then send it to their finance area—which may be their accounts branch or their finance section—who will then certify it is in order for payment and transmit it to my office for payment.

In regard to the prompt payment of accounts this is a matter, I think of very real concern both to the departments and ourselves. Those that in number bulk the largest are, of course, those for family allowances, old age security, pensions and salaries. These are the payments to individuals which are needed to help balance the family budgets. But equally important to us is the prompt payment or contractors' and suppliers' accounts. Our object—and I must say we cannot always meet it on time—is to try to effect payment within 48 hours after the receipt of the requisition in our Treasury office.

Senator CROLL: If you pay civil servants every two weeks, why do you pay superannuated people once a month?

Mr. BALLS: This is purely a problem of equipment. As you know, senator, a good many submissions have been made to the Minister of Finance from individuals and organizations suggesting this. The cost involved in converting superannuation payments from a once-a-month to a twice-a-month basis would be quite significant.

Senator CROLL: This is with the data machines?

Mr. BALLS: We do not pay the superannuation through our computer processes. This would require fairly substantial reprogramming of the whole operation. This is why to date the Minister of Finance has been reluctant to accept these requests.

Senator CROLL: I knew what the answer was. I just wanted to know why.

Senator MOLSON: Does that infer that your equipment is used to its capacity? Why would there be a reluctance to do some reprogramming? This catches me a little off balance.

Mr. BALLS: Yes, in fact, we are using the equipment to full capacity at the present time. We have been using it, as I have mentioned, in the two basic areas: first of all, for the civil service salaries, and secondly for cheque adjustments. We are also using it to service a number of departments in providing accounting statements to them. Our treasury offices serving the departments are not of such a size as to warrant their own data processing equipment, so we make use of our central computer service to service them. This is another demand on their time. Another area has been in connection with the preparation of the register for the social insurance number. Again, this has placed fairly heavy demands on the time of our equipment. A further area will be in connection with the Canada Pension Plan. Eventually we anticipate we will have further demands in this regard, and at this stage we will need, I think, completely new equipment.

Senator GERSHAW: Those senior positions, are they all filled by the Civil Service Commission or can you promote men from lower positions?

Mr. BALLS: All the positions in the office, except my own, are subject to the control of the civil service. But in regard to vacancies in the establishment of my office, these can be filled either by promotion within the office, by interdepartmental competition or by open competition to any person in Canada. Our normal practice, to ensure that there is satisfactory morale within the office, is to try to fill vacancies by promotion, and wherever this can be done we do it.

If there seems to be a possibility that a position can be filled through an interdepartmental competition, this procedure will be followed, but with the demand we have today for professional accountants and for this new breed of men—data processing people, programmers, and systems analysts—we must go to open competitions to get qualified technical people.

Senator HOLLETT: Is there a good supply of men of that class?

Mr. BALLS: The supply of people qualified to operate, to program and analyse, and to meet the requirements of computers is much less than the demand. We are in a very difficult market in this regard, and it is very hard to fill all the positions. We have vacancies in this area and this is one of the factors delaying the extension in other areas.

Senator CROLL: You used the term "men". I thought a great many women were in this field.

Mr. BALLS: We haven't too many women in our programming and systems analysis operation. My understanding that is that in this area when you find a good woman operator she is excellent.

Senator BAIRD: Where would a good training ground be for this?

Mr. BALLS: There are various ways. Most of it has to be done by training on the job, by the computer manufacturers, and by schools. The Civil Service Commission operates courses and we have done quite a bit of work ourselves. This was necessary when we converted our two operations, cheque adjustment and central pay to data processing. This would have left a substantial number of people without jobs so we tried to train them. Those that

could be retrained were, and those that could not be retrained were moved to other areas to fill other vacancies as they arose.

Senator CROLL: What common ingredient did you look for? What did you find that was common amongst those you were able to train?

Mr. BALLS: I am not too sure that I can give you a satisfactory answer on that. One thing that the computer does require is the ability to apply great logic to the solution of problems. There must be a mechanical aptitude also, but we did conduct aptitude tests which have been devised by a number of organizations interested in the development of data processing. I would say that logic is probably the greatest thing, the ability to reason down to first principles because ultimately the computer comes to a point where it is working out a question as to whether something is or is not so. It has to be a yes or no answer to every process.

Senator CROLL: I was loading the question, of course, for a while. I notice you did not mention age.

Mr. BALLS: I did not mention age because I don't think either of those qualifications are necessarily a function of age.

The CHAIRMAN: What about education? I am referring now to the extent to which people had completed high school or university?

Mr. BALLS: I think our experience has been that you do require something in the nature of high school education to do effective work. For the programming it does not normally require university education, or for system analysis, but this has been helpful from time to time. Basically I think a high school education is necessary in this area.

Senator MOLSON: Did you send a number of your people outside for training?

Mr. BALLS: Yes.

Senator MOLSON: I presume they would have been selected by aptitude tests before they were considered good candidates, or before being sent on some of these courses?

Mr. BALLS: Yes. We had to start from scratch in this originally, before we had any data processing equipment apart from the mechanical punch card equipment we have had for many years. When we switched to electronic data processing, we had to start with some feasibility studies and we put people on the job who seemed to be the type to analyse the problems, and these were increasingly exposed to the thinking, the philosophy and the operation of the machines. From there on we had to start to develop aptitude tests and as this got broader and developed into a larger volume there were written examinations to determine who appeared to have the qualifications to go on for further training. Some of these who took the first step we found at a later stage for one reason or another did not have the aptitude we thought they had and they were routed back into the normal operation of the office and we had to try again to find another group.

Senator MOLSON: Did you not meet with some surprises in that field in finding people that you did not think had a great aptitude turned out to be very successful?

Mr. BALLS: This is true. There have been some cases where salary levels of individuals have changed quite substantially in relation to their callings. Some people with the introduction of automation have gone ahead much more rapidly than people who had earlier been their seniors.

Senator LAMBERT: Does this specialization in connection with automation receive examination and tests and judgments from the Civil Service Commission in any way, or is this more often attempted right in the individual departments?

Mr. BALLS: There are many areas vitally interested in this. I think Dr. Davidson mentioned the Treasury Board has recently established a central data processing service bureau. The purpose is to provide service for any department requiring it. At the outset the intention is to utilize the existing capacity of existing installation in the various departments so that a department needing the service but not wanting to go to an equipment supplier and to get its own equipment can rent the time through the central data processing service bureau to fulfill its requirements, and in the same way a department that has equipment will be able to earn money by renting its surplus time to that other department through the bureau.

Senator LAMBERT: What I had in mind was in the first stage of the recruitment of your staff, does the staff of the Civil Service Commission have any series of tests suitable for judging the qualifications.

Mr. BALLS: Yes, they have. I cannot tell you the detail of their organization or methods, but first of all the Civil Service Commission has been conducting courses in order to give some training to existing civil servants. They have also a specialized group whose responsibility it is to assist departments in the recruiting of qualified people from outside the service.

Senator LAMBERT: That is where you would begin to satisfy your need for additional staff? You would begin with the Civil Service Commission?

Mr. BALLS: Yes. We did it in two ways. We tried to re-train our own people, and we also tried to recruit from outside people who were qualified through experience.

Senator LAMBERT: Did you advertise for those people?

Mr. BALLS: Yes. This went out through a great many newspapers. I think there were advertisements in the *Globe and Mail* and in the *Montreal Gazette* and also the *Financial Post*.

Senator LAMBERT: I hope you did some advertising in the newspapers of western Canada. I think it would have been noticed if you did not.

The CHAIRMAN: Would you like to continue your presentation, Mr. Balls?

Mr. BALLS: Going back to the Glassco recommendations in so far as they affect my own office, the recommendation of the commission was that cheque issue, cash management and the preparation of cash forecasts continue to be a responsibility of my office. They also recommended that the maintenance of the central fiscal accounts and the preparation of the public accounts continue as a responsibility of the Comptroller. They did recommend, of course, that there be substantially increased departmental responsibility in regard to financial management, and this was coupled with a recommendation that the Comptroller's independent pre-audit be dropped in favour of a pre-audit of some nature by the department concerned. This is, of course, one of the subjects upon which the ministers have not yet come to a decision.

I do not think I can give you anything more than some of the considerations that might be involved in such a decision. Dr. Davidson did deal with this same point from his standpoint as secretary of the Treasury Board. I thought I might give you some of the considerations that appear to me, as Comptroller of the Treasury and as someone who is presently responsible for the conduct of that pre-audit, to be important. I might start off by saying that I think the pre-audit function is a four-fold one designed to ensure, first, that expenditures are charged to the proper vote and allotment; secondly, that no vote or allotment is exceeded; thirdly, that the relevant statutory authority such as executive regulations and directions, and departmental rules and regulations, are properly applied; and, fourthly, that the mathematical accuracy of requisitions for payment, and vouchers supporting them, are verified.

The first two of these—the ensuring that expenditures are charged to the proper allotment, and that allotments are not exceeded—are tied in very closely with the accounting function itself. If there is to be an authority that has to maintain the central accounts—the appropriation accounts—then it seems to me that there is considerable logic in relating this checking of the charge to ensure that there is no overcharge to the appropriation.

With regard to the question of whether relevant statutory authority and executive regulations are being observed there is here, I think, a question as to whether or not an independent pre-audit interferes with departmental responsibility. This was the concern of the Glassco Commission who felt that departmental officials should take full responsibility before their operations. Their view was that as there was an independent officer checking on the legality of what they were doing, this, in some measure, deprived them of that sense of responsibility. Consequently, they have recommended that this pre-audit be dropped, and that departments assume full responsibility.

The original reason for the independent pre-audit, so far as I can judge from what I have read and from what I know of the history of the development of the office, was that in 1931-32 there was very real concern on the part of the Prime Minister and the Minister of Finance and their colleagues as to whether departments were in fact exercising full control with an appropriate sense of responsibility. It is for that reason that they introduced the independent pre-audit.

The Glassco Commission has felt that departmental management has progressed since that time to the stage where it can assume this responsibility. My own feeling on this is certainly that the trend should be towards substantially increased departmental responsibility for all departmental programs.

Senator LAMBERT: Safeguarded by what?

Mr. BALLS: I was going to add, Senator Lambert, that it seems to me that there are two elements here. I think that departments must be wholly responsible for the efficiency of their operations, and for ensuring that they are providing a satisfactory program in the most effective way and at the most economic cost. Having said that I think there is still a question—and this may be one of the reasons why ministers have not as yet come to a final decision on the matter—as to whether you must associate this responsibility for efficiency with responsibility for legality.

Senator LAMBERT: Is the present practice of centralized oversight in the departments any reason why there should be any lack of efficiency in the departments themselves in this connection? In other words, by relinquishing the centralized service and giving complete autonomy to the departments is there any reason for thinking there would be a decreased measure of efficiency?

Mr. BALLS: All I can say is that this is the view accepted by the Glassco Commission. This was the basis of their recommendation. I do think there is a very real question as to whether you must associate effective responsibility for efficiency with responsibility for legality. In other words, whether the retention of an independent pre-audit would in fact vitiate that search for efficiency—

Senator LAMBERT: It is another way of initiating the philosophic view of self-government?

Mr. BALLS: Yes.

Senator O'LEARY (*Antigonish-Guysborough*): Perhaps this is not a fair question, but do you think the departments feel there is a conflict here?

Mr. BALLS: I would say there are probably varying views in the departments, Senator O'Leary, but I do know that there are departments which would welcome the opportunity of having full responsibility for both efficiency and legality.

Senator LAMBERT: I suppose if you have it in one department you are bound to have it in all, are you not?

Mr. BALLS: Yes.

Senator LAMBERT: You cannot discriminate.

Mr. BALLS: I think whatever system you introduce you must make it applicable uniformly.

Senator SMITH (*Queens-Shelburne*): Mr. Balls, it is not generally the case that you cannot take a system which works very well in private industry in this field and bring it into government and expect it to work in the same way, in view of the fact that we are very much more conscious of the legal background for the payment of accounts, and so on, than any company is.

Mr. BALLS: I think this is very true. On the one hand there is much that government can learn from business, but I do not think you can introduce business measures *in toto* into government. We have the basic difference of the lack, in most cases, of the criterion of the profit and loss statement that I mentioned earlier. We have the second and very important point that you have just mentioned, Senator, that you have an accountability not for the overall result but for specific actions. Business can tolerate the occasional error or the occasional loss providing the overall result is a satisfactory one. In government you have a situation where a minister is answerable to the House and to the people for any specific transaction that has gone wrong. He cannot justify himself by saying that 99 transactions have been good, and that this is an exception. He will have to answer in the House for that one transaction, and this makes, I think, a difference when compared with what management in business must face.

Senator MOLSON: Could you not achieve a comparable result in a simpler and more global method than by the pre-audit principle?

Mr. BALLS: Well, I am not too sure that you could. There is a distinction I should make, and that is that the pre-audit by the Comptroller is a pre-audit on behalf of the executive, on behalf of management, as it were. A post-audit is an audit by the Auditor General on behalf of the legislature. The comparison, I suppose, to business is that the Comptroller is an independent internal auditor responsible to top management as distinct to being responsible to departmental management. The Auditor General is responsible to Parliament as the shareholder of this corporation.

Senator MOLSON: But is it not so that the Comptroller is preventing someone in the management line from making an error, that in fact you are holding someone's hand and preventing him from exercising his full authority, in the course of which he may make a mistake?

Mr. BALLS: In this I agree. I think this is the very basis for the Glassco recommendation, that the presence of an auditor who can intervene and raise an issue before the mistake has been made does to some extent prevent departmental management from making mistakes in regard to the legality or illegality of what they are proposing to do.

Senator MOLSON: And if people do not make mistakes they do not usually become very wise.

The CHAIRMAN: It gives them a less sense of responsibility so that they are more inclined to say that someone else has the responsibility for checking on an expenditure, and they will say, "We will make the expenditure, and let them check it." That is the difference.

Mr. BALLS: And this is the root of some of the very fundamental questions here as to whether you should eliminate that independent pre-audit and place the full responsibility on departmental management with the possibility

that mistakes can be made. I am thinking of mistakes in the sense of a payment made illegally and which are caught only when the legislative auditor reports to Parliament some months later; and this has happened. Now, I am thinking of the political overtones and considerations of that sort of situation.

Senator MOLSON: The responsibility is immense.

Mr. BALLS: That is right.

Senator O'LEARY (*Antigonish-Guysborough*): One can realize that the number of errors could be compounded by the errors of the department.

Mr. BALLS: That is one possibility. I am sure that it is in line with the Glassco recommendation to expose departments to the full accountability for their errors, otherwise the trend would be in the opposite direction. I am sure this would be the thought in the mind of Mr. Glassco and his associates.

I wonder if I could go on to the last two or three points in regard to these recommendations, gentlemen?

The Glassco Commission also did recommend that my office should provide on an increasing basis skilled accounting advice and assistance to departments. This is on an advisory basis. They suggested that departments should be prepared to design their own accounting requirements, but with the suggestion that on request the Comptroller should be prepared to provide accounting services as required by departments.

In regard to this recommendation, I may say that I am almost wholeheartedly in agreement with it, with two qualifications. The first is that I am not too sure that it is proper that the department should design the accounting system. I think departments should most certainly decide what they require from the accounts, leaving it to those who operate the accounts to produce them in the most efficient and most economical manner, but with the one overriding consideration that their needs are met to the standards that they require.

Senator LAMBERT: It would necessarily not have uniformity then?

Mr. BALLS: Not necessarily at all. I think it is most important that in operations as diverse as government departments special needs of special agencies should be met in the ways that are suited to look after those needs.

Senator LAMBERT: Do you not think there is a fundamental distinction on account of political background as compared to that of a private business, as a measuring rod in connection with these operations? In other words, the political factor intervenes.

Mr. BALLS: I think there is a fundamental distinction. I have spoken before of the profit and loss element. There are many areas in government in which services are being provided where cost is not the prime consideration. In other words, the need and the demand for a specific service will probably be provided, not necessarily regardless of cost, but the cost is a secondary consideration. It is in circumstances like that that you have real challenges as to how you are going to so operate an organization as to make certain you are doing it efficiently.

Senator LAMBERT: After 35 years of experience I am quite convinced that political influence and pressure have a great deal to do with recruitment of staffs. The Comptroller's department and Dr. Davidson's department have been trying to offset this, and they are to be commended, but it will take a great deal of education outside of government and Parliament to overcome it. That is the difficulty I find about giving complete autonomy to the different departments in relation to their accounting activities. Really you have no control over that; perhaps you have some control.

Mr. BALLS: There is some. One area I should mention. Under the Glassco recommendations there still will be the overriding interest of the Civil Service

Commission in regard to recruitment of staff. Their fundamental concern for the application of the merit principle will still, I think, be effective in ensuring that they will be scrutinizing how people are promoted and brought into the Public Service.

The CHAIRMAN: Have you anything to say with respect to the recommendation on the appointment of a senior financial officer in each department?

Mr. BALLS: I think this is a valid and sound recommendation. One of the problems facing any deputy minister, I should think, is to be sure that he has in fact the best possible advice in respect to financial matters. In regard to the recommendation as it is phrased, certainly I agree that there should be a financial advisor to the deputy minister—the senior departmental officer. The question arises as to whether he should be appointed on the recommendation of the Treasury Board. I think the point here that Glassco had in mind is that the Board, as a central control agency, would like to be sure of the quality and calibre of the man who is advising senior department management in the financial field, and this was the device Glassco had suggested should be adopted to ensure this. This is an area in which, to the best of my knowledge, a decision has not yet been taken.

Senator LAMBERT: There is a line of demarcation now, and has been for some time, between the senior civil servant and the rank and file of recruitment that makes up the vast body of the organization.

The CHAIRMAN: Do you have another question, Senator O'Leary?

Senator MOLSON: Certainly, on that appointment there is no other way that Government could be sure of the quality of the senior Treasury Officer in a department, unless his qualifications and calibre are judged by people who are in a position to be able to judge. Either the Comptroller or the Treasury Board, presumably, or someone in that field must surely have the say in that appointment if you are to get the top quality man.

Mr. BALLS: The recommendation was that this would be on a recommendation of the Treasury Board. I think, in part at least, the thinking was that there would be some advantage in having the voice of the Treasury Board heard so that there would be an opportunity, possibly, to do some lateral transferring from one area to another; that is, not only to designate the best officer in one department but also to ensure that if there was a capable person in some department other than the one requiring the service, that the man could be moved to it.

Possibly Dr. Davidson has spoken of some of the thinking on the part of the staff of Treasury Board and of the Civil Service Commission in regard to the movement of senior personnel from one area of activity to another, so you could cross-fertilize departments with the experience gained by one man in one area, which he could bring on his appointment to a new area. This, in part, could be served by this recommendation.

Senator BAIRD: Could these men be taken on without any formality, or would they have to go up for examination before an examining board?

Mr. BALLS: I am not sure what they would have in mind in this, but I would have thought that at this stage of a person's career his capabilities would probably be so well known that any formal examination would not be required.

Senator BAIRD: I am wondering how far down the line you went before you were eliminated from an examination.

Mr. BALLS: I am not sure how far down you go, because I am still conducting examinations for the senior officer grades. The highest senior officer grade in my establishment is usually filled by competition. But the Civil Service Commission has recently been introducing a program whereby they will



be reviewing the background, the experience and abilities of all those in the senior officer categories, so that they can expect to have periodic moves and transfers so that they can gain broader experience.

Senator O'LEARY (*Antigonish-Guysborough*): Do you see any real relationship between this recommendation in setting up a position in this manner with the pre-audit problem. Is there any relationship?

Mr. BALLS: Possibly, indirectly. There is or would be a very real need for a strengthening in some areas of departmental financial management, but I should have thought the prime purpose of this financial advisor would be more in regard to policy consideration than legal considerations.

The CHAIRMAN: You would still have officers of your department in each department?

Mr. BALLS: I would expect we would still continue to provide a cheque issuing service, even with the acceptance of the Glassco recommendation in toto. We would be expected to provide a cheque issuing service. We would also have to provide, in some fashion, the central fiscal accounting records, and these would have to be meshed and linked with the departmental records. You have the requirements on the broad basis of accounting by appropriations in accordance with the terms set out in the estimates. This would have to be extended for departmental purposes, to classify transactions in accordance with departmental needs and particularly in regard to their needs under the new system of program budgeting which is gradually being introduced. You would have, I would think first of all a system of classification which would permit all information to flow into a central set of records. On top of that you would have to have a system which could be extended, in the case of any department, to serve its departmental managerial needs and to provide the records in regard to each program and possibly in regard to each cost centre in the department, so the managers of those centres would know where they stood with regard to their programs at any time. There is a meshing though of departmental needs on the one hand, which will be quite diverse and varied, with some need for uniformity to permit these records to flow into a central accounting setup.

Senator MOLSON: Surely, in the recommendations of the Glassco Commission was there any suggestion that the internal audit would disappear?

Mr. BALLS: No, I think the thought was that the departments would be responsible for their own internal audits. In other words, if the recommendation were adopted the departments would have to establish some form of departmental internal audit to ensure not only expenditures were in accordance with the law, but that there was a satisfactory control of revenues as well.

The CHAIRMAN: Page 105: departmental management be responsible for establishing and maintaining a proper system of internal audit.

Senator MOLSON: That is a tall order.

The CHAIRMAN: Yes, that is a tall order.

I do not know how you feel about time. We had only scheduled Mr. Balls for one meeting. How long do you think you would take to finish up?

Mr. BALLS: I have very little more to say, Mr. Chairman. I would be very glad to carry on.

Senator LAMBERT: You have been very helpful, I might say.

Mr. BALLS: I thought I might just complete the reference to the Glassco recommendations as they relate more particularly to my own office.

I mentioned the areas in which the Glassco Commission has recommended the continuation of some of the present functions, the suggestion we extend our functions to provide skilled accounting assistance and advice to departments, that we provide data processing on a service basis to departments,

and that we assume responsibility for the administration of all pension plans, including those of the armed forces and crown corporations.

In so far as progress towards the implementation of these is concerned, I should mention the point Dr. Davidson has covered, I think in at least two of the meetings—the management consultant reviews that have been undertaken under the auspices of the Treasury Board in four departments. I should add members of my own staff have been involved in three of these, assisting the management consultants in their surveys and reviews, and they are now engaged in helping the departments implement the recommendations.

In regard to the withdrawal of the Treasury pre-audit, one step has been taken in which I wholeheartedly concurred in the recommendation of the secretary to the Treasury Board, and that is with regard to the pre-audit of travel expenses of public servants. We had been engaged in this for many years and expending what I think was an undue proportion of the time of the staff of my offices in this. The amounts involved were insignificant in comparison with the costs entailed in this pre-audit, and so for some months now we have withdrawn from this area and the departments have been accepting full responsibility for the pre-audit of the travel accounts of their departmental staffs. We have been able to reduce our staff number to some extent by reason of this, and the departments are now engaged in providing themselves with the necessary establishment to take over this duty. We have eliminated our pre-audit in all but three or four departments, and I expect it will be universal at the end of this fiscal year.

Senator BAIRD: What in fact you are doing is you are shifting these people around?

Mr. BALLS: We have indicated to other departments that we are prepared to make available those of our staff who are relieved of these duties.

Senator LAMBERT: This, of course, has been the subject of comment over a number of years. There has been considerable criticism of the growth in the amount of travelling expenses. I do not wish to put my friend to the trouble of looking up the cost, but I know it is quite considerable. I wonder if this change would have any effect on the extent to which travelling expenses loom in the departmental expenses. The same thing can be applied to other expenses like telephones, for example.

Mr. BALLS: This is a hard question to answer.

Senator LAMBERT: It is something I admit right away that the Comptroller of the Treasury Board could not have too much interest in.

Mr. BALLS: There are two elements with regard to the control of travel—there is one element, which I think is the more important of the two, and that is the decision as to whether or not a particular trip should be made. This has been and will continue to be primarily a departmental responsibility. The second element deals, when it has been made, with whether the expenses are being claimed on a proper and economical basis. In the past this is the area in which we have been conducting a pre-audit, and this now is being transferred to the department itself. It seems to me the area in which they are primarily concerned is the first one, as to whether a trip should or should not be made. Here I am sure the responsibility is being fully recognized by the deputy minister and his senior staffs.

Senator LAMBERT: The very act of pointing out these increases in the growth of expenses, will perhaps prove to be a deterrent. It should have some bearing on the amount in the end. At the present time it certainly is subject to a great deal of comment, as anyone going through the estimates would agree.

Mr. BALLS: I am looking at the figures for 1962-1963 and the amount spent on travelling and removal was in excess of \$63 million.

The CHAIRMAN: And for 1964-65 I see it is \$59 million. If there was a significant jump in the figure following upon your withdrawal from the pre-audit of these items, would you think that would be due to your withdrawal?

Mr. BALLS: I would hardly think that the amounts involved could be due in very large measure to the pre-audit. It seems to me that it is basically a question as to whether the trips are to be undertaken rather than how you are going to audit the claims for specific trips.

Senator MOLSON: It seems to me that the heading "travelling and removal expenses" is very much like apples and oranges.

Mr. BALLS: There are many factors involved in this. In the Department of External Affairs the removal expenses of staff to foreign missions can be very, very great indeed. Similarly there is the question of home leave regulations which again entail fairly large expenses in bringing staffs home every two or three years for a period of home leave. In my own office the consideration as to whether to incur travelling expenses or locate an officer in the field may mean the difference of charging an amount to the travelling allotment or to increase the salary allotment. There are a number of considerations involved so that one cannot by looking at the travel allotment alone determine or say that there is no control exercised. In many instances we have to exercise judgment as to whether people should be allowed to travel, for example, in conducting the cost audits for the Department of Defence Production, or have them located in specific areas. If I locate a man in Winnipeg he might be able to spend two-thirds of his time only on the audits located there, but if he did not do any travelling one-third of his time might be going begging. So you may by spending money on travelling achieve greater efficiency from your employee.

Senator MOLSON: Of course removal contemplates a different sphere of activity as well.

Mr. BALLS: I think Dr. Davidson has mentioned that Treasury Board is giving very real consideration to this whole general area of the standard objects of classification of expenditure. Glassco has suggested that they might be dropped, and I can say that I have received within the last few days requests from Dr. Davidson to convene an interdepartmental committee to consider the whole general area of these classifications of expenditure.

Senator LAMBERT: It is a good idea.

Mr. BALLS: Could I very briefly complete this. In regard to the accounting advisory service the recommendation was that we should extend our provisions in that regard. A new section in my office has been established and we are in the process of recruiting seven people as a nucleus of this service. These are highly qualified chartered accountants who will be able to assist my own staff in advising other departments in regard to their accounting requirements and needs.

I mentioned the recommendation in regard to data processing, that we should provide this on a service basis to other departments. Dr. Davidson mentioned the Treasury Board has established a central data processing service bureau. We have introduced our own computing service and we are providing services to other offices at the present time.

In regard to the recommendation that we should take over the administration of all superannuation plans and all pension plans, I should mention that last December at the request of the Deputy Minister of Finance I did assume the responsibility for the administration of the public service superannuation plan. This is as far as we have gone so far, but it is the first step.

In regard to the public accounts and the suggestion that we should endeavour to eliminate unnecessary detail, Mr. Glassco and his colleagues said the degree of detail was parochial and that it had outlived its usefulness. We are now reviewing the nature of the public accounts with the subcommittee on public accounts, and we have introduced the new abridged public accounts issued for the first time last year.

I think, Mr. Chairman, I have come to the end of my comments.

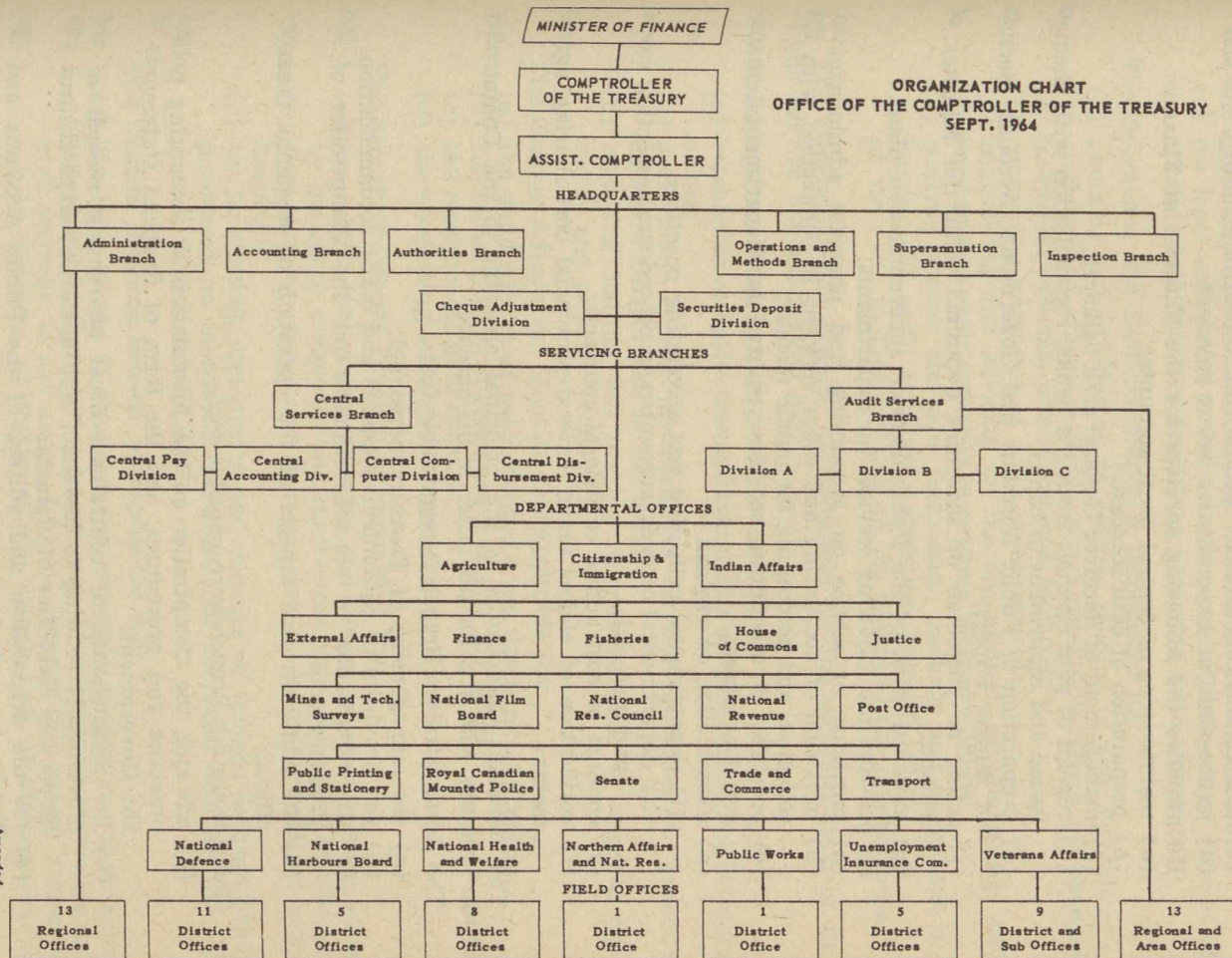
The CHAIRMAN: I think you have been very, very helpful. Any further questions?

I know that before our sittings are over we will probably want to get in touch with you again, and in that case I am sure we can count on your further help. I want to thank you for coming here and giving the committee so much helpful information.

It was agreed that the committee would meet at the call of the Chair on Tuesday, November 3, 1964.

The committee adjourned.

ORGANIZATION CHART  
OFFICE OF THE COMPTROLLER OF THE TREASURY  
SEPT. 1964



APPENDIX "H"

III-7

Amended  
1 Oct 64

### THE FUNCTIONS OF THE COMPTROLLER OF THE TREASURY

The Comptroller of the Treasury is an officer of the Department of Finance appointed by the Governor in Council under Section 11 of the Financial Administration Act. His main statutory responsibilities are:

- (a) to control cheque issues and to make all payments;
- (b) to maintain accounts of all appropriations;
- (c) to maintain commitment records and to control commitments and
- (d) to pre-audit all expenditures before payment.

He provides the following services for the Minister of Finance:

- (a) maintenance of central fiscal accounts;
- (b) preparation of cash forecasts;
- (c) management of Receiver General cash balances;
- (d) receipt of paid cheques from the banks, reconciliation with cheques issued and repayment to banks;
- (e) preparation of Public Accounts and Government Accounts Section of Budget Papers;
- (f) acting as custodian of securities deposited with the Minister of Finance;
- (g) administration of the Public Service superannuation plans.

He provides the following services for departments:

- (a) provision of advice on accounting and financial administration;
- (b) provision of accounting and other services in connection with the collection and accounting for public monies;
- (c) provision of accounting services required for departmental managerial purposes;
- (d) examination on request
  - (i) departmental collecting and accounting practices,
  - (ii) departmental records, accounts and procedures respecting stores and material;
- (e) conduct of cost audits of federal contracts;
- (f) verification of claims under federal-provincial cost-sharing agreements.

The Assistant Comptroller is the principal assistant to the Comptroller of the Treasury who acts for the latter in his absence.

The Administration Branch is responsible for:

- (a) the management of Treasury personnel;
- (b) the provision of equipment, supplies and office accommodation;
- (c) the compilation of annual estimates for the Comptroller of the Treasury vote;
- (d) the administrative aspects of the operation of Regional Treasury offices.

The Accounting Branch is responsible for:

- (a) advising the Comptroller on the formulation of accounting policy, practices and procedures, and the form of financial statements of the Government;
- (b) the maintenance of centralized fiscal accounting records of the Government relating to Revenue, Appropriation, Expenditures and assets and liabilities of Canada;
- (c) for the preparation and editing of the Public Accounts and the Public Accounts section of the Budget White Paper;
- (d) the preparation of forecast of cash requirements of the Government, the administration of the system of cash management of Receiver General balances in Canadian or other banks;

- (e) the maintenance of records in connection with the management of Government loans.

The Authorities Branch is responsible for advising the Comptroller of the Treasury, Chief and Regional Treasury officers on:

- (a) matters affecting financial policy and authorities;
- (b) the interpretation and application of legislation, regulations, vote items and executive directives relating to all departments;
- (c) the legal sufficiency of documents, bonds of indemnity, powers of attorney and statutory declarations relating to lost cheques.

The Operations and Methods Branch is responsible for:

- (a) planning and advising on procedures relating to new legislation;
- (b) studying and, where advisable, recommending revisions and changes in current systems, procedures and methods;
- (c) conducting programs of work measurements;
- (d) considering and advising on the organization of accounting, disbursing and audit activities in existing Treasury offices;
- (e) studying present and new techniques, methods and equipment in disbursing and audit activities in existing Treasury offices; on their use in Treasury and on the design of the related forms.

The Superannuation Branch is responsible for the administration of the Public Service Superannuation Act.

The Inspection Branch is responsible for:

- (a) conducting complete management audits on the operation of Treasury offices;
- (b) performing special investigations on the operation of Treasury offices in Ottawa and in the field;
- (c) reporting findings and making recommendations to improve efficiency and promote economy.

The Cheque Adjustment Division is responsible for:

- (a) the daily receipt of paid cheques from the Bank of Canada;
- (b) the reconciliation of reimbursements to the banks;
- (c) the retention of paid cheques;
- (d) the accounting for uncashed cheques.

The Securities Deposit Division is responsible for:

- (a) the receipt, protective retention and release of securities deposited by insurance companies and contractors, as required by legislation;
- (b) the payment of interest as it accrues on securities held for safe-keeping;
- (c) the accounting, registration and dispatch of Canada Savings bonds purchased on instalment plan by civil servants, members of the Armed Forces and R.C.M.P.

The Central Services Branch is responsible for:

- (a) the issue of pay to classified civil servants, of pensions to disabled veterans, of judges' salary or pensions, of pensions to superannuated civil servants, of pay assigned by members of the Armed Forces, of service pensions, of Public Works rentals and of Fishing Bounty claims;
- (b) providing an accounting and cheque issue service for several of the larger departments;
- (c) the provision of a data programming and processing service to other Treasury offices and Divisions.

The Audit Services Branch is responsible for:

- (a) the provision of specialized audit services to all Government departments and agencies and to Chief and Regional Treasury officers;
- (b) the provision of advice and information to all departments and agencies on cost phases of contract negotiations;

These functions embrace payments under federal-provincial agreements, aircraft and ship production, repair and overhaul contracts, and other defence contracts and an examination of the accounting record of Trustees appointed under the Bankruptcy Act.

Chief Treasury Officers represent the Comptroller of the Treasury in various government departments and provide the following services:

- (a) appropriation accounting for one or more departments;
- (b) pre-payment audit of accounts (except travel expense claims);
- (c) a cheque issue;
- (d) where applicable, collection of and accounting for revenue;
- (e) advice on the interpretation of legislation and Executive regulations.

Regional and District Treasury Officers provide Treasury services for departments operating in designated field areas, under the direction of Chief Treasury Officers concerned.





Second Session—Twenty-sixth Parliament

1964

# THE SENATE OF CANADA

PROCEEDINGS  
OF THE  
STANDING COMMITTEE

ON

## FINANCE

To whom was referred the Estimates for the fiscal year  
ending March 31, 1965.

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The Honourable T. D'Arcy Leonard, *Chairman*  
The Honourable H. De M. Molson, *Deputy Chairman*

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TUESDAY, NOVEMBER 3, 1964

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No. 8

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WITNESSES:

Mr. A. M. Henderson, Auditor General; Mr. J. C. Allen, Director, Estimates & Administrative Procedures, Treasury Board.

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ROGER DUHAMEL, F.R.S.C.  
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY  
OTTAWA, 1964

THE STANDING COMMITTEE

ON

FINANCE

The Honourable T. D'Arcy Leonard, *Chairman*

The Honourable Senators:

Baird	Macdonald ( <i>Brantford</i> )
Beaubien ( <i>Bedford</i> )	McCutcheon
Beaubien ( <i>Provencher</i> )	McKeen
Belisle	Méthot
Bouffard	Molson
Buchanan	O'Leary ( <i>Antigonish-Guysborough</i> )
Burchill	Paterson
Choquette	Pearson
Connolly ( <i>Halifax North</i> )	Pouliot
Crerar	Power
Croll	Quart
Denis	Rattenbury
Dupuis	Reid
Farris	Robertson ( <i>Shelburne</i> )
Flynn	Roebuck
Gershaw	Savoie
Grant	Smith ( <i>Queens-Shelburne</i> )
Grosart	Stambaugh
Haig	Taylor ( <i>Norfolk</i> )
Hayden	Thorvaldson
Hnatyshyn	Vaillancourt
Horner	Vien
Isnor	Welch
Lambert	Woodrow
Leonard	Yuzyk (50)

*Ex officio members*

Brooks

Connolly (*Ottawa West*)

## ORDER OF REFERENCE

Extract from the Minutes of the Proceedings of the Senate, May 20, 1964.

“Pursuant to the Order of the Day, the Senate resumed the debate on the motion of the Honourable Senator Connolly, P.C., seconded by the Honourable Senator Hugessen:

That the Standing Committee on Finance be authorized to examine and report upon the expenditures proposed by the Estimates laid before Parliament for the fiscal year ending 31st March, 1965, in advance of the Bills based on the said Estimates reaching the Senate; and

That the said Committee be empowered to send for persons, papers and records.

After debate, and—

The question being put on the motion, it was—  
Resolved in the affirmative.”

J. F. MacNEILL,  
*Clerk of the Senate.*



## MINUTES OF PROCEEDINGS

TUESDAY, November 3, 1964

Pursuant to adjournment and notice the Standing Committee on Finance met this day at 3.00 p.m.

*Present:* The Honourable Senators Leonard (*Chairman*), Baird, Brooks, Crerar, Croll, Gershaw, Haig, Isnor, Lambert, Molson, O'Leary (*Antigonish-Guysborough*), Pearson, Pouliot, Quart, Smith (*Queens-Shelburne*), Stambaugh, Thorvaldson and Welch. (18)

Supplementary Estimates "B" and the Estimates for the fiscal year ending March 31, 1965, were further considered.

The following witnesses were heard: Mr. J. C. Allen, Director, Estimates and Administrative Procedures, Treasury Board. Mr. A. M. Henderson, Auditor General.

At 5.00 p.m. the Committee adjourned until Tuesday next, November 10, at 3.00 p.m.

Attest:

F. A. Jackson,  
*Clerk of the Committee.*



**THE SENATE**  
**STANDING COMMITTEE ON FINANCE**  
**EVIDENCE**

OTTAWA, Tuesday, November 3, 1964.

The Standing Committee on Finance, to which was referred the Estimates laid before Parliament for the fiscal year ending 31st March, 1965, met this day at 3 p.m.

Senator T. D'ARCY LEONARD (*Chairman*) in the Chair.

The CHAIRMAN: Honourable senators, it is three o'clock and as we have a quorum we will proceed.

Our witness today is Mr. A. M. Henderson, the Auditor General of Canada. Before I ask him to give his evidence, I think I should recall to your minds that under our general reference from the Senate any question relating to the estimates is relevant to our proceedings. This applies not only to the main estimates but to the supplementary estimates as well, and particularly at the present time to supplementary estimates (B) which were tabled two weeks ago. I mentioned this at our meeting last week but there were no questions relating to the estimates and we went ahead with Dr. Davidson. Nevertheless Mr. Allen of the Treasury Board is here today and if there are any questions relating to the main or supplementary estimates I am sure he will be able to deal with them for us.

Senator SMITH (*Queens-Shelburne*): I do not have any questions that require long answers, but there is what appears to me to be a new item in supplementary estimates (B) on page 4. It comes under the heading "Government Administration" and it says: "Government's share of surgical-medical insurance premiums and Government's contributions to Pension plans—", etc., and the amount required is \$8,000. This is a new item to most of us, and I wondered if we might have some idea of what the significance is.

The CHAIRMAN: Do you all have a copy of estimates (B)? I shall ask Mr. Allen if he would explain that item to the committee.

Senator ASELTINE: Before Mr. Allen speaks I might remark that I appear to be the only one who has a copy of the supplementary estimates here.

Senator SMITH (*Queens-Shelburne*): We have some here.

The CHAIRMAN: They were tabled two weeks ago.

Senator ASELTINE: I understand that, but I thought there might be some for distribution. Mine was mailed to me.

The CHAIRMAN: Shall I ask Mr. Allen to go ahead?

Hon. SENATORS: Agreed.

Mr. J. C. Allen, Director, Estimates and Administrative Procedures, Treasury Board: Mr. Chairman, on July 1, 1960, there was introduced in the public service for public servants, armed services personnel, R.C.M.P. personnel, and retired civil servants, and the dependents of each of those classes of employees, a group surgical-medical insurance scheme which is financed jointly on a 50-50 basis so far as the premiums are concerned by the members of the plan on the one hand and on the other hand by the Government of Canada.

From that time to this the coverage has not included senators, members of the House of Commons or former members receiving allowances under the Members of Parliament Retiring Allowances Act. The purpose of this item in Supplementary Estimates (B) is to blanket in these latter categories—that is to say, senators, members of the House of Commons, and former members receiving allowances under the Members of Parliament Retiring Allowances Act, and their dependents—on exactly the same basis on which public servants have been covered since 1960.

One question which I am sure will come to mind is: When does this plan come into effect for members of Parliament? This is a question which can be decided only after the supplementary estimates are passed. The plan which I believe the Department of Finance has in mind is that following the passage of the Interim Supply Bill it will then set about advising all eligible members, and will ensure that they are all advised before an effective date is struck. One of the reasons for giving adequate time for that is that there is a stipulation in the regulations, which will also apply to members of Parliament, which provides that one must elect to participate within 60 days of becoming eligible to elect.

Mr. Chairman, I have brought along with me copies of the booklet which is given to all members of the Public Service when they are first employed and which is essentially, if not exactly, the booklet that will be handed to members of Parliament. It contains the same information that will be applicable to them. I thought that if at a later stage you wish to discuss the question of benefits, contributions, and that sort of thing in greater detail I can then arrange for an expert witness from the Minister of Finance to appear before you.

The CHAIRMAN: I think at the moment we are interested only in this matter from the standpoint of the amount in the estimates. Perhaps there will be a separate occasion when we can discuss the benefits of the plan itself.

Senator SMITH (*Queens-Shelburne*): I wonder if it would be appropriate at this time to ask Mr. Allen what is the total contribution now made by the Government to cover those who are in the present scheme?

Mr. ALLEN: The amount provided in the main estimates is \$11,365,000. I might say that the amount of \$8,000 provided for in the supplementary estimates is one-third of the estimated annual cost to the Government of the extension of this scheme to members of Parliament, and that would allow for the striking of a date as early as December 1. That is not to say, however, that that will be possible.

Senator SMITH (*Queens-Shelburne*): In other words, the estimated cost of the inclusion of members of Parliament and retired members of the House of Commons and their dependents who are receiving allowances is \$24,000 a year?

Mr. ALLEN: Yes, \$24,000 per annum.

Senator SMITH (*Queens-Shelburne*): And those whom I have mentioned will contribute an equal amount?

Mr. ALLEN: That is right.

Senator SMITH (*Queens-Shelburne*): And it would place them on the same basis as the great many who are now in the scheme.

Mr. ALLEN: Exactly.

The CHAIRMAN: And this is a voluntary scheme. A senator or a member of the House of Commons may or may not come in under the plan?

Mr. ALLEN: That is correct, sir.

Senator SMITH (*Queens-Shelburne*): Is there a set premium? I do not want to go too far into this, but this is rather new and I am interested in it.



Mr. ALLEN: Perhaps I might refer to the schedule of contributions contained in this booklet issued by the Department of Finance. It shows that out of a total estimated cost for a single employee of \$2.69 the employee's contribution is \$1.35 per month and the Government's contribution is \$1.34. For the other categories of participants it will be seen that the total monthly premium paid to the insurance companies which run this plan is divided equally between the Government's and the members' contributions.

Senator SMITH (*Queens-Shelburne*): And this scheme is operated by private insurance companies?

Mr ALLEN: Yes, as I recall it there is an amalgam of several companies.

The CHAIRMAN: A consortium, I think. Thank you very much, Mr. Allen. There being no other questions on this point we shall proceed with Mr. Henderson on the main theme of our discussion, although again, in Mr. Henderson's case, because he has had experience in Government accounting, there may be questions relating to the accounts of the Government or the estimates which he will be able to answer.

I should mention that accompanying Mr. Henderson is Mr. George Long, C.A., the Acting Assistant Auditor General. I stress the "C.A." because one of the members of this committee, Senator Molson, is also a chartered accountant. There may be others, so today may be chartered accountants' day as compared with some other days which have been lawyers' days.

Senator MOLSON: It is a very good sign, Mr. Chairman.

**Mr. A. M. Henderson, Auditor General of Canada:** Thank you very much. Mr. Chairman and Honourable Senators, I am glad to have this opportunity to meet with you today and discuss some of the matters you have had under consideration since your committee commenced its work last May. I have been very interested in following the discussions you have had, because the form of the estimates and the manner in which the results are accounted for by the executive branch are at the very heart of my particular job and its responsibilities.

I expect that you would like to have some outline from me concerning the manner in which the office of the Auditor General operates, and I, for my part, would like to talk to you about it because of the importance I attach to your comments and advice. However, Mr. Chairman, perhaps we could delay this until later in today's meeting, or until a week from today when I understand your committee will be holding a further meeting at which I am to be present. Suffice it to say, unlike organizations such as the Department of Finance and the Comptroller of the Treasury, the size of my office is very modest in comparison. If this order commends itself to you, therefore, I would propose to deal first with those matters with which I understand you to be immediately concerned.

I believe that in connection with your examination of the 1964-65 estimates you are at the same time studying the recommendations made by the Glassco Commission with respect to the changes proposed in the estimates—in fact the whole field of the recommendations contained in the Commission's report on Financial Management.

When he asked me to talk with you today, your Chairman said that you would like to have my views on these particular recommendations.

While it is my duty to discuss whatever aspects of these or any other recommendations you would like to have me as an officer of Parliament discuss with you, may I, at the outset, define the position I take on the recommendations of this Royal Commission. It is the tradition of the Auditor General in Canada to refrain from discussing government policy as such. I would not wish, therefore, to say anything to you on this subject which might be construed as seeming to trespass on the preserves or policy decisions which

it is the responsibility of the executive branch of government to take. On the other hand, if I can make any contribution toward improving the condition of the estimates placed before Parliament, the manner in which the Public Accounts are presented to Parliament and the effectiveness of the internal system of financial and accounting control in the departments, agencies and crown corporations, then I do conceive it my duty to do so, but always with a full appreciation that the implementation or carrying out of whatever remedial action is necessary must and should remain the prerogative of the executive.

In my 1963 Report to the House of Commons, tabled on February 19th of this year, I referred to the numerous and widespread findings made public in 1962 and 1963 by the Glassco Commission as a result of its examination into the organization and methods of operation of departments and agencies of the government. I stated that where administrative action has caused or contributed to waste of public money, I felt it to be my duty to report such cases as I considered should be brought to the notice of the House. I stated that while some instances come to my attention directly during the course of my audit work, others are indirectly brought to light by action on the part of the administration itself in the course of examining its own operations, as, for example, through the medium of internal auditing carried out by the various government departments and agencies.

By the same token, I stated I considered it to be my duty to study reports prepared by or for the managements of departments and agencies directed toward the saving of public money by the elimination of wasteful practices and unnecessary or uneconomical operations. To the extent such reports correctly indicate where and how savings can be made, I consider that the Auditor General has a responsibility to Parliament to follow through on all such cases and to ascertain what action has been or will be taken toward achieving such savings, or if no action is to be taken, to enquire why. On the other hand, I do not conceive it to be my responsibility to assess the practicability of any specific recommendations made because in my view the decision with respect to the extent to which, and the ways in which, such recommendations can and will be implemented must always be and is the sole responsibility of management.

I told the House that with regard to the findings of the Royal Commission on Government Organization, I believe it to be of considerable importance that those findings relating to out-dated procedures, uneconomical operations and wasteful practices be effectively dealt with, not only in the interests of improving efficiency but because of the substantial savings of public funds which could result. I said I would consider it to be my responsibility to follow through on the action taken on such findings of the Glassco Commission and to report thereon in due course to the House of Commons.

This concept of what I might describe as my extra-statutory responsibilities was the subject of discussion by the Public Accounts Committee in July. In its Fourth Report presented to the House on July 28th last, the committee, after discussing this concept of my responsibilities, stated that it was of the opinion that not only does this lie within the statutory responsibilities of the Auditor General, but that the Auditor General's concept of his responsibilities in this matter is in accord with the intent and wishes of Parliament.

The changes made in the form of the estimates, some of which are now reflected for the first time in the 1964-65 ones you have under consideration, and certain of the recommendations made by the Glassco Commission in its report on Financial Management have themselves been the subject of recommendations I have been making in my Reports to the House since 1960. The work of the Glassco Commission, of course, went considerably further into the field of policy and internal administration than I am in a position to do.

Nevertheless, the foundation on which the fundamental Glassco recommendations concerning Financial Management are based are similar in many respects to the approach I have sought to bring to the work of my office. With your permission I should like, by way of showing you my approach to this very large subject, to sketch as briefly as I can my own diagnosis of the situation as I saw it following my appointment to my present office early in 1960—and at the same time to outline what my own recommendations have been and how they either have been or are being implemented at the present time.

In my 1960 Report I dealt with the three matters you have so actively under discussion at this time, namely, the importance of accurate costs, the form and content of the estimates and the form and content of the Public Accounts.

I should like to deal first with the question of accurate costs in government because unless you are able to determine accurately your cost of operations in any undertaking, the rest of it is going to be questionable. Accounting in government as it has developed over the years is a natural outcome of the parliamentary system. It has been designed basically to ensure that expenditures are made in accordance with parliamentary authority. It is, however, of considerable importance that the accounting seek to provide complete and accurate costs of the individual activities or operations so that reliable yardsticks can be developed against which the efficiency of these operations may be measured. Otherwise how can value for money spent be reasonably assured?

I think you will agree with me that it is a recognized fact that the cost of operations of any business, including the cost of its administration as well as the manufacture of its product, must be kept under constant examination if management is to control the operations effectively and economically. Therefore, it is only by having accurate figures by which to measure the costs that the operations can be examined in depth on an informed and constructive basis. I have always thought that there is an even greater need in the case of government activities for such detailed examination because the funds employed are public funds, entrusted to the government by the citizens of the country.

I pointed out, therefore, in my 1960 report that under the existing governmental practice, the appropriations for each department were providing only for the cash estimated to be required during the fiscal year to discharge the costs of the department. They were not providing for charges for office or other premises occupied because these costs, including rentals paid, are usually recorded as budgetary expenditures of a single department, namely the Department of Public Works. The same was true of office furniture and fixtures. Similarly departmental mail is usually carried without charge to departments with the cost absorbed by the Post Office, while telephone charges, excepting the long distance ones, were borne by an appropriation for the Department of Finance. I pointed out that although the expenditure total may be correct for all of the departmental services as a whole, expenditures are thus erroneously stated for the individual departments and appropriations, and I expressed the hope that early consideration would be given to remedying these accounting anomalies and inconsistencies in order that the accounts relating to parliamentary appropriations might more accurately record the expenditures incurred for the various services. I said that if this were done, then periodic accounting statements prepared for management purposes by departmental administrative officers would obviously give a more accurate picture of the operations, and as a consequence they would become more effective instruments in the hands of departmental managements in the control of their spending.

These views were considered by the Public Accounts Committee in 1961 when they were discussed in subcommittee with the then Secretary of the Treasury Board, Mr. Steele. As a result, the committee in its Fourth Report 1961 recommended the adoption of the proposal Treasury Board had made to

distribute for information purposes the costs of major common services which are provided to other departments without a corresponding charge to their appropriations. The Secretary of the Treasury Board and his staff then proceeded to calculate the approximate value of major services not included in each of the estimates and commenced showing this information for each department's estimates in the Blue Book beginning with the estimates for the fiscal year 1962-63.

You will recognize these in the estimates you are now considering. It has not yet been possible for the Treasury Board and the Comptroller of the Treasury to achieve the ultimate goal of handling these on the basis of inter-departmental billing, thereby including these costs right in the estimates of each department. Nevertheless, it is an excellent start and certainly shows each department as well as the Members of Parliament and the public the approximate costs chargeable to each section of government organization in respect of these free services. The fact that this is providing an incentive to each department to take cognizance of the total all-in cost of its operations has been demonstrated over the past two years by the actions of the National Film Board and certain of the other agencies engaged in departmental trading activities who have prepared financial statements showing these approximate costs of services provided free right in with the costs paid from their appropriations, with the totals suitably reconciled on their statements of operations. You may have noted some of these in last year's Public Accounts and more will be appearing in the Accounts this year.

The CHAIRMAN: Are there any questions to Mr. Henderson on what he has said so far, dealing with the question of costs? This is something which we discussed on previous occasions. This is the matter of the allocation of costs of such things as postage and buildings.

Senator BROOKS: When you say "buildings," do you mean, for instance, the part of a department which is in a building? Take the Veterans Affairs building: do you include rent for that particular building in the cost to the Department of Veterans Affairs?

Mr. HENDERSON: Rental is shown now in the approximate or estimated cost of major services at the head of each page of the estimates. You will see the approximate cost based on its occupancy of space.

Senator BROOKS: That would be based on depreciation of the building?

Mr. HENDERSON: Not as accurately as that. It is determined by means of a formula—rental rates in the area, and so on. It is calculated on an economic basis rather than on an accounting basis.

Senator BROOKS: The same as an ordinary business in the same area?

Mr. HENDERSON: An ordinary business would have provided for depreciation and other attendant direct costs, but in view of the fact the expenditure which occurred in erecting the Veterans Affairs building was written off to expenditure in the year in which it was built, there is no dollar asset on the books and therefore no means to provide for depreciation.

Senator BROOKS: The Glassco Commission did not deal with that particular point?

Mr. HENDERSON: The Glassco Commission is recommending the adoption of accrual accounting under certain circumstances. Whether it will ever be feasible to adopt accrual accounting and whether it would affect the question you have asked, remains to be seen. You get into the question of the applicability of the cash accounting method as against the accrual accounting one. A number of agencies operate the accrual accounting method today.

Senator PEARSON: You say you compare them with the rentals in the particular district. What other rentals do you refer to there?

Mr. HENDERSON: The Department of Public Works and the Treasury Board developed a formula designed to determine a fair figure to be chalked up against each department. It may not be a figure you would want to settle for in cold, hard cash, but it at least gives recognition to an approximate rental cost basis, and I think is an excellent start toward the ultimate objective. It will have to be taken from there to see how feasible it is going to be to carry it further.

The second matter I will now take up has to do with the form and content of the estimates. This is very important from the accounting point of view, because it determines in large measure the manner in which the subsequent accounting for expenditures is maintained and reported in the Public Accounts. This in turn is important to the Auditor General because of his responsibilities to Parliament.

I dealt with this subject in my 1960 Report to the house to point out how it seemed to me that an informed consideration of the estimates by Parliament before the money is voted is all-important. It has always seemed to me that expenditure of public funds at the level at which it exists today is of such importance to the Canadian economy that it is essential that the estimates be presented to Parliament in the clearest and simplest manner possible. Therefore, it can only be on this basis that Parliament can reasonably be expected to give the proposed expenditures the scrutiny and consideration they should have, and to do so before the money is spent. After all, it is the level of the estimates which determines in large measure the level of the tax revenues to be raised.

Another compelling reason why clarity and simplicity should prevail in the presentation of the estimates is the fact that in considering many of them, Parliament has over the past years generally found itself working under very great pressure when the estimates come up for consideration. In elaborating on this before the Public Accounts Committee in May 1961, I said that I did not believe the same case could be made for eliminating or curtailing information as, for example, in the case of the form and content of the Public Accounts, which contains a vast amount of detailed information, some of which could possibly be eliminated in favour of a more informative summarization. I said that it seems to me more essential to have what might be described as a maximum of information in the estimates, well set out, having to do with the proposed spending, than to attempt to eliminate and reduce existing detail, unless this can be done in the interest of an improved presentation. In fact, the making available of more information about proposed spending might well lead to the proposals coming under more effective scrutiny by Parliament.

In my 1960 Report I gave four examples to show how the form of the estimates presentation might be improved with a view to providing more meaningful information. These were as follows:

(a) by comparing the amounts estimated for the ensuing year directly with the anticipated actual expenditure for the current year, as well as with the amounts that had been estimated for the current year;

(b) by giving the estimated amounts in three columns: estimated expenditure (gross); estimated revenue; and net requirements to be voted (thus giving Parliament an opportunity to consider the sufficiency of receipts for services rendered, where this is applicable, in relation to the costs incurred);

(c) by including both operating and capital budgets of crown corporations, even where funds will be forthcoming in full from corporate resources (thus giving Parliament an opportunity to consider broad policies associated with their operations); and

(d) by including appropriate explanations in all cases where expenditures proposed for the year involve commitments for future years.

These were also considered in subcommittee by the Public Accounts Committee in June 1961 when the Treasury Board proposed certain interrelated changes in the form of the estimates, including the proposal to distribute for information purposes the costs of the major common services provided free to other departments, which I have just been describing to you.

With regard to the four recommendations I had made, aimed at improving the presentation of the estimates, the committee gave recognition to their desirability. However, there was unfortunately little time available to give them much consideration at that time, so the committee recommended that these changes be considered early in the next session.

I continued to make the same recommendations in my 1961, 1962 and 1963 Reports. By this time, of course, an added emphasis was being given to my proposals by the recommendations of the Glassco Commission, which started to come out in 1962; and I drew the attention of the house to my 1963 Report to the fact that the Glassco Commission was now making similar recommendations along the same lines as my own.

About a year ago the Public Accounts Committee convened another subcommittee on the form and content of the estimates primarily at that time to consider a proposal from the Treasury Board that they adopt the revised vote pattern they had proposed, effective with the 1964-65 estimates. I may say to you that I had some reservations regarding this proposal to consolidate and thereby reduce the number of votes, because however convenient such a reduction might be administratively, it seemed to me that the basic problem was the inadequacy of the information contained in the votes rather than the number of votes with which Parliament had to deal. Consequently, I was afraid that the proposed consolidation and reduction in the number of votes might affect parliamentary control of public spending. On the other hand, as Dr. Davidson himself has told you, the administrative reasons actuating this proposal were strong because of Treasury Board's intention to proceed as expeditiously as possible with its consideration of the Glassco Commission's proposals in the direction of program budgeting. In point of fact, at that time—just a year ago—the four pilot studies were being commenced in the departments, aimed at testing the validity and application of the proposals. To our subcommittee discussions, however, the Treasury Board submitted sample formats of how the 1964-65 estimates would appear, and at the request of the committee my officers and I studied these closely and suggested a number of improvements. When the committee finally presented its third report 1963 to the house, on December 19, 1963, it recorded its approval of the proposal, subject to implementation of the improvements we had suggested.

At the same time, the committee made two other recommendations to the house for adoption by Treasury Board to the extent it found practicable in the 1964-65 estimates. The first of these called for the adoption of my 1960 recommendation that supporting financial information on crown corporations and other public instrumentalities be included in the details of services so as to provide better information to the members and to the public with respect to the fiscal requirements of the crown corporations and other agencies requiring financing by parliamentary appropriations.

The second called for additional information to be shown in the estimates concerning the size of the staff of all government departments, crown corporations and other government agencies, showing the number of employees on the payrolls at the date of the estimates preparation, accompanied by brief notes explaining major increases in the size of establishments. The

first of these, namely, showing the financial information for crown corporations, was not included in the 1964-65 estimates and is still under consideration by the Treasury Board. The second, dealing with explanations as to the size of staffs, is, I believe, going to be shown in the 1965-66 estimates.

In addition, the Public Accounts Committee in its report recorded its approval of three other suggested improvements in the form of the estimates, but stated that it believed that implementation of these should be delayed until the Government is in a position to introduce program budgeting. These are as follows:

1. Introduction of interdepartmental billing for services rendered

This contemplates the ultimate objective of recording the approximate cost of the major services at the present time provided free by other government departments. Thus, the costs will ultimately be paid by each department out of its appropriation, like the other costs. I have already described this.

2. Preparation of the estimates, both on a "net" and "gross" basis

The President of the Privy Council had announced on November 5, 1963 that all departments and agencies would be required to offset revenues against related expenditures in individual votes with the votes being shown in the estimates and controlled on a net basis.

3. Inclusion of appropriate explanations in the estimates in all cases where expenditures proposed for the year involve substantial commitments for future years

The President of the Privy Council had also announced on November 5, 1963 that all departments and agencies would be required to prepare and submit to the executive long-term plans of expenditures by programs and on this basis an annual forecast of government expenditures with respect to services for five years ahead will be prepared annually.

You will therefore recognize that most of the recommendations I had made in my 1960 Report are on the way toward implementation. The Public Accounts Committee meeting this year continued its discussions of the form and content of the estimates and in its Fourth Report 1964 presented to the house on July 28, 1964 recorded the progress I have just outlined to you, at the same time adding the following comments.

I should like to quote those to you.

The Secretary of the Treasury Board explained to the committee that he had not yet been able to discuss with any of the crown corporations or public instrumentalities the practicability of including supporting financial information in the estimates with respect to their operations. He undertook to do so and to advise the Auditor General for the information of the committee. He stated that the Minister of Finance does propose to present the additional staff information recommended by the committee under (c) above in the main estimates commencing with those for the fiscal year 1965-66.

The members of the committee were glad to learn from the Secretary of the Treasury Board that he supported the recommendations made under this heading by the Auditor General in his reports to the House. The committee believes that there is room for improvement in the estimates presentation designed to provide more informative description and more complete disclosure of pertinent supporting detail—information which, in the opinion of the committee, is essential if Parliament is to be in a position to give the estimates the close study and consideration they deserve.

Senator BROOKS: Would that be in the regular estimates, the blue book we get, or would those explanations be in those black books that are presented?

Mr. HENDERSON: It would be in the blue book, Senator Brooks. Where the money is sought, for example, for the Canadian Broadcasting Corporation, there appears the net grant for its operating requirement of \$80 million odd, and that is all there is.

Senator BROOKS: There would be further explanation?

Mr. HENDERSON: Yes. Treasury will show the budget the corporation has submitted in support of that amount compared with last year.

Senator BAIRD: They would spell it out.

Senator BROOKS: It would increase the size of the book.

Mr. HENDERSON: With relatively few crown corporations appearing here which in fact would be furnishing that information, I would think there is enough spare space already in which it would fit.

Senator BROOKS: That would also apply, would it not, to the items of the different departments?

Mr. HENDERSON: No, this particular recommendation is designed to cover, for example, things like the C.B.C. grant, the C.N.R. deficit, showing the figures behind them by means of a breakdown. It is considered by the executive that departments are furnishing sufficient detail in the details of services.

Senator BROOKS: This is apart from that book there. They are included in the book?

Mr. HENDERSON: They are included in this book under the details of services on those pages.

The CHAIRMAN: It is suggested the change should describe programs.

Mr. HENDERSON: The Treasury Board will have to revise the details of services material in the book when they describe the programs in order not to detract from information presently being provided. I would think they will have to change the details of services page quite considerably in order to keep the members equally well informed on the individual programs.

Senator BROOKS: You mentioned a reduction of the items.

Mr. HENDERSON: That is in the number of votes the Treasury had proposed to consolidate.

Senator BROOKS: The explanation would be there just the same?

Mr. HENDERSON: Yes, they have put the material, the details and the composition in the details of services, even though they have reduced the number of votes. But we naturally have to be concerned with the votes proper, because in the final analysis the wording of the votes represents the law.

Senator ISNOR: Do you think the same interest would be taken if that detail was put in the blue book as compared to the published report of the various crown companies?

Mr. HENDERSON: You are speaking of the supporting information, senator?

Senator ISNOR: Yes.

Mr. HENDERSON: I think part of it should be in the reports also. This information should, however, come to Parliament before the money is voted. What goes into the annual report of a corporation is the accounting at the end of the fiscal year.

Senator ISNOR: In the reports as they are published at the present time, you have a complete picture of the business operation, showing the deficit or surpluses, as the case may be.



Mr. HENDERSON: Yes.

Senator ISNOR: You do not propose to include all that in your so-called blue book?

Mr. HENDERSON: No.

Senator ISNOR: But you do wish to include a certain amount of the detail. My thought is, will it give the reader any real idea as to how a certain crown company is operating and whether it is a successful operation or not?

Mr. HENDERSON: What I am saying, in effect, is clear if you look at page 54 in the blue book where you see the Canadian Broadcasting Corporation. In 1964-65 one grant is shown for \$85,900,000. That is all that is given on those two pages. They do give you details of the International Broadcasting Service, because that is a somewhat different operation. But that only comes to about \$2 million. I think Parliament should know what is in the \$85 million.

Senator BROOKS: Don't they refer you to the back of the book?

Mr. HENDERSON: No, not in this case. But behind this figure is a budget prepared by the corporation indicating the broad, general areas of where that spending is going to be made. In this case, it consists of about 10 or 12 items; that is all; but it gives an interesting comparison each year. It seems to me that is pertinent information to have when considering the \$85 million. If that could be shown in some of the space provided here I think it would be of material assistance to you in deciding what you will do with respect to the grant.

Senator BAIRD: You want a more detailed account, do you not?

Mr. HENDERSON: Yes

Senator O'LEARY (*Antigonish-Guysborough*): You indicated some original fear about this reduction in the number of votes?

Mr. HENDERSON: Yes.

Senator O'LEARY (*Antigonish-Guysborough*): Has that been dissipated?

Mr. HENDERSON: Well, we watch that very closely, because this is one of my duties. The Treasury Board staff made a number of changes in the proposed wordings at that time to meet our criticisms. Of course, they have shown in this particular book, in the details of services, the fullest possible information. They have not taken anything away; but we felt that you are not so apt to see it in the details of services as you are in the vote proper, while fewer votes could mean less discussion in Parliament. I think perhaps I can answer that question better, senator, after we have completed our audit for the 1964-65 year.

Senator BAIRD: Would you ever have any difficulties in getting facts and figures from these departments? Do you find any difficulty in getting all the information you require? Do they give it to you as you require it?

Mr. HENDERSON: The law gives me access to all their files and papers. I can say we enjoy a very good relationship with the departments, and they go out of their way to make extra information available to us by way of additional explanations. We call for quite a bit of material because we may have questions to ask as a result of reading their correspondence files, looking at other files and so on. We do enjoy a good measure of co-operation.

Senator PEARSON: Rather than breaking down your vote, would not it be simpler to have the same number of votes but have a breakdown of the items on the Canadian Broadcasting Corporation, say, put out in pamphlet form before the estimates come out, so that M.P.'s or senators could see this before this blue book even appears?

Mr. HENDERSON: To me that would be even better still; but, of course, there might be some administrative arguments the executive would raise about having to go to the extent of doing this extra work. I cannot say, but I think anything that can be done toward getting the story across simply and effectively and to the point should be done because these are very large sums of money.

To complete my quote—and I do not have very much more to give you of these opening statements, Mr. Chairman:

The committee also recommends to the House that consideration be given to referring the departmental estimates in greater numbers to the Standing Committee on Estimates so that it might examine them in detail and report back thereon to the House.

This would be another way.

It believes such a procedure would not only accelerate the work of the House but would contribute materially to improving parliamentary control of public funds before those funds are committed or spent.

As you probably know better than I, in Westminster they follow this practice of referring these estimates to the Standing Committee on Estimates, who bring in a report and report back to the House. Consequently, they go into them in more depth and call departmental officials.

Senator ISNOR: What do you think of that?

Mr. HENDERSON: I think it would be excellent. I would like very much to see it. I think it would contribute to more informed discussion and consideration of the money before that money is spent.

Senator ASELTINE: I was in Jamaica last February, and I spent a day in their Parliament. That is what they told me they do there. They do not refer their estimates to the House like we do here, day after day and day after day, but they refer the estimates to this big committee which in due course brings in its report. It is usually adopted, and there is no more fuss about it.

The CHAIRMAN: Isn't it correct also that there is a time limit in which that committee must bring in its report?

Senator ASELTINE: Yes, before they prorogue! They were almost proroguing the day I was there. They finished their business and referred all their bills to the Senate. Then they adjourned at the call of the Chair until such time as the Senate had dealt with the bills. The report of the committee on estimates had been filed and tabled before that date.

Mr. HENDERSON: You will therefore appreciate that considerable progress has been made under this heading, and as you know from what Mr. Steele, Dr. Davidson and Mr. Balls have had to say, still further changes of far-reaching proportions are under consideration in connection with Glassco's proposals toward program budgeting. I will not go into these at this point as I should now like to turn to the final point I mentioned at the beginning, namely the form and content of the Public Accounts.

The Public Accounts present a formidable problem in terms of size and cost which can scarcely be dispensed with unless members of Parliament decide they do not need such a vast aggregation of detail.

I have always taken the position that the Public Accounts constitute in effect Canada's annual financial report to its shareholders, the general public. As such it should conform to the highest standards of financial reporting in the country and should be presented in a clear, concise manner without being encumbered with unnecessary detail. Only in this way can Parliament and the public be expected to give the accounting the attention it deserves. The Minister of Finance and the Comptroller of the Treasury, Mr. Balls, are anxious

to effect some reduction here because the sheer size and cost of these books have militated against any widespread distribution and, I believe, an understanding of their contents, certainly by the taxpayer. As you know he has to pay \$13.50 for the large book.

Senator BROOKS: Is not the main difficulty the fact that each Member of Parliament wants to know what is being done in his constituency and he wants to be able to find it in this book?

Mr. HENDERSON: This problem is before the subcommittee now, and this is one of the difficulties. However, if the facilities were available to him so that he could get the information in some other way the expense of putting it into such an expensive production could, perhaps, be avoided.

In 1961 a subcommittee of the Public Accounts Committee considered this problem and at that time recommended among other things that Volume I of the Public Accounts be divided into two volumes in future, the first to include mainly the summary report and financial statements and the second mainly details of expenditures and revenues. This was given effect to with the Public Accounts for 1960-61 and now, as Mr. Balls described to you last week, a subcommittee under the chairmanship of Mr. Ryan, Member of Parliament for Spadina, is again at work discussing this problem with Mr. Balls, with me, and our officers.

The subcommittee is making good progress and will be reporting shortly. I have expressed the hope that further consideration will be given to summarizing or otherwise reducing the number of detailed lists presently included in the Public Accounts. On the other hand, I believe that additional important information should be disclosed in the Public Accounts, and in my Report to the house last year suggested, for example, that a more informative listing of accounts receivable due to the Receiver General might be set forth, and also that there should be included additional financial statements showing the results from departmental operating or trading activities. In 1962 I had also suggested that explanatory statements be given with respect to revenue remissions under section 22 of the Financial Administration Act, and I was pleased to note that this suggestion was adopted and that improved statements were included in the Public Accounts last year. I might add that this point came up before the Public Accounts Committee only this morning when Mr. Sim and his assistant deputy ministers were present and they were complimented on the way in which they had picked up this point and had given more detail on the revenue remissions in the Public Accounts.

This completes my outline of the sketch I wanted to give you on the progress which has been made over the past several years and the contribution my officers and I have tried to make in our capacity as the auditors for Parliament. I must apologize, Mr. Chairman, for the length of these opening remarks.

The CHAIRMAN: Senator Molson.

Senator MOLSON: It seems to me that the recommendations of the Auditor General and to a large measure the recommendations of the Glassco Commission have found common ground on this subject with the committee under Senator Hawkins a few years ago. I remember a great deal of discussion at that time about what value these figures were to Parliament when, in fact, practically any department, taken by itself, had large sums opposite the expenditures, but in fact did not report what it was costing to operate or showing the revenues at that time. I think it is perhaps encouraging, to say the least, to this committee to find that perhaps we were then on good ground and that possibly today we still are. However what I particularly wish to do is to deal with the last part of Mr. Henderson's statement with regard to the form and content of the estimates and the Public Accounts. If I understand him correctly what he has recommended some time ago and what he has been dealing with in con-

junction with the Public Accounts Committee is first of all to see that both these documents contain all the information which is of value in all cases, and not dealing only with some departments while skipping some very large and important agency, crown corporation or department, as has been done in the case of the estimates for the C.B.C. I think he also said that he liked to see the Public Accounts arrive in a form rather like a company's annual report to the shareholders. My question to Mr. Henderson is this, do you not think that by achieving full and complete detailed disclosure at one end or the other of this operation, that is either in the estimates before the money is voted or in the Public Accounts after it has been spent,—could not the other end of that operation, that is the report at the beginning or at the end, be considerably reduced so that if the estimates contain every essential detail, the final report could really deal more with the exceptions than with the performance or vice versa?

Mr. HENDERSON: I agree wholeheartedly. I would prefer to see what I described as a maximum of information in the estimates because that is where the greatest job can be done namely before the money is spent or committed. If Parliament and the public are satisfied that that goal has been achieved it would be reasonable to expect them to accept a more abbreviated set of final accounts at the end of the year. It is reasonable to expect they are more interested in the spending coming up because that usually determines the tax they are going to have to pay.

Senator MOLSON: In cases of importance the report could draw attention to any outstanding exceptions or any deviation from the estimates before the money was voted.

Mr. HENDERSON: And these could be explained.

Senator MOLSON: Yes, these could be explained.

The CHAIRMAN: Senator Thorvaldson.

Senator THORVALDSON: At the end of your remarks you refer to the possibility of getting more details of such items as revenue remissions. I wonder if you could amplify that and let us know what you mean by revenue remissions.

Mr. HENDERSON: Section 22 of the Financial Administration Act says that for each remission over \$1,000 there shall be a statement placed in the Public Accounts. For the most part this statement had consisted of the name of whoever received the remission, followed by a large figure. I questioned whether that was in fact a statement, asking whether there should not be some words of explanation saying in respect of what that money had been paid. The case I had in mind when referring to the matter in my report had to do with oleomargarine. Under the arrangements for Newfoundland's entry into Union with Canada it was provided that Canada would not charge sales tax on margarine sold in Newfoundland. Canada undertook to submit to Parliament legislation designed to exempt oleomargarine sold in Newfoundland from the federal sales tax. This has never been done.

We were discussing this today in the Public Accounts Committee. What has been done is to use Section 22 to remit the sales tax to the margarine manufacturers, and the only way that the public was told of this was by the entry in the statement of remissions that Swift Canadian Limited, for example, was paid \$347,000. Anyone looking at that would not know whether it included the margarine sales tax in Newfoundland. The Public Accounts Committee considers that Section 22 should not be used for that purpose in the future, and they said so in their report to the house this summer. It seems to me that the statement contemplated by Section 22 should, in some way, shape or form, identify the remission, and the Department of National Revenue, as you will see, is now showing that in rather more detail. It is abbreviated but on page 37.4, in last year's Public Accounts, for example, there is listed the

remission of sales tax payable on sales of oleomargarine in Newfoundland, and five manufacturers are listed together with the amount of money they received. That is the kind of statement that I believe should be included. Does that answer your question, Senator Thorvaldson?

Senator THORVALDSON: Yes.

Senator BAIRD: As a matter of information, what was the total amount?

Mr. HENDERSON: \$388,820.

Senator BAIRD: That is the total?

Mr. HENDERSON: Yes, for Newfoundland for five companies.

Senator PEARSON: Did the companies return that money to the consumers?

Mr. HENDERSON: My auditing did not extend that far, senator. I hope the consumer down there benefits.

The CHAIRMAN: Let me follow up Senator Thorvaldson's question. Is not Section 22 also used for legitimate purposes, shall I say, and when it is so used is sufficient information given to satisfy, in your view, the requirements?

Mr. HENDERSON: At the present time?

The CHAIRMAN: Yes.

Mr. HENDERSON: I can say that that is the case now, that the additional information is being furnished. I do take a view on some of the items there, and I deal with them in my reports because there can be other cases like this which I feel should be drawn to the attention of the House. When that has been the case I have not hesitated to do so.

Senator BROOKS: These reports all come from your office, whether they appear in the Blue Book or not, do they not? What I mean is that there is always an audit made, and your department definitely knows about all these things?

Mr. HENDERSON: Yes, my officers scrutinize these, and bring to attention anything about which there is a question.

Senator BROOKS: It is just a matter of not publishing them?

Mr. HENDERSON: Some of the descriptions might be lumped together and so not disclose all of the facts, but I seek to place as liberal an interpretation upon that as I can. I feel we have really achieved something in getting these statements made more informative this year, and perhaps in the years ahead they can be made still more informative. I feel reasonably well satisfied with what the Department of National Revenue has done in this case in the past year.

The CHAIRMAN: Have you a question, Senator Molson?

Senator MOLSON: I have two questions that I should like to ask Mr. Henderson. One is of a general nature, and the other is rather more specifically applicable to our present function. The general question I would like to ask is: What do you feel about the government's present practice of accounting for capital expenditures and current expenditures? You have already mentioned depreciation and the other factors involved, but are you satisfied that the present practice of writing off expenditures in the year in which they occur is the best one for the purposes of government?

Mr. HENDERSON: That is, as you know, Senator Molson, a very large question. If I had a preference it would be that there be a greater distinction in government accounting between capital and income, and that, in fact, the capital be set up in a manner where it will not be lost track of, and where, whether you take the depreciation on to the books or not, you certainly take it into account. I would like to see a greater recording of inventories. The inventory of materiel that is carried by the Department of National Defence is

scrupulously recorded in terms of quantity. With the introduction of electronic data processing they are able to take off those inventories every three months or so, but they are not costed. There is no dollar value against any part of that. It is thus impossible to ascertain the dollar value of the inventory of materiel held by the Department of National Defence.

Senator MOLSON: And there is no write-down for obsolescence?

Mr. HENDERSON: Yes, there is with respect to things no longer in use. Of course, the general practice is to keep going over it and to declare such items surplus, and to hand over to the Crown Assets Disposal Corporation for sale when they are no longer needed. But, it is hard to understand how effective management control can be applied to an inventory that is not costed—at least, it is hard for me, and I suspect that you might agree with me.

On the other hand, this has been the policy right down through the years, and in the same way capital assets themselves have not been recorded. Mind you, complete detailed records are kept with respect to the physical assets of where they are, what they entail, their history and so on, and I believe that the focal point for that information in respect of Government properties is the Department of Public Works. However, if you are going to introduce that type of concept into the books, to price up your assets and your inventories, then you have got to make far more radical changes in the Government accounting system than even Glassco has proposed. Would you not agree with that? I do not think he goes that far.

Senator MOLSON: That is my view, but, as you say, it is a very big subject. It is one that has caused me to wonder quite often whether the system is really adequate—whether it is good enough. For example, one thing of common interest to the public is the annual deficit. I will not mention the annual surplus because we do not seem to see such a thing very often.

The CHAIRMAN: Perhaps you will next year.

Senator MOLSON: Next year? That's good. It is really a fact that when you compare two deficits, as is frequently done by saying that this year the deficit is \$750 million whereas last year it was only \$500 million, there could easily be several hundreds of millions of dollars in capital assets in one year and none at all in the other, and you are really not making a valid comparison.

Mr. HENDERSON: Absolutely. My investigation of this problem has led me to look at the quite exhaustive studies made in Westminster; one made some years ago by a body known as the Crick Committee, and one made rather more recently by a committee presided over by Lord Plowden. On these committees there were businessmen. I think the President of the Institute of the Chartered Accountants of England and Wales served on the committees. They went into this matter exhaustively, and very much from the point of view of the businessman's assessment of government accounting. They arrived at the conclusion—perhaps I am oversimplifying it—that the cash accounting method followed still had a great deal to commend itself, on the general proposition that the estimates are tabled calculated on a cash basis—on what is going to be needed—and then after the estimates have been considered the taxes are set and the money starts to come out of the pockets of the taxpayers. It is a cash proposition right from the taxpayer's pocket, you see. I would not be prepared to express an opinion on such an illustrious committee's findings, but that was a concept that I must say I had not thought of. I would say that if we are going to consider anything like this then it would be a most interesting exercise to have a somewhat similar body set up in Canada.

Senator THORVALDSON: Mr. Chairman, might I ask Mr. Henderson whether our system of accounting, in which we lump together capital and revenue, is standard practice in other countries such as the United States and Britain?

Mr. HENDERSON: Yes it is, Senator Thorvaldson. That is the point. We are not alone in this by any means. This is the practice and I think Mr. Balls told you that the statement of assets and liabilities, which is the key financial statement at the end of our accounting year, is rather unique to ourselves. In the United States, for example, they do not produce such a tidy tie-in of the figures.

In Britain I experience the same difficulty in finding my way through their accounts to achieve a sort of final statement I can look at. In our case, it is, of course, not a balance sheet. It is a statement of assets which successive ministers of finance have declared to be assets over the years, and liabilities which, under the wording of the act, are considered to be liabilities. It leaves out quite a number of things, I might say. It does not include accounts receivable, capital assets or inventories—only what are considered assets and liabilities under the cash accounting practice and the difference between the assets and liabilities shown is the net debt figure. It has merit in that at least you have a statement.

Senator THORVALDSON: As I understand it, some of the provinces differentiate on the same line between capital and revenue expenditures. Is that not so?

Mr. HENDERSON: Yes, I believe they have done so. I am afraid I have not studied them as closely as I should.

Senator ISNOR: I was about to ask something on the same lines as your first suggestion, namely, the heading "cost of operations". How could you possibly bring that about and show a net profit in any one department, if you do not divide your capital outlay from regular expenditure?

Mr. HENDERSON: You are quite right, Senator Isnor, you cannot do that. Compared to what we had, I think this is a step forward. It is quite true we are not taking depreciation in. At the same time, we are not searching for a profit. It seems to me we are searching for accurate costs of what we are doing, or costs as accurate as we can get them.

One of the accusations made by my friends in business is the allegation that when the Government says the cost is so and so, it is not so; and they of course can prove it. I think that whatever can be done to meet such criticism should be done, and that is what we are seeking to do here. It is regrettable that it is not as conclusive as you would like to see it, for the reasons Senator Molson has mentioned, for example the failure to set up capital assets.

Senator THORVALDSON: If it is more appropriate to have this answer from Mr. Steele or Dr. Davidson, that will be all right. In regard to the Canadian Broadcasting Corporation, I understand the CBC proposes to erect large buildings, for an aggregate sum of \$100 million, and I understand Parliament provides for certain deficits of the CBC each year, that is, operating deficits. Now, what is the accounting with regard to this large public expenditure? What is the type of accounting in respect to such large public expenditure as that of the CBC for these buildings? Is there some parliamentary control over that or do they simply make their own decision as a corporation and then come to Parliament and say they want the money?

Mr. HENDERSON: The money is voted to the CBC under two headings, or was, up to 1963-64. There was a grant for their operating requirements and a grant for capital requirements. The Corporation is of course a crown corporation. It has its own board of directors, making its own decisions, but as to where it will spend the money, it has to conform to certain Treasury directives when it comes to preparing its budget. The recording of its expenditures, however, conforms to the best practices followed in industry, such as Senator Molson was speaking about. The assets are capitalized, the inventories are valued, and the Corporation produces a proper commercial balance sheet which I as its

auditor certify each year and which is printed in the public accounts. You can see from their balance sheet the size of their present investment. At March 31, 1963, the capital assets of the CBC, less depreciation, were \$33,797,000. When they spend this further capital money which they will be getting, whether through the medium grants or, as I believe is now proposed, by loans, the \$128 million would go under that and you will then have something over \$100 million on the balance sheet, less depreciation each year, which they take into costs in determining their costs of operation.

Senator THORVALDSON: And similarly the Government takes into costs?

Mr. HENDERSON: The Government does not take in depreciation.

Senator THORVALDSON: It becomes a revenue item with the Government, when the Government puts up money to pay for these buildings?

Mr. HENDERSON: No. Perhaps you are thinking of the \$14,500,000 loan proposal in these estimates?

Senator THORVALDSON: No, I am not thinking of such a figure.

Mr. HENDERSON: When the estimates are approved, the Government hands the capital money over to the CBC and they spend it. To the extent to which it is capital they capitalize it in their books and write depreciation off.

The CHAIRMAN: But before the CBC could spend this money on these buildings they request the Government to give the money and that must then go in our estimates, must it not?

Mr. HENDERSON: That is right.

The CHAIRMAN: It is shown in the estimates as a capital grant, if it is to build?

Mr. HENDERSON: Last year. They are not asking for any capital grant this year except by way of loans.

The CHAIRMAN: Senator Thorvaldson apparently was speaking about some plans to build in Toronto and Montreal, I believe.

Senator THORVALDSON: Those are the buildings I was referring to.

Mr. HENDERSON: So far none of those have appeared in any of the estimates.

It is proposed here at the back, under loans and investments, that they be given a loan of \$14,500,000, as the amount of capital money they will require for 1964-65. There is a footnote on the balance sheet indicating the ultimate size of it and I think the best thing I can do is quote it. It says:

Capital assets in the amount of \$61,850,364 include the sum of \$3,802,000 expended during the last four years in the connection with the planned consolidation of facilities in Toronto, Montreal and Ottawa. Present estimates of the cost of current plans indicate the cost of consolidation of facilities at these locations to be \$83,058,000, of which, subject to the provision by Parliament of annual appropriations for the purpose, approximately \$1,597,000 will be expended during the year ending March 31, 1964 and \$77,592,000 during the four years ending March 31, 1968.

Since this was issued, they brought out their balance sheet through March 31, 1964 and this figure of \$83 million is now \$128 million. This came up in the Public Accounts Committee when the Corporation was examined in July at six sittings of the committee. You may recall the committee's report to the house. It is the Fifth Report 1964 and deals with this.

Senator THORVALDSON: That answers my question.

Senator SMITH (*Queens-Shelburne*): Did you mention that the Treasury Board plays some part in permitting them to spend some money that has been voted to them by Parliament? I am a little confused on that.



Mr. HENDERSON: Before the estimate goes in the book, the Corporation makes its request to the Treasury Board and discusses its requirements and needs with the Treasury Board and settles the figure which they are going to get, thereby arriving at the figure which the Treasury Board recommends in the estimates put before you. It is in connection with that submission that they produce various budgets, broken down in considerable detail. They also have abbreviated schedules showing where the money is going, why they need it, why this has to be so and why that has to be so. That is the sort of information I feel might be summarized here, so that Parliament can understand the request for \$85 million, for example.

Senator LAMBERT: What is the extent of the Auditor General's staff now?

Mr. HENDERSON: At the present time, Senator Lambert, we have an approved staff establishment of 179. I am short a number of auditors. The size of my staff is 170, but I had to take on a few stenographers and I have had to put them into auditor positions; so I am short, I suppose, eight or ten auditors at the present time.

Senator LAMBERT: They are all located here?

Mr. HENDERSON: Here and in Montreal and in Toronto where I have regional offices. I have them in Halifax, Montreal, Toronto, Winnipeg and Vancouver. I have very small staffs in these points.

Senator BAIRD: Is that additional to those you are speaking about?

Mr. HENDERSON: They are all in the 179. I have 170 on the staff at the present time, but I am short in auditors, by something more than the difference. We are tidying this up with the Treasury Board at the present time.

Senator LAMBERT: In thinking about the estimates for future years, I suppose Treasury Board examines these estimates beforehand, and that then you have to compile them before the session opens, or early in the opening of the session?

Mr. HENDERSON: I do not participate in the preparation of these estimates at all until they become law. That is carried out through the accounting system.

The CHAIRMAN: *Ex post facto*.

Senator SMITH (*Queens-Shelburne*): I believe you made mention earlier of the pre-audit, and I did not quite follow the point you were making at that time. Would you care to enlarge on the recommendation of the Glassco Commission to the effect that some at least of the pre-auditing done by the Comptroller of the Treasury should in future be the responsibility of the department? I understand that was one recommendation not yet accepted or dealt with by the Government, and I rather assumed there was a difference of opinion. Would you give us the benefit of your views?

Mr. HENDERSON: As I said in my statement, senator, I do not wish to take any position on the merits of one particular recommendation as compared to another. I am interested and must be concerned, of course, about anything impinging on the condition of internal control, because the scope of my audit work depends on the effectiveness of the system of internal control which exists in any department.

The Glassco Commission makes the recommendation that there should be a greater decentralization of responsibility to the deputy ministers, and they outline the proposition that senior financial officers should be installed in the departments on the basis whereby a deputy minister would accept the more or less complete responsibility, and in that event there would have to be a delegation of work from the office of the chief treasury officer to this chief financial officer within the department. Already, I believe, all of the travel claims are being checked now in the departments.

I do not think that is an unreasonable suggestion for Glassco to make. It is in line with what we are doing right here in the crown corporations. What they are saying in effect is to turn some of the departments into the type of operation you find in the crown corporations, or in the case of business, of a string of subsidiary companies, where you have a chief accountant and have policy directives supplied from head office, but they are left to pay their own bills, providing their actions conform to the policy directives from head office.

This is the proposition that Dr. Davidson and Mr. Balls have under discussion at the present time, and I would not wish to say anything which might render those discussions more difficult. However, I am interested in the outcome because of the effect it can have on my audit work. As you know, I audit most, but not all, of the crown corporations, and we pay very great attention to the system of internal financial control that we find there. If it is weak, I do not hesitate to tell the management and, depending on the degree of weakness, to tell the House of Commons. However, generally speaking, most of them have achieved a good standard. They take their responsibility seriously, and they have good men. You must have a good man at the centre of it as your chief financial officer or controller. The larger ones have a group of internal auditors. We examine their reports and we adapt our own auditing program to the way in which they are operating internally. So that if this decentralization work takes place across the government departments, it follows that I may find that I will have to do more work, because I place reliance upon the work Mr. Balls' officers carry out. They examine every transaction, and as you know, issue the cheques.

Senator SMITH (*Queens-Shelburne*): You say "every transaction". Would that include every old age pension cheque or every family allowance cheque?

Mr. HENDERSON: He deals with a great many of those. His staffs in the departments scrutinize the bills, seeing that they are properly approved and that the money is available in the vote, and only after they have done those things do we come along and make a test audit.

Senator SMITH (*Queens-Shelburne*): Does the pre-audit go to the extent that someone on behalf of the Comptroller of the Treasury proceeds in some way to verify that an old age pension is entitled to go to John Doe, because he is, in fact, 70 years of age, and therefore that it is O.K. to send him a cheque? Does the pre-audit go to that extent?

Mr. HENDERSON: I do not think that the Comptroller of the Treasury gets down to such details in every case. I believe he may accept certified lists from the departments. There would be an approved or accredited list come down from the department, and his work, I think in those instances, might be largely concentrated on issuing the cheques.

Senator SMITH (*Queens-Shelburne*): Supposing a supply of lumber from the country is received, for which a government department received a bill for \$50. Does someone from the Comptroller of the Treasury department check that bill?

Mr. HENDERSON: The bill comes to the departmental officials who look it over and approve it as being such, that they are satisfied with it. Then it goes to the chief treasury officer's unit in that department, where he checks that the goods have been received, checks the invoice details and approvals, sees if the money is free in the vote, and after all the necessary steps are taken, issues the cheque.

Senator SMITH (*Queens-Shelburne*): Well, that is in great detail is it not?

Mr. HENDERSON: Glassco says that could be done under a deputy minister, provided he has a satisfactory unit under his direction to do that work.

Senator SMITH (*Queens-Shelburne*): Does the present system under which we have been operating for quite a long time assist you in coming to a conclusion that everything is in order in that much detail in any particular—

Mr. HENDERSON: Well, our audit is essentially a test audit. We take vouchers and transactions, either over a certain amount, or a certain period of time, and we check them through in detail, and we follow the processes as we find them. In this case, we begin with the department and follow that through the treasury officer's operation, and I think as Mr. Balls explained to you, he considers that the basic responsibility for the propriety of payment rests with the department, not with him. He is concerned with its legality, with its approval and with the commitment control. I forget his exact words, but he said something to the effect that the wisdom of buying goods from a certain firm at a certain price are fundamentally decisions which the deputy ministers must take.

Senator ISNOR: Mr. Chairman, I wonder if I could have the benefit of a comment from Mr. Henderson to a question I have in mind? I was a member of the Committee on Finance under the chairmanship of Senator Crerar, and also of the late Senator Hawkins; and of course I am now a member of the committee under the efficient chairmanship of Senator Leonard. Most of our studies appear to be based on the figures of the estimates. While I realize that perhaps the estimates are the foundation of our study, a study of the Public Accounts is, I think, of great importance. I mention the Public Accounts last, because it is the Public Accounts which finally have to be examined to decide whether they are in order. Would you care to comment on that?

Mr. HENDERSON: Perhaps it is my Scottish background, but I would pick the estimates as being the more important, because that is where you can stop the money before it is spent or committed. The Public Accounts come after the event. Equally, of course, they are important, but I place great importance on the estimates for the reason I outlined to you in my opening remarks.

Senator ISNOR: May I ask another question? I am a little concerned about the procedure that might be followed in placing the estimates, before they are approved, before a committee of the House of Commons. I am speaking as a former Member of the House of Commons who sat on many committees, but I doubt very much if that procedure is going to work out to the advantage of the country.

Mr. HENDERSON: Well, you would speak from considerable experience on that. I would hope, if the estimates were to be considered by a Standing Committee on Estimates, that it would be productive of very informed discussion, and that they would in fact have some of the deputy ministers present to enlarge on and to explain what it is they are going to do. On the other hand, I can recognize there might be limitations on the extent to which the members should get into policy and things of that type. I am afraid I am not versed sufficiently in the constitutional practices to advocate whether that would be a good or a bad thing; but all I know is it would throw light on where the money is going. It seems to me that has some merit.

Senator ISNOR: I wonder whether it is any more enlightening than the study of the public accounts.

The CHAIRMAN: Senator Crerar, we are glad to see you come in, and I know you have missed what has gone before. Mr. Henderson, the Auditor General has given an outline of some of his views with respect to suggested changes in the estimates, the form of the estimates, and he will be with us again next week. However, if in the meantime there is anything you felt you would like to add, we would be glad to hear from you.

Senator CRERAR: The first thing I must do is express my regret that I was late getting in, but my train coming back from Montreal was late, so that is an excuse if not a reason.

I am very much interested in this Finance Committee, of course, and I have not the advantage of having heard the comments and the discussion which took place before I arrived, but I would like to ask Mr. Henderson a few questions, not based on any particular department but in a general way, in regard to Government administration as a whole.

Probably Mr. Henderson knows I had that responsibility at one time, on two different occasions—in fact, for about 12 years in a department; and, quite frankly, Mr. Henderson, I found it the most frustrating experience I have ever had. My previous experience had been in a sternly competitive field where you had to watch the pennies. Many a time I have sat down and pondered for an hour and figured out how I could save \$500 in administrative costs. I am bound to say I did not find the slightest inclination in Government administration to do that, with the result that, in my judgment, we have a very costly administrative machine in Government. We might talk about one department here, that you could save a few thousand dollars there and a few thousand dollars more somewhere else, but it only touches the very light outer fringes of the problem. How is it possible to get something like efficiency in Government administration that you find, for instance, in the banks or in a company like the Canadian Pacific Railway, or any successful business administration?

When I orate on this at times to some of my friends they say, "Well, Government administration is different. You cannot expect to have the same principles apply in Government administration that you find in the successful administration of a well conducted corporation 'or company.'" Probably there is a measure of truth in that. Of course, Mr. Chairman, if that is true then I am one of those individuals who believe that the less Government we have the better, that we should get along with the minimum of Government in these administrative matters. Otherwise the thing is wholly illogical to me.

Based on your experience, Mr. Henderson—and you have been here now for several years—do you think it would be possible to find a way to get the same economic principles in administration and efficiency in the administration of a Government department that you will find, for instance, in a successful company like any of the banks or railway companies or industrial concerns? Do you think that is possible?

Mr. HENDERSON: I think it is a good question. My short answer to that would be that I do not think it is anything you can expect to see brought about fast. Of course, there is not the profit motive present in Government; but, on the other hand, there are other motives which could be developed and given an equal place in the scheme of things—such as the very excellent concept of service and with service there should go efficiency, that I think our Canadian public service exemplifies.

I would like to say with respect to the Glassco proposition that the responsibility be moved to deputy ministers, that what they are proposing there is known as accountability, and it may well be that you would be very surprised at the way in which these men would react to that responsibility if you gave it to them. I have always thought nothing shows the measure of a man so much as how he reacts when he is given responsibility. Myself—and I speak from many years in business and in the profession outside Government—I have always been greatly impressed with the calibre of the men we have at the senior levels in our Canadian public service. I think they set a magnificent example and I, for one, find it difficult that you give them the big responsibilities you do and yet you do not give them the tools with which to discharge them fully.

It might prove to be a very interesting exercise to see what sort of a job they could make of this if it were given to them, always on the basis that there would be the type of—and I am using the business phrase—head office policy control exercised, in this case, by the Treasury Board. To do this might engender some of this incentive to develop comprehensive and proper management financial statements which, in turn, could develop yardsticks. So long as they have to be subjected to these external agencies in the matter of the hiring of staff and spending of money, then you can understand perhaps why, from the top down, they can tend to shrug their shoulders and not worry too much. As I learned when I was in war-time service in Ottawa, instead of pressing to get reclassification for a stenographer, sometimes it was easier to hire another, when I could have given another \$10 a month to one I already had and she would have been quite happy and could have done the job. I am speaking of my experience in the war years as assistant to Donald Gordon on the Wartime Prices and Trade Board, when we were dealing with rationing and all that sort of thing.

Senator CRERAR: It is the essence of Government administration that it tends to have the administrator get by with the least possible trouble. Would you say that is so?

Mr. HENDERSON: That is a by-product, is it not, of a system like this?

Senator CRERAR: Quite, but I am speaking now of what you find in existing conditions. I remember on one occasion a pretty competent man in the Department of Mines and Resources who had rather grandiose ideas about spending. He had a sort of subconscious feeling that if his department was spending \$5 million it was much more important than one spending \$3 million.

Mr. HENDERSON: Yes. Well, that is inherent in the system, I suppose.

But I think of a greater accent on accountability responsibility, reporting by means of an effective accounting such as I tried to outline in my remarks, and some form of reporting at the conclusion of the year's work—I think this is where Senator Isnor's question is very important. I would certainly make it a requirement that the departments give a comprehensive accounting in their respective reports at the end of the year.

It is a strange thing but in the departmental reports tabled in the House of Commons, very rarely do you find that they put down what they spent. In their reports they outline how they have discharged the responsibilities of their office, but I always find myself looking for a little financial statement at the back as to what it cost to achieve this. I generally find this is lacking. It would be one thing I would like to see put in.

Senator CRERAR: Do you find a tendency to multiply paper work, or in the evolution of the departments is there a tendency for paper work to multiply?

Mr. HENDERSON: No deliberately, but if the responsibility we are talking about is not vested in the head man you find that the tendency permeates down the line and the people in the department take a line of least resistance.

Senator CRERAR: I shall give an illustration based on my own experience when I was with the Department of Mines and Resources. At that time we had the National Parks administration, serving all national parks in Canada. Some of these were quite extensive in area and contained timber, mainly poplar or jack pine. Settlers around the area would get a permit to cut under supervision so many cords of wood, and they were charged \$1 or \$1.50 per cord. After getting my feet wet in the department I found that the practice was that the superintendent of the park had to report every item to headquarters in Ottawa, and he had to remit to the Receiver General

every dollar-and-a-half he collected from the settlers for the privilege of cutting wood. I made some inquiries and I found this involved a tremendous amount of paper work. I had plans to change the system but then the war intervened. In a situation of that kind I could not see why the superintendent and his accountant should not be bonded so that they could collect these sums for cutting wood or hay or anything of that kind, pay it into the bank, and have the power to cheque out against it, subject to audit, of course, and save all this business of writing a multitude of letters, remitting sums to Ottawa for acknowledgement. Then when the poor park superintendent wanted to spend some money on the park he had to get authority from Ottawa to do so. The impression I got was that the service was permeated with that sort of thing. There does not seem to be any question of the cost of the multiplicity of staff, telephones and paper work.

Mr. HENDERSON: That seems to be the case, but there is an increasing awareness of the benefits to be derived from overhauling some of these systems and I think to that extent the Glassco documents coming out and receiving considerable attention, is a very good thing, whether the recommendations happen to be adopted or not. I can say from my own experience during the time I have been Auditor General that my earlier estimation of the calibre of the people we have in the public service has been confirmed. I think that if given the chance they can be counted on to step forward and tidy up a number of these situations provided they have the incentive to be the captain of their own ship. Don't you think that is right?

Senator CRERAR: Yes. I found a large percentage of the staff, particularly at the upper levels, were pretty competent.

Mr. HENDERSON: Indeed they are.

Senator CRERAR: And efficient.

Mr. HENDERSON: The crown corporations have been given this kind of responsibility, the responsibility to disburse public funds.

Senator CRERAR: I could not escape the conclusion at the end that there was a great deal of frustration. Somebody higher up who did not understand the problems, Members of Parliament, for example, would come in wanting this and that done. This seemed to result in constant frustration. A minister, of course, can do a lot to alter this situation if he is disposed to do so.

There was one other matter I wished to mention. I think one of the reports of the Finance Committee of ten years ago dealt with this or something of the same nature that you have dealt with in your reports, and that is that so far as the Government departments were concerned the franking privilege should be abolished. That is one thing I would do immediately, and I would make departments budget for their postage and get this organized on a proper basis. The amount of stuff that comes into my office, and into the office of every senator, is tremendous. It would be reduced to less than one-fifth of the quantity if the departments concerned had to pay postage on it.

The CHAIRMAN: That is a good note to stop on. I indicated to some members that we were going to try to conclude today at five o'clock, but Senator Molson has a question.

Senator MOLSON: Yes, one. I had two a little earlier and I got into the first one, a rather lengthy one, and then the ball went into another court. However my second question was asked for me by Senator Smith (*Queens-Shelburne*) and had to deal with the proposed change from the pre-audit to financial accountability within the department. However I would like to ask Mr. Henderson one specific question about that. Do you feel that the task of the Auditor General would be made more difficult or easier if this recommendation were implemented on the proper basis, that is with all necessary steps being taken regarding personnel selection, approval and so on? Do you feel your task would be perhaps made more difficult or not?

Mr. HENDERSON: If the decentralization took place?

Senator MOLSON: If financial accountability and responsibility were handed over to the departments?

Mr. HENDERSON: It would not make my work more difficult. It might increase my work load to the extent that I would have to extend the scope of work and therefore might need some extra qualified staff. I think that is the answer to your question, is it not?

Senator MOLSON: I think so, but perhaps that might be corrected over a period of time by an improvement in the internal audit or something.

Mr. HENDERSON: I am presupposing if that decentralization took place that the departments individual would set up efficient internal auditing groups to carry out programs with which we would be in agreement and on which we would sit in to develop as private auditors do. In such a case it would then be our responsibility to decide the extent to which we could rely on that internal auditing program. Just as in the case of crown corporations when they don't set them up, I would not hesitate to follow that up with them and see that they do it because, after all, we can never hope to undertake more than a test examination of transactions. I cannot examine everything—not with a staff the size of mine—but we try to make the most informed test examination that we can. I think if decentralization went off along those lines it would not cause us any great difficulty other than in the fact that we would require more people on the staff—not many, but I would think we would have to set up some more senior positions, or something of that kind.

The CHAIRMAN: We are going to have Mr. Henderson before us next Tuesday at 3 o'clock, whether the Senate sits or not, so I will adjourn the meeting at this time. On your behalf I express our thanks to him for his help today. We shall look forward to hearing from you next week, Mr. Henderson.

There being no other questions, this meeting stands adjourned.

The committee adjourned.







Second Session—Twenty-sixth Parliament

1964

# THE SENATE OF CANADA

PROCEEDINGS

OF THE

STANDING COMMITTEE

ON

## FINANCE

To which was referred the Estimates for the fiscal year  
ending March 31, 1965.

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The Honourable T. D'Arcy Leonard, *Chairman*

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TUESDAY, NOVEMBER 10, 1964

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No. 9

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WITNESS:

Mr. A. M. Henderson, Auditor General;  
Mr. Geo. Long, Acting Assistant Auditor General.

APPENDICES:

"I" Extract from Memorandum prepared by Auditor General, 1961.  
"J" Answers to questions asked in the Senate, November 5th, 1964.

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ROGER DUHAMEL, F.R.S.C.  
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY  
OTTAWA, 1964

THE STANDING COMMITTEE  
ON  
FINANCE

The Honourable T. D'Arcy Leonard, *Chairman*

The Honourable Senators:

Baird	Macdonald ( <i>Brantford</i> )
Beaubien ( <i>Bedford</i> )	McCutcheon
Beaubien ( <i>Provencher</i> )	McKeen
Belisle	Méthot
Bouffard	Molson
Buchanan	O'Leary ( <i>Antigonish-Guysborough</i> )
Burchill	Paterson
Choquette	Pearson
Connolly ( <i>Halifax North</i> )	Pouliot
Crerar	Power
Croll	Quart
Denis	Rattenbury
Dupuis	Reid
Farris	Robertson ( <i>Shelburne</i> )
Flynn	Roebuck
Gershaw	Savoie
Grant	Smith ( <i>Queens-Shelburne</i> )
Grosart	Stambaugh
Haig	Taylor ( <i>Norfolk</i> )
Hayden	Thorvaldson
Hnatyshyn	Vaillancourt
Horner	Vien
Isnor	Welch
Lambert	Woodrow
Leonard	Yuzyk (50)

*Ex Officio members*

Brooks  
Connolly (*Ottawa West*)

## ORDER OF REFERENCE

Extract from the Minutes of the Proceedings of the Senate, Wednesday, May 20th, 1964:

“Pursuant to the Order of the Day, the Senate resumed the debate on the motion of the Honourable Senator Connolly, P.C., seconded by the Honourable Senator Hugessen:

That the Standing Committee on Finance be authorized to examine and report upon the expenditures proposed by the Estimates laid before Parliament for the fiscal year ending 31st March, 1965, in advance of the Bills based on the said Estimates reaching the Senate; and

That the said Committee be empowered to send for persons, papers and records.

After debate, and—

The question being put on the motion, it was—

Resolved in the affirmative.”

J. F. MacNEILL,  
*Clerk of the Senate.*



## MINUTES OF PROCEEDINGS

TUESDAY, November 10th, 1964.

Pursuant to adjournment and notice the Standing Committee on Finance met this day at 3.00 p.m.

*Present:* The Honourable Senators: Leonard (*Chairman*), Baird, Croll, Denis, Hayden, Isnor, Lambert, McCutcheon, O'Leary (*Antigonish-Guysborough*), Power, Quart and Smith (*Queens-Shelburne*). (12)

The Estimates for the fiscal year ending March 31st, 1965, were further considered.

It was agreed to print the following as appendices to the proceedings of this day: "I" Extract from Memorandum prepared by Auditor General, 1961; "J" Answers to questions asked in the Senate, November 5th, 1964.

The following witnesses were heard: Mr. A. M. Henderson, Auditor General; Mr. Geo. Long, Acting Assistant Auditor General.

At 4.20 p.m. the Committee adjourned until Tuesday next, November 17, at 3.00 p.m.

Attest.

F. A. Jackson,  
*Clerk of the Committee.*



**THE SENATE**  
**STANDING COMMITTEE ON FINANCE**  
**EVIDENCE**

OTTAWA, Tuesday, November 10, 1964.

The Standing Committee on Finance, to which was referred the Estimates laid before Parliament for the fiscal year ending 31st March, 1965, met this day at 3 p.m.

Senator T. D'ARCY LEONARD (*Chairman*) in the Chair.

The CHAIRMAN: Honourable senators, we have a quorum. Will the committee come to order?

We have with us as witness today, Mr. A. M. Henderson, the Auditor General. I believe all of you have received in your mailboxes the proceedings for last Tuesday. I must thank Mr. Henderson for having got his revision back in time for us to have our copies today.

Since we met last time we have had the interim supply bill. On second reading, during debate, some questions were asked which I was not able to answer completely. I have since received further information on those questions, but that information has not yet arrived here. I expect that it will be here within a few minutes, in which case I shall refer it to the committee.

Subject to your permission, I think we should proceed with Mr. Henderson's evidence. He did have a prepared statement last week, which we went through, and a number of questions were asked. I think perhaps I should ask him first whether he is ready to proceed with whatever submission he has, or whether he is ready for questions and will deal with them as they come.

**Mr. A. M. Henderson, Auditor General of Canada:** Thank you, Mr. Chairman, I can only say that perhaps we can carry on where we left off. I do not have any further official statement to make. Last week I sought to explain the general background of my position in these matters and the work that we have been doing over the past five years, the relationship of those things to the Glassco reports, and the revision work that is being undertaken in the estimates.

Mr. Long, my acting Assistant Auditor General, and I will be happy to explain any points you may have, or facts that are not clear. There are one or two other angles the Chairman and I have chatted about, to which we shall probably refer. I do not think there is anything more I can say, Mr. Chairman.

The CHAIRMAN: Then, gentlemen, I might recall to your minds that one of the suggestions which came out in the evidence last week was that in the form of estimates more information should be given with respect to the budgets of the crown corporations, that where one single item now appears, as, for instance, an amount showing a deficit for the Canadian Broadcasting Corporation, estimates should contain information indicating an explanation of how that item would reach the particular figure that was set out in the estimates.

In that connection, Mr. Henderson has given me an extract from a memorandum that he prepared, dealing with possible changes in the form of annual estimates. There are extra copies which you might care to look at, and there

may be some questions in connection with that memorandum that you may wish to direct to Mr. Henderson. This is an illustration of the kind of material that might go in revised estimates dealing with an item with respect to a certain crown corporation in the estimates.

(See Appendix "I".)

Mr. HENDERSON: This is the reproduction of a page from the *Minutes and Proceedings* of a meeting of the Public Accounts Committee in 1961, when the recommendations which I had been making in my reports to the House, were discussed. As I told you last week, this has been accepted by the Public Accounts Committee, and the Treasury Board is proposing to put additional information, in due course, into the details of services so as to show the make-up. Of course, the example given here is some four years old, but it is the type of budget that the corporation in question was putting into the Treasury Board, and which it is required to table in the House under the provisions of the Broadcasting Act.

Most of the crown corporations are required to table their operating capital budgets in the House, but at different dates during the year, depending on the provisions of the different legislation. The suggestion I made was it would be more informative were they to be put in the details of services, so as to explain the figure that was being asked for. The estimates of this particular year in question merely show the one figure, viz. grant in respect of net operating requirements, \$62,085,000.

Dr. Davidson and I have this matter under discussion, by direction of the Public Accounts Committee, with a view to this type of information being put in the details with respect to each of the crown corporations calling on public funds to the extent that information is practical or feasible. There would naturally be a different type explanation given with respect to the C.N.R. deficit. When that figure appears in the supplementary estimates there would be a different type presentation, again, in some summary form for Atomic Energy, and so on.

Senator McCUTCHEON: You use one word there, "supplementary" estimates. That is obviously where the C.N.R. deficit appears. They do not present a budget of this nature; it is only their capital budget that is initially approved.

Mr. HENDERSON: Yes.

Senator McCUTCHEON: It has not been approved this year yet, but it is all stamped.

The CHAIRMAN: Are there any further questions on this?

Senator ISNOR: I was wondering as to whether this would mean later a changing over of the system presently employed, to compare it intelligently with the statement as would be presented by the crown corporations.

Mr. HENDERSON: Do you mean, how this would be related to the annual report at the end of the year?

Senator ISNOR: Yes. One is on an accrual of budget basis—

Mr. HENDERSON: They are easily reconcilable in the annual reports of the corporations. They prepare their books on an accrual basis, and the Government operates on a cash basis. They make reference to the amount of their appropriation, show how much they have received under their appropriation, and relate it to an orthodox statement.

Senator BAIRD: Why is this so far behind, 1960-61?

Mr. HENDERSON: Because this page has been reproduced from the minutes of a Public Accounts Committee meeting in 1961, when this particular point was being discussed at that time. This is a standard example Dr. Davidson and I use. I thought, when your chairman called today, it would facilitate things to make a few photo copies of this one page. We have the minutes here. At that



time, at the request of the Public Accounts Committee, I put in a memorandum entitled, "Possible changes in the form of annual estimates," to elaborate on what I had been saying in my reports to the House. Mr. Steele, then secretary of the Treasury Board, and I met with a subcommittee of the Public Accounts Committee, and I used this by way of illustrating the point.

Senator CROLL: What did the subcommittee decide?

Mr. HENDERSON: It decided at that time to go ahead with some of the recommendations, not all; but this year they adopted this one, Senator Croll,—I should say, it was about a year ago; it was in the third report, 1963, dated December 19, 1963. They decided to go ahead and heard evidence again this summer from Dr. Davidson. He is now determining the feasibility of this in respect of the different agencies, at the request of the committee, and he and I are having talks about it, so I hope this might be possible beginning in 1965-66, or something like that.

The CHAIRMAN: It seems to me that if we, as a committee, think this is desirable information to have in the estimates, it is in order for us to come to that conclusion and say so.

Mr. HENDERSON: It will entail discussions with the crown corporations, because it has to be borne in mind they should not be expected to disclose information which might harm them from a competitive standpoint; rather give some official explanation which would throw some light on the reasonableness of the global amount they are asking for, perhaps related to the previous year, and show why it has to be more or how it comes to be less, or something like that, so that when approval is being given to the large figure those approving it will be able to speak with some knowledge of the background.

Senator CROLL: Isn't their objection a valid one? When you look at this and see, "other departmental expenses" you start breaking them down. Does not that expose them to the competitors, as to what is likely to be contained in those figures?

Mr. HENDERSON: As a matter of fact, as Senator Isnor mentioned, the companies come through at the close of the year with their annual reports, breaking it down in considerably more detail than this. It might be they would wish to employ different wording or group figures together. Those are the points Dr. Davidson is or will be discussing with the various corporations. Thus far there has not been any explanation of this type, but he is exploring the feasibility of it.

Senator CROLL: Take Polymer, for instance.

Mr. HENDERSON: Polymer prepares its accounts on a consolidated basis embracing its subsidiaries abroad. In the case of Polymer it does not, of course, come to the public treasury for any money, so it would not appear in the estimates at all; but if it did I think Polymer could be relied upon to see to it that its position was not hurt by unnecessary disclosure. They face that problem every year in the preparation of their annual report.

Senator CROLL: You have two sorts of crown corporation: the one that comes for money and discloses; and the one that does not come for money and does not disclose.

Mr. HENDERSON: The theory pointed out by the Public Accounts Committee is that if they are coming for money from the public treasury they should be prepared to give some form of explanation as to why they want it.

Senator McCUTCHEON: They are probably giving no more detailed explanation than companies like Polymer in their own annual statement.

Senator LAMBERT: Or C.N.R.

Senator CROLL: The traditional position in the House has been, "We cannot disclose because of our competitive position." This has always been accepted, no matter what side is in power, and they have always moved away from it. How will the position change now?

Mr. HENDERSON: The question will be put to them by Dr. Davidson, as to the extent to which they feel they can go in furnishing this type of information. It may well be they will come forward and make the point you suggest, that they cannot do it. If so, we will have to cross that bridge when we come to it. Perhaps it is not as feasible as the committee and I think, but the committee was definite in saying that if a concern is asking Parliament for an overall figure of \$62 million it is not unreasonable to invite them to show, in some summary form, what they want it for and how it compares with the previous year.

Senator CROLL: Often times we have perhaps some member who does not like a program that he has seen, and he immediately asks the question, "How much did that program cost?" And immediately he gets the answer, "Not able to disclose this information."

Mr. HENDERSON: There have been a number of cases of that lately. The member's only recourse is to put the question on the Order Paper, and either they furnish it or they give the explanation you mention.

This is merely an effort to provide what seemed to me and to the committee to be the sort of reasonable basic information that anyone should have when they are being asked to put up money of this size. Certainly, a banker or some lending authority would ask some questions along these lines, wouldn't they?

Senator CROLL: We are in a difficult position. If you are going to examine crown corporations—and I see no reason why they should not submit to some examination, as they have in the past—then you examine those that need money and those that do not need money. You examine crown corporations, period. But you seem to throw some distinction between, for instance, Polymer, if it does not need any money, and the C.N.R. that does need money, the C.B.C. that needs money and others that do not need money. If you are going to do it, hadn't you better get all crown corporations, so the ordinary member knows where the crown corporations are and has an opportunity, for instance, to find out in the estimates what makes this one tick and what makes that one not tick?

Mr. HENDERSON: The basic recommendation I have made in my reports over the past four years, which I explained to you last week, was I thought this would provide more meaningful information, and I listed four examples of this, and the one I am discussing is:

(c) by including both operating and capital budgets of crown corporations, even where funds will be forthcoming in full from corporate resources (thus giving Parliament an opportunity to consider broad policies associated with their operation);

Senator CROLL: I should have read your report!

The CHAIRMAN: There is a copy behind.

Senator O'LEARY (*Antigonish-Guysborough*): Mr. Henderson, I know there is some variation, but what is the normal time lag between the presentation of the estimates and the printing of the reports of crown corporations?

Mr. HENDERSON: The annual reports?

Senator O'LEARY (*Antigonish-Guysborough*): Yes. It is several months, is it not?

Mr. HENDERSON: There is a considerable time lag because, as you know, the estimates have to be gotten out away in advance, and then the year's oper-

ations have to be completed, and then the accounts have to be audited. I suppose you would say on the average it would be about a couple of years before you see them.

Senator McCUTCHEON: Not quite that, surely?

Mr. HENDERSON: It might be fairer to say a year and a half.

The CHAIRMAN: This is just pursuing the basic principle of Parliament's control over Government expenditures?

Senator O'LEARY (*Antigonish-Guysborough*): Yes, but it seems to me that that is quite a good argument in itself for this sort of thing.

Mr. HENDERSON: I think it is worthwhile looking at it before the money is spent than holding a post mortem on it afterwards, as I said last week.

The CHAIRMAN: If I may interrupt for a moment I will mention that I have now received from the Treasury Board answers to questions asked in the House by Senator Brooks. One question was with respect to the winter works program. This answer runs to about two pages, and I do not think you want me to read it in full. Shall we have it printed as an appendix to the proceedings of today?

Hon. SENATORS: Agreed.

(*For text of answer see appendix "J"*).

The CHAIRMAN: The other question dealt with coal subsidies. I will pass around copies of these answers.

Senator ISNOR: That was with respect to the Alberta coal shipments, was it not?

The CHAIRMAN: Yes, the question of moving coal from Alberta to Vancouver. This is a short answer, and it reads:

Order in Council P.C. 1962/462, as amended by P.C. 962/1509, provides for assistance on coal from Alberta moving presently through Vancouver for export to Japan. The assistance provided is the amount necessary to make the Canadian coal competitive up to a maximum of \$3.15. No change is contemplated in this regard although the amount of coal to be shipped may vary to meet changes in the competitive situation.

In 1963/64 some 845,590 tons moved under these Regulations at an average cost of \$3.19 per ton. It is estimated that this year some 950,000 tons will move at an average cost of about \$2.80 per ton.

Again, I think we should have this answer printed as an appendix to the proceedings. Copies are available for anybody who would like to read them in the meantime.

(*For text of answer see appendix "J"*).

Will you proceed, Mr. Henderson?

Senator LAMBERT: In connection with this suggestion that Mr. Henderson has just made, I suppose the purpose of it would be to emphasize, over and above what any special committee has reported, either an increase or a reduction in the expenses of administering these particular organizations?

Mr. HENDERSON: Yes.

Senator LAMBERT: It seems to me that a most desirable thing for this committee to do is to point out what the increases have been and what the reductions have been—in other words, just stating the fact and not assessing any particular responsibility for it. Surely, it is this committee's job to make test holes, if you like, in order to indicate to what extent expenditures are increasing or decreasing, and trust to heaven and the press that the information is made as broadly known as possible.

Mr. HENDERSON: Senator Lambert, the Financial Administration Act provides in section 80:

Each agency corporation shall annually submit to the appropriate Minister an operating budget for the next following financial year of the corporation for the approval of the appropriate Minister and the Minister of Finance.

It then goes on to provide:

For each corporation the appropriate Minister shall annually lay before Parliament the capital budget for its financial year approved by the Governor in Council on the recommendation of the appropriate Minister and the Minister of Finance.

What I am merely asking for here is the showing of this budget alongside the request for the money.

Senator LAMBERT: But you are adding an additional emphasis.

Mr. HENDERSON: That is right, sir.

Senator McCUTCHEON: You are only concerned really with those crown corporations that come to the Treasury for funds. There is a complete disclosure of the capital budgets, as is indicated there, of, say, Eldorado. There is an annual report in which a great amount of detail is given. You are not suggesting that their estimates and their forecast of operations be included in the Estimates, are you?

Mr. HENDERSON: Well, Senator McCutcheon, I made my recommendation—as I read it out to Senator Croll—all-embracing, so as to give Parliament an opportunity of considering the broad policies of them all apart from their operations. But, you are perfectly right. The decision as to which ones they want to put in seems to me to be the prerogative of the executive. There might be no point in putting in anything for corporations that are not coming to the Treasury for money. That is a point the Public Accounts Committee stressed.

Senator McCUTCHEON: I would not think there is any point. It will be in the estimates. Whether or not the other facts are sufficiently disclosed, I think they are all available. It is just a matter of some members not knowing where to look for them.

Mr. HENDERSON: I think Senator Croll's point was that it might be unfair to ask it from some and not from others. The opinion of the Public Accounts Committee is that if you want money from the federal treasury then you should be prepared to justify your request.

Senator McCUTCHEON: I would be prepared to go along with that conclusion. I think that a person who is asking for money should be prepared to accept conditions.

Senator LAMBERT: If you show a profit then all you need do is to publish it, and let it speak for itself.

Senator CROLL: If that is what you are saying.

Senator McCUTCHEON: I am saying that the Estimates is not the proper place for it. Certainly, you should never ask a commercial company for a forecast in advance.

Mr. HENDERSON: Probably this is not so in the case of many of these companies.

Senator McCUTCHEON: That would be ridiculous. I question whether any crown corporation should tell its competitors in advance what its operating budget is although in fact it is tabled in an abbreviated form in the House.

The CHAIRMAN: Polymer, of course, is—

Senator McCUTCHEON: You have Eldorado and CMHC that are profitable.

Senator LAMBERT: The C.N.R. figures are revealed in its annual report.

Senator McCUTCHEON: I am not objecting to any one set of figures being revealed if the corporation is in a deficit position.

Senator LEONARD: I think Senator McCutcheon's point is well taken. This leads us to the point of whether you should put certain explanations in the estimates, and then, as far as the operations of the crown corporation are concerned, we would have to consider its annual report to decide whether we, as a finance committee, might be doing something in the way of studying it, apart from the Estimates.

Senator McCUTCHEON: Yes, I would not disagree with that.

The CHAIRMAN: In that connection I may say that I have just distributed copies of the Auditor General's report in which he deals with reports of crown corporations. Senators might be interested in seeing the way the crown corporations are listed at pages 83 and 84, after which the Auditor General proceeds to deal with them corporation by corporation. Senators will see the different characteristics and classifications of crown corporations running all the way from the National Battlefields Commission, for example, to Polymer or Eldorado which are commercial corporations. I think that that is a subject we might well pursue, if not at this particular series of meetings then certainly on some subsequent occasion. We might look at one or more of these crown corporations.

Senator ISNOR: Mr. Chairman, I hesitate to differ from such authorities on financial matters as yourself and Senator McCutcheon—

The CHAIRMAN: You are probably right, just the same.

Senator ISNOR: —in regard to this matter, but it appears to me that if a crown corporation is making a good showing then it would be rather inclined to have that in the Estimates, so that they indicate that it is standing on its own feet. I think if you include one more crown corporation, be it the B.B.C. or the C.N.R., or any other corporation, then you should include them all. I just throw that out. I do not mean that you should have a lengthy report similar to the annual reports of the corporations, but there could be a note drawing the reader's attention to the annual report of the company.

The CHAIRMAN: I presume the only way you could do that would be to set out an item of \$1 and say this is in relation to this particular company which does not need any money because its budget operations are in black, in fact.

Senator CROLL: Is there a department of Government which brings in revenue, which has more in revenue than in expenditure?

Mr. HENDERSON: The Revenue Department, Senator Croll.

Senator CROLL: Is there any other department that is revenue producing?

Mr. HENDERSON: A department of government?

Senator CROLL: Yes. I do not know—

Mr. HENDERSON: The Revenue Department—

Senator CROLL: That is not the right term. I do not mean that. I am thinking of a ministry. The Department of Revenue of course merely collects it. That is, its expenditures are only for administration.

The CHAIRMAN: You are thinking, for example, of the Post Office.

Senator CROLL: I knew that the Post Office was not making any money but that is the idea I have in mind. I do not know the term. I was trying to think of one department myself. Does the Department of Trade and Commerce, by any chance, have revenue?

Mr. HENDERSON: You probably would be interested in looking at page 123 of this report, where, after the crown corporations, you see departmental operating activities. I point out the extensive service or trading activities operated by a number of departments. I have put down some examples and then go on to discuss them. The principal point here is that these are not crown corporations operating under the principle of accrual accounting as we know it: rather are they departments of government which are having their expenditures paid from appropriations—in the case of one of them—Public Printing and Stationery, from as many as eight different appropriations.

I am pressing here all the time for the development of comprehensive periodical accounting statements that will show the operations of those departments which are engaged in operating or trading activity, so that some picture can be seen of the results of those activities. Then we can match that against their expenses. In the paragraph just following here we discuss this.

I am glad to be able to tell you that a number of the agencies in this category have picked up this suggestion and are turning out some very presentable statements, including picking up the cost of these services they get free. In this particular year, the National Film Board, for example, has picked up these free services in its costs, in order to reflect its total over-all cost of operation. But in no cases here that I can recall—Mr. Long will correct me on this—do the revenues exceed the expenditures.

Senator CROLL: Look at page 128 which you have in front of you. I took a quick look at these Post Office activities and it appears to me that there is an excess of revenue over expenditure. But read the next paragraph.

Mr. HENDERSON: That is right.

Senator CROLL: But the member for Parliament does not get that next paragraph. Why was that not included? Why was it necessary to have that next paragraph? Why was it not included in these figures that you have made up—you knew them—to show that it had not in fact an excess of revenue but actually showed a deficit?

Mr. HENDERSON: Because the Post Office Department has not as yet accepted the principle of producing statements along those lines. I would like Mr. Long to answer this question because he has long experience in the operations of the Post Office.

**Mr. George Long, C.A., Acting Assistant Auditor General:** Basically it is the policy that the Government provides the Post Office with its funds from appropriations and also it is the Government policy to provide the Post Office with buildings and certain other services such as those of the Civil Service Commission and the Comptroller of the Treasury, without charge. Mr. Henderson has advocated the gathering together of items to get at the approximate amount of these free services. Now they are known: they were not known up to a few years ago as no one had ever brought them together. We did not know how much of the cost of Public Works really applied to the Post Office. The next step is that perhaps Public Works will start billing the Post Office Department for the space they occupy. Then you would have all your costs in the Post Office statement.

Senator McCUTCHEON: Public Works might make a profit.

Mr. HENDERSON: Quite right. This is the point we have been discussing in our meetings. The responsibility for the preparation of its financial statements rests with the Post Office, not with me. I have gone on to say here that if they will do it this way I will audit them separately. My predecessor in office made the point many times that he would like to see the Post Office as a crown corporation, operating on accrual accounting. As you can see from the size of the figures here and the method of operation, there is considerable merit to that

point. That is as far as I can go as the auditor in drawing these things to attention. As I mentioned earlier, in some of the cases they have already moved. The National Film Board, which has been accused by private printing firms for many years of not disclosing its total costs, has finally attempted to include its total costs; and although it increases them by something like \$1 million or \$1,500,000 in the year in which they have made this changeover, nevertheless they have changed over to it and they have printed them this way in their annual report.

Senator CROLL: How would Public Works deal with that \$3 million, for instance? How would it carry it on its books? As money owing from the Post Office?

Mr. HENDERSON: No. It pays it out of its own appropriation and it is charged off to expenditure for the year, and that is that. We are hoping, as Mr. Long mentioned and as I think Mr. Balls mentioned, that interdepartmental billing can be developed, whereby Public Works will send bills to the Post Office, which can get the money in its appropriation and send it to Public Works, and then the costs of the Post Office will be all inclusive.

Senator CROLL: Mr. Henderson, if you are going to send bills around from Public Works for each department and have each department bill another department for every work that is done, you are starting to build up a new billing organization, one which does not now exist.

Mr. HENDERSON: In the words of the Public Accounts Committee, "providing this can be done without undue increase in cost or staff". I believe—and the officers of the Treasury agree with me—that this is practical within reasonable proportions. We have been watching that. It is not a desire nor is it necessary to do anything elaborate but on the other hand if you want to know the true costs of the individual operations of the Government, there is no other way you can do it. The over-all figures may be correct but the individual ones do not give it.

Senator McCUTCHEON: The Post Office Department under those circumstances may take a very close look at the charges it would get from Public Works and as to whether they can be justified and whether they might go outside and rent the same services more cheaply. It depends on the grade on which you are going to do it. Of course it could be carried too far.

Mr. HENDERSON: Yes, indeed.

Senator McCUTCHEON: If the Post Office had an option to say: "Look, Public Works, we are not going to use you in this field because we can go to the XYZ company and get it more cheaply," that would be a good exercise.

Senator CROLL: At that moment they need experts in facilities, experts in valuation and so on. At least we have it there now in the hands of the people who do these things six days or seven days a week. They are experts, trained for many years and all the other departments get the benefit of that training, so the Post Office Department acting in that fashion on its own could merely cause mischief, because these are experts who are dealing with it.

Senator McCUTCHEON: I do not agree, senator, that all the experts are in the Government.

The CHAIRMAN: This question is the placing of the accounting and the responsibility on people, with the result they will do the job more efficiently and more effectively than if they are not accountable for the expenditure. That is the theory behind it and I think it is good theory.

Senator McCUTCHEON: I do not know who cleans buildings more efficiently, the great commercial firms or Public Works. It would be an interesting exercise if the department had the right to say: "We will put it in for tender and let Public Works tender at the same time as commercial firms."

Mr. HENDERSON: Senator Croll, you may have noticed that this is already being done in a preliminary form or manner at the head of each department's estimates in the Blue Book. You already see there the approximate cost of major services provided free to each department.

Senator McCUTCHEON: But the money is not voted.

Mr. HENDERSON: They have been showing this for two years now, with one exception. They have not yet embarked on interdepartmental billing, but that is where the figures will come from.

Senator McCUTCHEON: But Parliament has not voted that expenditure to the Post Office. It has been voted to the Post Office and other public departments.

Mr. HENDERSON: That is right, but at least Treasury is furnishing the difference in terms of dollar cost, and you are seeing it. For instance, when you want to know the cost of my office and see the amount you are asked to vote for it, you should at the same time add to this the approximate cost of my accommodation or rental shown, the superannuation cost, and so on. It is all to be found there. We were hoping that interdepartmental billing will be feasible so that these free costs can be included right in the appropriation, if, as the Public Accounts Committee pointed out, it can be done "without undue cost increase." I agree it would be unrealistic to superimpose a vast billing mechanism, but it is not as difficult as may be thought, provided we are prepared to accept approximate figures, as we must, since no one knows what the buildings cost and no one can determine their depreciation and so on. The figures are not as all-inclusive as that, I am afraid. In business those figures would be strictly accurate but ours are not and I am afraid they never will be.

The CHAIRMAN: I take it that machine accounting makes some of these suggestions more feasible than when you are depending upon ordinary accounting.

Mr. HENDERSON: It would be. That is possible. Of course, the supervision of an interdepartmental billing process like this should be under the direction of the central treasury. It is a situation where the Comptroller of the Treasury would be in charge and put out the billing on machines, as you say, Mr. Chairman.

Senator CROLL: What about the British system?

Mr. HENDERSON: The public accounts there are different, but the auditor general generally certifies the accounts of each department, just as I do our crown corporations. Each department is on its own feet. Please do not ask me to translate their system in terms of our own, because I myself always have difficulty in dealing with the many different editions they put out.

Senator CROLL: What do the Americans do?

Mr. HENDERSON: The Americans operate rather like the British. They have the individual agencies more departmentalized than ours. There is not nearly the central type of control such as we see here. Of course, they have their civil service and general treasury; but I know from the reports I see which are examined by the Comptroller-General in Washington, that he, like the practice in England, certifies the accounts of individual departments. Curiously enough, I think we too may come to this, if, as and when the authority comes to be decentralized, that is if the Government decides to do this following the Glassco Commission recommendation. We might yet see a statement of an individual department certified by the Auditor General. It might have a place in the public accounts if we can project this ahead; because if this decentralization of authority does take place you are in effect turning the department into operations closely resembling a crown corporation in terms of giving them



the tools to do the job. In that event, there could be a case for me to examine and certify the accounts of the individual departments, with the Government—and I am, of course, oversimplifying this—producing one big consolidation of all its departments, agencies and crown corporations at the end of each fiscal period.

Senator CROLL: They will resist you on that.

Mr. HENDERSON: I haven't suggested it yet, sir. I want to see what they will do with the first step.

Senator CROLL: When do these crown corporations usually make their returns?

Mr. HENDERSON: In fiscal years?

Senator CROLL: Yes.

Mr. HENDERSON: Some on December 31, some on March 31. The majority I think, are on March 31; and they have to table their statutory accounts along with my certificate thereon usually within 90 days. We have quite a deadline.

Senator CROLL: Ninety days after?

Mr. HENDERSON: Yes, by June 30.

Senator CROLL: The Government's fiscal year ends March 31?

Mr. HENDERSON: Yes.

Senator CROLL: So the vast majority end on March 31?

Mr. HENDERSON: Yes.

Senator MCCUTCHEON: With two very important exceptions, on December 31, namely, the Canadian National and the T.C.A.

Senator CROLL: It has always been December 31 for them. What about the St. Lawrence Seaway?

Mr. HENDERSON: I might ask Mr. Long to speak to that, Mr. Chairman. I think the basic underlying reason would have been to reflect the seasonal trend of the nature of their business.

Senator CROLL: I suppose that reason would apply to the St. Lawrence waterway?

Mr. LONG: It is better for the St. Lawrence Seaway that their accounts close in December when the Seaway is closed rather than in March, because in March their operations are just starting up again.

Senator CROLL: So they do that to reflect a better picture. Forgetting that evidence, in the main, 80 per cent of the other accounts come in on March 31?

Mr. HENDERSON: Well, it ties in better also with Treasury's timetable in connection with the approval of their budgets. That is why, in the case of the C.B.C., for example, Mr. Alphonse Ouimet, the president, has been making a strong case for having the fiscal year of the C.B.C. close in the fall, I believe it is, before embarking on his winter broadcasting schedule. I think there is a great deal of sense in that. However, it would pose substantial problems for the treasury in terms of its estimate's arrangements, and the placing of those estimates before Parliament; so much so that it is highly unlikely he will be able to achieve that objective, although it would be better for his financial statements. As you look at the timetable of the Treasury Board, which has to process a tremendous volume of estimates and budgets, you can appreciate how he could be handicapped in the cycle of his estimating, because already he has to estimate so far ahead that it becomes more guessing than estimating.

Senator CROLL: The thought I have in mind is this, that the governmental estimates come in a year later, before the money is spent?

Mr. HENDERSON: The estimates come in before the money is spent.

Senator CROLL: Yes, the estimates come in before the money is spent. Now, those estimates may be lying before Parliament sometimes for a year?

Mr. HENDERSON: Yes, that is right.

Senator CROLL: That is conceivably so. By that time there are already other estimates, because we have to have money, and Parliament provides it. Now, that is not true with crown corporations. Whether a crown corporation makes money or not, at the end of the year—bingo, there it is!

Mr. HENDERSON: That depends whether you are speaking of a crown corporation that generates its own revenues or one that relies on the Treasury.

Senator CROLL: I am talking about a crown corporation. So that they may not synchronize with the Government's fiscal year?

Mr. HENDERSON: No. Polymer chooses to have December 31. In fact they are very speedy. I have to be through with my audit for them by the last few weeks of January in order that they can know their figures fast, although they do not have to be tabled until expiry of the 90 day period. They are a very efficient group, taking off monthly balance sheets, I believe within three weeks of the close of each month—consolidated ones at that.

Senator CROLL: I take it, then, that the big crown corporations, the big losers, four or five of them, have year ends which do not at all synchronize with the Government's fiscal year.

The CHAIRMAN: The C.B.C. shows the largest amount. That just comes back to what we were discussing earlier. An item goes into the estimates of \$85 million, the estimated deficit of the C.B.C. for its current year. Then in our interim supply bill we grant the corporation one-twelfth or two-twelfths, whatever it may be, until finally, sometime towards the end of the year, it gets its final vote. In the meantime, it will be asking for money for 1965-66?

Mr. HENDERSON: That is right.

The CHAIRMAN: That will be another "x" millions of dollars. The only thing is that, at least, if we are following out some of the suggestions that have been made, in March of 1965 we would have an explanation of the "x" millions of dollars they are asking for for 1965-66.

Senator CROLL: As Mr. Henderson says, Mr. Chairman, even now he sympathizes with Mr. Ouimet of the C.B.C. who says it is not even an "x" amount, but a sheer pitch in the dark. Then they can ask for more money before anyone gets any kind of explanation that makes any sense.

The CHAIRMAN: Of course, the Auditor General might find out how good a guesser he is.

Senator LAMBERT: In reference to crown corporations, does the Auditor General's report show any scrutiny or examination of the Canadian Wheat Board?

Mr. HENDERSON: No, sir. The Canadian Wheat Board Act provides for the appointment by the minister—

Senator LAMBERT: The Minister of Trade and Commerce?

Mr. HENDERSON: The Minister of Trade and Commerce.

Senator LAMBERT: And it is a crown agency?

Mr. HENDERSON: Yes. The Canadian Wheat Board Act provides for the appointment by the Minister of Trade and Commerce of a firm of chartered accountants, and he appoints a private firm.

Senator CROLL: So does the C.N.R.

Mr. HENDERSON: The C.N.R. does.

Senator CROLL: The C.B.C. does not?

Mr. HENDERSON: No.

The CHAIRMAN: Do you have anything to do at all with the audit of these crown corporations where they have a private firm of auditors?

Mr. HENDERSON: No, Mr. Chairman.

Senator McCUTCHEON: They are listed in the report. There is about a dozen of them: Bank of Canada, the C.N.R., and so on—those all use outside auditors.

The CHAIRMAN: Are there any further questions along this line of discussion?

Senator LAMBERT: Using exhibit A as an example, how many of the crown corporations would you think would be susceptible to this sort of analysis?

Mr. HENDERSON: Certainly those who come to the public treasury for money, but I hope all of them would consider the merits of this in the discussions that Dr. Davidson is holding.

Senator McCUTCHEON: It is true you get it in arrears, but surely Polymer cover comparative balance sheets and comparative operative statements? C.N.R. certainly does, T.C.A. does. T.C.A. and the C.N.R. have to come to Parliament and make a disclosure. But where you are going to be provided within a few months after the year end—because I do not think any of these companies are in default in getting out their accounts and filing them, and we all get copies of their annual reports—I do not see the point, and I say great harm could be done with regard to certain of them if they were required to estimate their operating position in advance, or disclose their capital budget to any greater extent than they do now. They are all in competition with somebody.

Mr. HENDERSON: The capital budget of the C.N.R., under section 80 of the Financial Administration Act, has to be laid before Parliament each year. All I am saying is, would it not make more sense and prove more convenient to Members of Parliament if it was laid on the table at the time they asked for the money and, in other words, shown in the bluebook in the details of services?

Senator McCUTCHEON: I am not complaining with regard to those crown corporations, and I am not quarreling with your suggestion about those ones that have to come before Parliament. I agree if you had such a comparative statement as you are suggesting—

Mr. HENDERSON: That is their budget that is made public.

Senator McCUTCHEON: That is fine, but it may be Parliament is entitled to somewhat more information about the intimate details of these companies for whom it must vote large amounts of money. Polymer gets a capital budget approved, and it is tabled. My recollection is the amount of detail is pretty limited, as well it should be. The time for Polymer to tell the public how it spent that money—and presumably it tells its minister and the cabinet or wherever—is after it is spent; and not to tell its competitors it is going to build a plant here or acquire a 40 per cent interest in a company here, and so on. That is my objection.

Senator O'LEARY (*Antigonish-Guysborough*): You do not think there is any harm in a crown company losing money prejudicing its operations by disclosing this much more?

Senator McCUTCHEON: I think it is probably one of the facts of life that they have to disclose a little more. Even they are a little expert at not disclosing too much. In other words, let us take this example Mr. Henderson has given:

Artists', speakers', musicians' fees, copyrights, performing rights, manuscripts and plays—\$19,669,000.

If the next year that became \$40 million you could at least have a broad general discussion on it without going into intimate details of what they paid. Views could be expressed as to whether this was not pretty extravagant, and so on.

Senator LAMBERT: The competitive position of Polymer, would not it be an exception amongst crown corporations?

Senator McCUTCHEON: Polymer is one, Eldorado another, and Atomic Energy of Canada another.

Senator LAMBERT: There are no competitors.

Senator McCUTCHEON: Across the border there are a lot of them.

Senator LAMBERT: I think there is a good deal of interchange, anyway, from a scientific point of view. I would think you are over-stressing the competitive character. After all is said and done, it is a public institution. It is really run as a private institution and shows a profit, but I think—

Senator McCUTCHEON: All I am hoping is it can continue to be run as a private institution.

Senator CROLL: There is some difference between agency and proprietary.

Mr. HENDERSON: Yes, that is under the act.

Senator CROLL: For instance, let us take the National Harbours Board, which is agency, and I will take Polymer, for no other reason than I have it in front of me. Polymer needed some money and went out and borrowed it.

The CHAIRMAN: On its own credit.

Mr. HENDERSON: Yes, that is detailed here.

Senator CROLL: The National Harbours Board cannot go out and borrow on its own credit in the same way. It must come to the Government.

Mr. HENDERSON: Yes, that is right.

Senator CROLL: That is the point. You have two kinds of crown corporation. So, under our understanding, one has authority to borrow from the outside quite properly, and runs a good business and is not subject to review; whereas the other one—

Senator ISNOR: There is a difference there.

Senator CROLL: No, no. I am just saying one has to come to the Government and is reviewed, whereas the other one does not and is not. I know of no distinction between what they are doing. I am not interested in that.

Senator McCUTCHEON: There is a great distinction, surely, in what they are doing. Polymer is engaged in a business which, in normal times, the Government should not be engaged in at all; whereas the governments will always have to be engaged in harbours. There is the essential distinction.

The CHAIRMAN: Of course, it is possible that even Polymer will have to come to Government for a capital loan, if the amount required is beyond its own resources.

Senator McCUTCHEON: That is possible.

Senator O'LEARY (*Antigonish-Guysborough*): Where did the initial capital come from?

The CHAIRMAN: The Government.

Senator O'LEARY (*Antigonish-Guysborough*): How much has the Consolidated Revenue Fund received back of that?

Senator McCUTCHEON: Three or four times the original capital.

Senator O'LEARY (*Antigonish-Guysborough*): Not in every instance.

Senator McCUTCHEON: No, but we are talking about the one company.

The CHAIRMAN: Is there any further discussion along this line? It is very interesting and gives us food for thought for further consideration of these crown corporations.

Are there any further questions of Mr. Henderson on the estimates themselves or on the recommendations of the Glassco Commission in connection with changing the form of the estimates?

Senator McCUTCHEON: Could I ask Mr. Henderson a very broad question? I take it from what I have heard you say here today, and from what you said at a previous hearing at which unfortunately I could not be present, that broadly speaking you are in agreement with the recommendations of the Glassco Commission with respect to the form of the estimates and the financial management of the Government departments?

Mr. HENDERSON: The proper answer to that question, Senator McCutcheon, is that I am in agreement, and I sought to explain that at the last meeting; but I also pointed out, as clearly as I could, that the question as to the extent to which these individual recommendations might or might not be implemented is the prerogative of the executive, not mine.

Senator McCUTCHEON: I was not suggesting it was anybody's prerogative sitting in this room.

Mr. HENDERSON: But as far as the practicability of them is concerned and the question that the chairman mentioned of the importance of accountability plus the fact a number of Glassco's recommendations follow on ones I myself have made, such as the one we have been discussing in the estimates here today, I have been frank in saying I think they well merit the consideration that is being given to them.

Senator CROLL: If you have answered this I will see it in the record. I have always been impressed by the British approach to public accounts in that they take one department on a non-party basis and really go over it with a fine tooth comb. Each year they consider a different department. I do not know how they decide on what department to look at, but they adopt that method instead of the sort of hit and miss method of looking at all departments at the one time. Is it practical from our point of view that we adopt the same method? Surely, it would give us a better understanding of what goes on in a department if that department is studied in such an intense fashion.

Mr. HENDERSON: I think it would be excellent if you were to concentrate on the operations of one department, starting probably with the minister. In the same way you could choose one of the crown corporations and study it. I think that that would be of considerable help. It may interest you to know that the Public Accounts Committee this morning decided to call—at least this is my understanding from the way the discussion went—three crown corporations, Atomic Energy of Canada Limited, the St. Lawrence Seaway Authority and the National Harbours Board, over the next two months or so. During this past summer they called the C.B.C. before them over a period of six meetings, and from speaking to the president himself and to the Secretary of State I received the impression that they thought it was of assistance to them.

The Committee's review was restricted by its terms of reference to the accounts in terms of my report on those accounts. One thing I have not touched on is the fact that in respect of all these crown corporations, when I have completed my work at the end of the year and signed the statutory accounts, I issue what can loosely be described as a long-form report. It may run to 30 or 40 pages, and is addressed to the chairman and members of the board. In that report I go over the composition of the accounts and I make suggestions as to improvements in the system of internal control, and draw their attention to situations that need remedying in other directions. My

officers go over these very carefully with the officers of the corporation in order to check their correctness, and the president then distributes copies of the report to his board of directors, and in every case a copy goes to the minister responsible. It is from those long-form reports that this text is written in my report to the House in order that those things that I feel the House should know are old to the House. Then, when the crown corporation, such as the C.B.C. this summer, comes before the committee it makes available to the committee—and I think the same should follow with this committee—copies of this long-form report in advance. The members of the committee can then study the operations of that corporation in rather more detail, and see comparative figures, and so on.

I took the liberty of showing your chairman a copy of one of the reports the Public Accounts Committee considered this summer—the 1963 report on the Canada Council—as an example of the type of information which, if you are going to examine a corporation, you might like to have in advance. These reports put the reader in the full picture almost as though, in effect, he were a member of the board.

In view of the fact, senator, that everything I write in the form of these reports is the property of Parliament in the final analysis then they are yours to see on request. Actually the practice is being followed of their being tabled in this fashion, but as and when you are looking at any particular one in my report to the House, please bear in mind that I am giving you a synopsis of it right there. My long-form report is simply an elaboration of this, employing terms that are perhaps more familiar to the management and the directors than they would be to members of Parliament.

I thought I should mention that, Mr. Chairman, in order that you understand the way in which we operate. This practice is followed by most of the large professional accounting firms, and I started it four years ago to clear up situations surrounding many of these agencies. It also enables me to define the extent of my examination, and, in the case of Mr. Long and myself, it helps us to audit the auditing, if you follow what I mean.

The CHAIRMAN: Are there any further questions or more discussion. If there is not then perhaps we can close off this aspect of our work to date.

Senator ISNOR: Am I to understand that you are going to approve of this form—

The CHAIRMAN: At the moment we are not approving of anything. What we are doing now is hearing evidence.

Senator McCUTCHEON: We are not writing a report today.

The CHAIRMAN: In due course we will come down to the matter of what the committee wants to report back to the Senate on the reference that the Senate delegated to it in connection with the Estimates. In following out the program that we started we have one more witness to hear in the person of Dr. Bryce, the Deputy Minister of Finance. He will appear before the committee next Tuesday at 3 o'clock.

It was the thought of the Steering Committee, as approved by this committee, that we would at subsequent meetings study the question of a report to the Senate of the evidence we have heard to date. If that is still your pleasure I shall declare this committee do stand adjourned until Tuesday next at 3 o'clock.

Senator ISNOR: Mr. Chairman, we should express our appreciation to Mr. Henderson. I may say that I have followed his reports since he took over the office of Auditor General, and in my opinion they have been very, very fine reports. What I like about them are the recommendations that he makes from time to time. It is very seldom that you see at the bottom of an auditor's

report any constructive recommendation as to how to save or how to spend money, or anything of that nature. Without exception, I think, every report Mr. Henderson has made since the time he was appointed Auditor General has contained some form of recommendation, even though sometimes it might be called a criticism.

Mr. HENDERSON: Thank you very much, Senator.

The CHAIRMAN: I am very glad, Senator Isnor, that you have put on the record our appreciation of Mr. Henderson's services. They are certainly of great help to us all. It has been of assistance to us in having him here for these last two meetings. On the committee's behalf I thank him very much.

Senator BAIRD: With those kind words, Mr. Chairman, I suggest we adjourn.

The CHAIRMAN: If it is the pleasure of the committee, I declare the committee adjourned until next Tuesday at 3 p.m.

The committee adjourned.

APPENDIXES: "I" & "J" FOLLOW—

## APPENDIX "I"

Extract from Memorandum prepared by the Auditor General

16. It is true that the crown corporations operating as they do along commercial lines and therefore using the accrual basis of accounting (rather than the cash basis used by government departments) do not present their operating and capital estimated requirements to treasury board in the same pattern as government departments. Nevertheless, the staff of the treasury board has to my knowledge developed excellent operating and capital budget formats or layouts showing clearly comparisons between past performance and future estimated requirements. These are for the most part, following executive approval, tabled in parliament at varying dates called for by the different legislation.

17. In paragraph 16 of my report to the House of Commons for the fiscal year ended March 31, 1960, the following recommendation is made:

... consideration should be given to the form of the estimates presentation with a view to providing more meaningful information, for example, by:

- (c) including both operating and capital budgets of crown corporations, even where funds will be forthcoming in full from corporate resources (thus giving parliament an opportunity to consider broad policies associated with their operations);...

An example of the type of crown corporation budget which in my opinion should be included in the estimates is to be found in the operating budget for the Canadian Broadcasting Corporation for the fiscal year 1960-61:

	<i>Estimate for</i> 1960-61
Artists', speakers', musicians' fees, copyrights, performing rights, manuscripts and plays .....	\$19,669,000
Film purchases and rentals .....	6,376,000
Network transmission .....	7,490,000
Building rental and maintenance .....	3,449,000
Salaries and wages .....	38,481,000
Unemployment insurance, pension contribution expense .....	1,996,000
Other departmental expenses .....	15,081,000
	<hr/>
Gross Expenditure .....	92,542,000
	<hr/>
Less:	
Expenditures recovered from capital grant and other departments .....	1,944,000
Commercial revenue net of agency and U.S. network commission payments to private stations .....	28,513,000
	<hr/>
Net Expenditure to be voted by Parliament .....	\$62,085,000
	<hr/>

Presentation of a budget such as above on the appropriate estimates class page should also provide for comparison of the estimate for the year in question with the anticipated expenditure for the current year as well as with the amounts that had been estimated for the current year.



## APPENDIX "J"

(Answers to Questions asked in the Senate, November 5, 1964)

*Question by Senator Brooks:*

"I notice in Supplementary Estimates (B) ..... the Dominion Coal Board vote .. for \$1.00 ..... Subventions were paid in the past few years to move coal from Alberta to Vancouver but I do not see any mention of that here. Possibly it has been dropped. The honourable senator may be able to give some more information in that connection."

*Answer:*

Vote 75b provides for annual payments not exceeding \$18,000,000 for a period of five years to be made "in connection with the movements of coal in accordance with such regulations as may be prescribed by the Governor-in-Council ....." This is practically the same wording as has been voted on annually for many years.

Order in Council P.C. 1962/462, as amended by P.C. 1962/1509, provides for assistance on coal from Alberta moving presently through Vancouver for export to Japan. The assistance provided is the amount necessary to make the Canadian coal competitive up to a maximum of \$3.15. No change is contemplated in this regard although the amount of coal to be shipped may vary to meet changes in the competitive situation.

In 1963/64 some 845,590 tons moved under these Regulations at an average cost of \$3.19 per ton. It is estimated that this year some 950,000 tons will move at an average cost of about \$2.80 per ton.

*Question by Senator Brooks:*

"Other large amounts in Supplementary Estimates (B) occur in the Department of Labour Estimates ..... \$50,300,000 ..... I would ask the honourable senator the purpose of this item ..... He may also be able to say how much is to be spent in each province." (Hansard page 1059)

*Answer:*

This amount provides for the continuation during 1964-65 of:

(a) The Municipal Winter Works Incentive Program	.\$35,000,000
(b) The Winter House Building Incentive Program ..	15,000,000
(c) Administrative costs associated with (b) above ..	360,000
	\$50,360,000

- (a) In respect of the Municipal Winter Works Incentive Program, the Department of Labour reports that:

On the basis of final claims to October 31, 1964, (\$28 million) it is estimated that 207,000 men have been employed and 3,700,000 man days of work have been provided as a direct result of projects undertaken during the 1963/64 program.

Further payments of \$5 million are anticipated.

These figures are for on site employment. The department has no figures available for indirect employment resulting from the provision of material and supplies for these projects.

Details follow:

Province	\$
Nowfoundland .....	90,290
Prince Edward Island .....	213,295
Nova Scotia .....	56,064
New Brunswick .....	185,316
Quebec .....	14,312,039
Ontario .....	4,618,642
Manitoba .....	1,227,109
Saskatchewan .....	1,161,890
Alberta .....	2,368,971
British Columbia .....	3,544,055
Yukon Territory .....	1,038
Northwest Territories .....	225
Indian Bands .....	112,555
Grand total .....	<u>\$27,891,489</u>

- (b) The Winter House Building Incentive Program under which a payment of \$500 per dwelling unit is made in respect of houses constructed during the winter period produced the following expenditures last year:

Province	\$
Yukon Territory .....	2,500
Northwest Territories .....	2,500
Newfoundland .....	61,000
Prince Edward Island .....	11,000
Nova Scotia .....	136,500
New Brunswick .....	116,500
Quebec .....	4,884,000
Ontario .....	3,938,500
Manitoba .....	633,000
Saskatchewan .....	522,500
Alberta .....	1,853,500
British Columbia .....	1,173,500
Grand total .....	<u>\$13,335,000</u>

The above disbursements are not final. It is expected that additional incentive payments totalling approximately \$739,500 will be made under the program.

- (c) The administrative costs are for inspection service payments under the Winter House Building Incentive Program. Specifically, a fee of \$12 per unit is to be paid to Central Mortgage and Housing Corporation for inspection of each housing unit constructed under the program. It is estimated that approximately 30,000 units will be constructed during the period of the program.



Second Session—Twenty-sixth Parliament  
1964

**THE SENATE OF CANADA**  
**PROCEEDINGS**  
**OF THE**  
**STANDING COMMITTEE**  
**ON**  
**FINANCE**

To which was referred the Estimates for the fiscal year  
ending March 31, 1965.

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The Honourable T. D'Arcy Leonard, *Chairman*

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TUESDAY, NOVEMBER 17, 1964

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No. 10

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WITNESS:

Mr. R. B. Bryce, Deputy Minister of Finance.

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ROGER DUHAMEL, F.R.S.C.  
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY  
OTTAWA, 1964

THE STANDING COMMITTEE

ON

FINANCE

The Honourable T. D'Arcy Leonard, *Chairman*

The Honourable Senators:

Baird	Macdonald ( <i>Brantford</i> )
Beaubien ( <i>Bedford</i> )	McCutcheon
Beaubien ( <i>Provencher</i> )	McKeen
Belisle	Méthot
Bouffard	Molson
Buchanan	O'Leary ( <i>Antigonish-Guysborough</i> )
Burchill	Paterson
Choquette	Pearson
Connolly ( <i>Halifax North</i> )	Pouliot
Crerar	Power
Croll	Quart
Denis	Rattenbury
Dupuis	Reid
Farris	Robertson ( <i>Shelburne</i> )
Flynn	Roebuck
Gershaw	Savoie
Grant	Smith ( <i>Queens-Shelburne</i> )
Grosart	Stambaugh
Haig	Taylor ( <i>Norfolk</i> )
Hayden	Thorvaldson
Hnatyshyn	Vaillancourt
Horner	Vien
Isnor	Welch
Lambert	Woodrow
Leonard	Yuzyk (50)

*Ex Officio members*

Brooks  
Connolly (*Ottawa West*)

## ORDER OF REFERENCE

Extract from the Minutes of the Proceedings of the Senate, Wednesday, May 20th, 1964:

“Pursuant to the Order of the Day, the Senate resumed the debate on the motion of the Honourable Senator Connolly, P.C., seconded by the Honourable Senator Hugessen:

That the Standing Committee on Finance be authorized to examine and report upon the expenditures proposed by the Estimates laid before Parliament for the fiscal year ending 31st March, 1965, in advance of the Bills based on the said Estimates reaching the Senate, and

That the said Committee be empowered to send for persons, papers and records.

After debate, and—

The question being put on the motion, it was—

Resolved in the affirmative.”

J. F. MacNEILL,  
*Clerk of the Senate.*



## MINUTES OF PROCEEDINGS

TUESDAY, November 17, 1964.

Pursuant to adjournment and notice the Standing Committee on Finance met this day at 3.00 p.m.

*Present:* The Honourable Senators Leonard (*Chairman*), Baird, Connolly (*Ottawa West*), Croll, Denis, Lambert, O'Leary (*Antigonish-Guysborough*), Power, Quart and Smith (*Queens-Shelburne*).—(10).

The Estimates for the fiscal year ending March 31st, 1965, were further considered.

The following witness was heard: Mr. R. B. Bryce, Deputy Minister of Finance.

At 4.45 p.m. the Committee adjourned to the call of the Chairman.

Attest.

F. A. JACKSON,  
*Clerk of the Committee.*





**THE SENATE**  
**STANDING COMMITTEE ON FINANCE**  
**EVIDENCE**

OTTAWA, Tuesday, November 17, 1964

The Standing Committee on Finance, to which was referred the Estimates laid before Parliament for the fiscal year ending 31st March 1965, met this day at 3 p.m.

Senator T. D'ARCY LEONARD (*Chairman*) in the Chair.

The CHAIRMAN: Honourable senators, I see a quorum. Before commencing, perhaps I should mention that the proceedings of last week have been printed and distributed, and if you have not yet received a copy it may be obtained from our post office.

Today we shall have our last witness in connection with the present matters under consideration by the committee, dealing primarily with the Estimates themselves, and, secondarily, with the recommendations of the Glassco Commission with respect to the form and matter of the Estimates. Dr. R. B. Bryce, Deputy Minister of Finance, is known to all of us. He has had long experience with the Treasury Board, the Finance Department, and with the Government. Without further ado I will ask him to proceed with what he would like to say to us on the matter under our consideration.

**Mr. R. B. Bryce, Deputy Minister of Finance:** Mr. Chairman, and honourable senators, I appear before your committee on this general subject with some diffidence, because I am no longer directly involved in the preparation of the Estimates, or in determining their form, to any detailed degree. Dr. Davidson is now in charge of that part of the Department of Finance which serves the Treasury Board, and advises Mr. McIlraith and Mr. Gordon on matters primarily concerned with the Treasury Board. However, I had some knowledge of these matters some years ago when I was secretary of the board until 1953. I have also had some concern, as secretary of the Cabinet, with the general reception that was given the recommendations of the Glassco Commission; and, of course, inevitably, as Deputy Minister of Finance, I run into a number of these matters in their bearing upon our financial affairs in their general aspects and, I suppose, in some degree as one of all the deputy ministers or heads of government departments and agencies operating the Civil Service.

With that background, I would not propose to go into matters in the detail that your previous witnesses have done, but I would offer you first a few general observations, as well as observations on several of the specific recommendations in the report, and then leave it to the senators to raise such questions as they feel it would be useful to raise with me.

I take it you are addressing yourselves primarily to the Glassco Commission report on financial management in its bearing on the form and content of the Estimates.

First, I would say I feel the general direction and nature of the recommendations in this report are right. I will come later to a number of particular items where either I would ask to defer giving a considered opinion or to

reserve my opinion because the matter is actively under consideration by ministers at present. For example, you have had several of your witnesses speak about the recommendation of the Glassco Commission in regard to the transfer of responsibility for the pre-audit function away from the Comptroller of the Treasury to departments. I have naturally had views on this matter, but Dr. Davidson and Mr. Balls have both asked that I keep an open mind on it until they have gone into it further and discussed it with me, because the Minister of Finance is going to have to come to some conclusions on it, and the Treasury Board, I suppose within the next few months, will also have to do so, and if you do not mind, I would not propose to offer an opinion pro or con upon that at this stage.

I would draw some implications of the recommendations in this report to your attention. First of all, I think that if we follow these the various departments of Government are going to have to assume more responsibility and exercise more judgment in financial administrative matters, and for this purpose they are going to need senior financial administrative officers. As I think Dr. Davidson has indicated to you in his testimony, it is not going to be easy to find experienced officers to take on these responsibilities, and we shall have to rely in some cases on those who have not had all the experience we would like, and train them and let them make a few mistakes, perhaps, in doing these things as they gather the necessary experience and good judgment. I say this because it has been my experience that the deputy ministers of departments are so concerned from week to week with other issues that it is difficult for them to take as detailed a responsibility for purely managerial matters as they would like; and I think they need to rely on competent and, if at all possible, experienced officers whose primary responsibility will be the administrative policies and judgments that the department will have to exercise under the recommendations of the Glassco Commission. I think myself it is right in principle that this should be done. I think it is manageable to do it, but I would say that this problem has to be recognized and we have to anticipate that as we work into this sort of thing we are bound to have some differences between departments in the way they deal with things and some of them not coming up to as high a standard as either they or others of us would wish them to do as they acquire more experience and more training in the matter.

A second implication I would draw out of this is that the Treasury Board and its staff are going to face new and rather difficult problems in judging performance rather than in authorizing transactions. I feel that this too is the right direction in which to move, but in many ways it is easier to look at a whole host of transactions as they go through and express one's opinion on them as they come before one than it is to look at the way a department has been running, how it has been managing its affairs, and come to a decision whether it has been exercising the right kind of efficiency and judgment in what it is doing.

Again, I think, as far as my own knowledge and experience of these things goes, that the royal commission has pointed us in the right direction in this and that we should take it, but it is going to mean a different kind of job for the Treasury Board and those who serve it, and one cannot expect it to be perfect to start with. This, of course, applies to us in the Department of Finance in our staffing of the Board, and we are hoping to follow the advice of the Glassco Commission in one of their other reports and get for the staff of the Board men who have had operating experience in departments and not rely as much as in the past on men who have grown up, so to speak, in that central organization itself.

I have not reflected as much as I should, perhaps, on what the implications are for Parliament. Perhaps that is better left to parliamentary committees

themselves. What they are going to have to judge, I suppose, is whether the Treasury Board is judging properly and acting properly where it finds departments have not been measuring up. This may make your role and that of the Public Accounts Committee and others in Parliament more difficult still. All in all, therefore, it seems to me that while this report goes in the right direction, it confronts us with changes in the way we carry out our duties, which we should undertake and which, I believe, we will be undertaking, because already the Government and Parliament have approved quite a number of these recommendations which will require us to change our approach and attitudes, and perhaps we shall make mistakes here and there as we work into the new procedures and the new spirit.

Now, if I might turn to a few of the specific recommendations—I do not want to comment on all of them by any manner of means—it seems to me that in regard to the ones relating to the estimates particularly, if I could refer perhaps to the royal commission report—

Senator CROLL: Mr. Chairman, before Mr. Bryce gets into specific recommendations, is this moment appropriate for questions on the generalities he has been dealing with?

The CHAIRMAN: Would you like to pause here?

Mr. BRYCE: Just whatever is convenient to senators.

The CHAIRMAN: Does it interfere with your presentation?

Mr. BRYCE: No.

Senator LAMBERT: I have a question I would like to ask Mr. Bryce, if he would care to express an opinion upon the sort of general perspective. Would it be possible to indicate a general total amount representing those statutory areas in which the expenditures might be regarded as irreducible and rather difficult to control? Also, on the other hand, a general class of expenditures where reductions might be effected with the assumed approval of Parliament? In other words, is there a line of demarcation where we could possibly get a picture of the area which might be considered as reducible, with the approval of Parliament, rather than the statutory, fixed amounts which are pretty well classified in the Estimates in relation to provincial agreements and so on? I think if that perspective could be given to us we might approach the thing from that point of view.

Mr. BRYCE: That is a question I did not come prepared with any figures to answer. I would say, first off, that what is reducible and what is not depends on the time that can be taken to make a decision or revise decisions already made, and what is regarded as within the art of the possible. For example, if you take our payments to the provinces under tax-sharing arrangements and things of this sort, these can be altered from time to time, and have been altered from time to time, even though they are provided by statute. You may recall that in 1961 the Government altered the formula relating to the manner of determining such grants. Well, it was altered again this year to restore, largely but not completely, the principle that was enacted in 1956. An item like that, if you look at it in any particular year, is hard to reduce because first it is embodied in the statute and, secondly, it is the result, if not of agreement, of a sort of arrangement that has finally been worked out after a lot of consultation with the provinces.

Again there are some important services which are provided for by appropriation and which we do not suppose anyone would seriously think of reducing because the public are dependent upon them. You take for example the operation of the Post Office which is a vital part of the working machinery of

the country. It is, of course, covered by appropriations which Parliament passes from time to time, and Parliament could decide to cut it to two-thirds of what it was, but I do not suppose Parliament would regard that as a practical proposition. If you look at the department for which I am responsible we have the same problem with regard to the Mint. It costs several millions of dollars a year in appropriations to operate it and it is true that we make a considerable profit over and above that. Parliament could cut the appropriation for the Mint but it would result in a shortage of coins if they did so. Therefore the test of what is practical is not really a legal one. It is a difficult thing to define what is reducible. Looking at the estimates it is a matter of judgment as to what is regarded as practical management, practical politics and practical economics. That is why I have never felt that one can make as clear-cut a division, as your question would imply. How would we calculate things like the Post Office or the Mint or other services provided for by appropriation?

Senator LAMBERT: There must be a proportion of service to growth that you have to take into consideration.

Mr. BRYCE: I think that is right. It seems to me that in the past the Treasury Board has tended always to concentrate on controlling growth and occasionally reversing it as we did in periods of austerity. At the time of the Korean war we did that. We also tended to concentrate on the provision of capital expenditures for this, that and the other. I remember we had quite a serious problem after the Korean war broke out and we saw it was going to involve substantial expenditure and give rise to boom conditions in the country. The Government at that time directed me to conduct a thorough investigation of our expenditure program to see what could be cut back. We did cut back a fair amount that year. I am not sure whether the record of government expenditures would show that up very vividly in a curve of what our expenditure has been, but the main items which, in my experience, governments have come to find as controllable are the rates of growth and capital expenditure. Occasionally there has been the possibility of imposing freezes on staff so that people who have left the service have not been replaced.

From time to time people with responsibility such as mine have put before the Government proposals to discontinue this or that service. I had better be careful here, but I have put before several governments proposals to discontinue one service and have urged it as strongly as I dared to do as a civil servant. But the Government did not agree with me for reasons which I can understand. There are a few such services that one can argue are not essential but these are exceptions, I think.

Senator LAMBERT: There was a phrase that used to be used during war-time: if it was physically possible it was financially possible. That was Mr. Clark's phrase, I think. Does it not still apply?

Mr. BRYCE: That phrase was borrowed from Social Credit in prewar days. It has a long history. The problem of holding public expenditure under control, or reducing it when conditions seem to warrant it, is one of the central problems of the age and is always fraught with a great deal of very real difficulty, I think, for any government. It is a situation where we cannot easily identify where controls can be imposed.

Senator CROLL: Speaking frankly I think we have not once accomplished this within the last 20 years. All expenses have inevitably gone up rather than down.

Mr. BRYCE: The total budgets have gone up. I think that is quite right. I think probably we would find we managed to cut things back at the time of Korea and during the austerity program in 1962. We certainly cut back a lot of things during the war. But that is where there was very strong pressure imposed by outside events.

Senator CROLL: My recollection is that since the end of World War II, forgetting Korea which was exceptional and forgetting other things which demanded exceptional steps, the history is that we have not cut down on anything. This certainly applies in those items which I have studied in the public accounts. Does it not follow that when we talk about reducing this or that we are speaking in a vacuum?

The CHAIRMAN: You are speaking of the aggregate and not of individual departments and programs.

Senator CROLL: In the individual programs. In the aggregate nobody can argue the point. But in individual departments I do not seem to find very much reduction. I do not look for too much.

The CHAIRMAN: The Department of National Defence is down substantially in these estimates.

Senator CROLL: Yes, but that arose as a result of exceptional circumstances. Naturally it could not continue to grow. So it was eliminated. But taking the normal departments, where is the reduction?

Senator BAIRD: Well, with all this welfare requiring an increase in staff and social security and so on—

Senator CROLL: My friend and I do not share the same view. If we have to cut down on these services at all in order to cut down on the budgets, then I am not in favour of cutting down on the budgets at all. The point I wanted to ask about it very simple. As I say I am not one of those people who think the budget is much too high. I think it is very reasonable. But we were talking about people and I got the impression from you that you said that good people for government services are hard to find.

Mr. BRYCE: I was speaking here, as was Dr. Davidson when he testified before you, about what the Glassco Commission said concerning staff and the appointment of a senior financial officer in departments. It recommended that senior financial officers in each department should be appointed with the approval of the Treasury Board, and I note that Dr. Davidson indicated they had quite a shortage of men qualified for that role. This is what I was referring to. These are men who are good managers and who have the kind of financial judgment that is desirable in the exercise of letting contracts and dealing with staff problems and seeing to it that departments work efficiently.

Senator CROLL: He did not say they did not exist in Canada.

Mr. BRYCE: No, sir, by no means. What he said was that there was a shortage of them in the public service, and that it was not easy to get them.

Senator CROLL: Well, I suppose the short answer is that we do not pay enough.

Senator BAIRD: What do you mean by "do not pay enough"?

Mr. BRYCE: You would not expect somebody from the Treasury to agree too readily with that, would you, sir?

Senator CROLL: Then why are we not getting them? The public service is not as attractive as is private service because there is no generous expense account, no stock options and no heavy pensions, and the pay is less. Perhaps you can fill in anything else you like. Is it fair to say that?

Mr. BRYCE: All of those factors are relevant, although we do have a good pension plan.

Senator CROLL: Not quite as good as some private organizations have, but what is more relevant than these factors?

Mr. BRYCE: What is most relevant, I think, is the recommendation of the Glassco Commission which suggests that we should develop and use a good many officers of a type which has been centralized in the government service, and that we should decentralize them. But to do that we require a good many more than we have. We require men who have some knowledge of the way in which government operations are carried on, and it is difficult to produce those men quickly. Even if you bring in a man who has been, let us say, a comptroller of a company, he is not necessarily going to be able to do this job right away because he has to accustom himself to a quite different environment, a quite different set of tests and a quite different set of problems. The point I would really make is that we are going to get people like this as time goes on, but we may be shorthanded in this vital function to start with.

The CHAIRMAN: Is there a shortage of bodies regardless of salary and these other considerations that Senator Croll has mentioned?

Mr. BRYCE: There is a shortage of bodies now, sir. To answer Senator Croll with respect to whether these can be gotten from outside is more difficult. I think we could get some from outside, but it would take some time to get them adapted to the government service.

Senator CROLL: I appreciate that, but in the course of your remarks you said that we do the best we can in bringing people up. These people are inexperienced until they learn, but I would point out that in government, which is the biggest business in the country, a few mistakes can be expensive. It seems to me that if the bodies are there as you suggest, or almost there, and that there is something to be gained in having men of that type—particularly those at the managerial level—adapt themselves to the government service, then we have been just talking to one another because this recommendation has been before us for some time, in fact, for four years—

Mr. BRYCE: No, two years, sir.

Senator CROLL: Well, two years is not too long. We should take some action on it because everybody else in the country is trying to get the same sort of men, or, at least, every large industry is. You have got to do something more than say: "Oh, you are going to be a government civil servant, hurrah! hurrah!" We are not going to spend less money; we are going to spend more money, Mr. Bryce.

Senator CONNOLLY (*Ottawa West*): May I ask a question of Mr. Bryce? What in fact has been the experience within the public service of taking people from other areas of work and putting them into these managerial posts? Has it been good, and have these other areas been a good source of supply?

The CHAIRMAN: Where did Mr. Bryce come from?

Mr. BRYCE: Well, I hesitate to give too definite an opinion on that, Senator Connolly. Many people come into the service because they are interested in a particular line of work or activity. The managerial side is regarded as the less exciting side. A person who comes in to be an economist, or a foreign service officer, or one who has come in to explore the north and do some of these other jobs, is somewhat reluctant to take on the day to day housekeeping tasks. I think this is the chief problem today. We have many scientific groups to be administered, but the scientists come in to be scientists and to do research rather than to look after the contracts and to see that the organization is on its budget. I think the nature of the problem is that the public service is most attractive to people that have certain other objectives primarily in mind, and the problem is to get people of equivalent competence and ability

who will come in with a managerial career, and managerial interests and responsibilities, in mind.

We are making some progress. Dr. Davidson in his testimony on this point says at page 186 of your proceedings:

The Civil Service Commission, together with the Treasury Board staff, have made certain assessments of our state of readiness in the various departments of government to take on at the departmental level these additional responsibilities in the financial field—

He is referring here to these financial managers.

—and it has been established that we have very serious weaknesses concerning personnel available, trained and equipped to deal with the kind of job that will be required departmentally, if this responsibility is to be shifted from the central agencies and vested in the departments. With that in mind, training programs are now being developed under the auspices of the Civil Service Commission—for example, the Society of Industrial Cost Accountants, at Carleton University.

And then he goes on to say that over the course of time it is hoped to train people to do this kind of work.

Senator BAIRD: Mr. Bryce, you talk about bringing in people from the outside. Would not that create a certain amount of dissension and dissatisfaction amongst those already there?

Mr. BRYCE: Almost inevitably, sir, when you have to bring people from outside a unit to run it.

Senator BAIRD: It would be far better to give the material you have inside a fair chance.

Mr. BRYCE: On the other hand, it has been my personal experience that it is good practice to make some lateral transfers within the service from one department or unit to another. It helps you avoid getting too much of an inbred point of view on the operations of units. I think it is a good thing to bring in a reasonable number of people from the outside.

The CHAIRMAN: Have you pursued this point as far as you want to go, Senator Croll?

Senator CROLL: I had a nasty question, but I will defer to Senator Lambert.

Senator LAMBERT: The question has been raised with respect to the efficiency and competence of the personnel of the different departments, and I immediately link that idea up with the question of policy. It has been stated there are only two provinces in Canada that are receiving more in the form of revenue from their own area than what they receive from the federal treasury. Those provinces are Ontario and British Columbia. Is the old idea, that revenues should be spent in the area in which they are produced an emphasis on the question of centralization versus decentralization—

Mr. BRYCE: Do I take it that you are referring to—

Senator LAMBERT: The application of the revenues of the country in such a way as to distribute them evenly over the whole country, regardless of where they come from, is one view. The other one is that we should attempt to re-establish the practice of having each province, for example, living on and within its own means.

Senator SMITH (*Queens-Shelburne*): It would mean a poor living for some Provinces.

Senator LAMBERT: Since Confederation we have had subsidies, and probably those subsidies will have to be continued, but the problem is one of policy vis-à-vis the personal adjustment of various individuals.

Senator CROLL: I understand what you are saying, but I understood from the last press release I saw that there was only one province that paid in more than it received, and not two. I do not mind your elevating the province of British Columbia, but the figures did not indicate it was in that category.

Mr. BRYCE: Are you referring to these figures we put out a couple of weeks ago about the allocation of revenue and expenditure?

Senator CROLL: Yes.

Mr. BRYCE: I do not carry them in my mind but this was a matter of great interest to one province, as you recognized.

Senator CROLL: Yes.

Mr. BRYCE: I would say just this, in observation on Senator Lambert's point, if it is in that connection. I think that Parliament—and the Government in its proposals put before Parliament—endeavours to deal fairly and equitably with Canadians wherever they may reside. Our taxes are supposed to be equitable regardless of residence. Our expenditure policies are supposed to be equitable, independent of residence. We have had a number of programs in the last 20 odd years. It even goes further than that. I suppose it extends right back to at least 1927 when the Old Age Pension Act was first introduced, where our expenditures are dependent on action of provincial governments. When that happens, the views and actions of provincial governments can influence what we spend for the benefit of the people in a particular province. Thus, you can get distortions that way. It strikes me that the right principle is for us to deal fairly with Canadians both in the levying of taxes and in making the expenditure, regardless of where they are. Now, in so far as we get into things that are dependent on provincial action, we are not entirely free to carry that principle to its logical conclusion.

Senator LAMBERT: The Rowell-Sirois Report sought to produce an equation which would be equitable to all, but it did not come to much. The war interfered.

Mr. BRYCE: The war interfered. The Rowell-Sirois Report was quite clear as to the shared-cost programs—I think they called them conditional grants—where they paid money to provincial governments to do this and that. But this is now a current issue not only of government policy but of government negotiations with provincial governments.

Senator LAMBERT: Do you agree that the effect of the war period, the financial calamity, had a great deal to do with accelerating the present trend?

Mr. BRYCE: Yes, sir.

Senator LAMBERT: I mean it the other way: the more considered judgment of the Rowell-Sirois Report was accelerated into something new?

Mr. BRYCE: Yes.

Senator LAMBERT: Whether it is economical or not.

Senator O'LEARY (*Antigonish-Guysborough*): We were discussing a particular problem about, more specifically, the senior provincial officers who have been recommended for the departments. Mr. Bryce, I am wondering if you feel that potential for such officers is available in most departments, or would there be heavy borrowing from one or two that we can think of?

Mr. BRYCE: When you say "potential" I take it you mean the potential candidates?

Senator O'LEARY (*Antigonish-Guysborough*): That is right.

Mr. BRYCE: I do not want to be too categorical on that, sir. Undoubtedly in many of the departments there are men who could be trained to do this work. Many of them have not had to learn the methods of accounting, the standards and guidelines for things like letting contracts and so on, in the way the officers



of the Treasury Board have had to do. There are many who could be trained for that and the main delay will be in trying to find them and see they get adequate training.

Senator CROLL: I thought the senator asked you had you officers available in the department to be trained?

Senator O'LEARY (*Antigonish-Guysborough*): Yes, he has answered that.

Senator CROLL: And you say they are there, not in all departments but in many.

Mr. BRYCE: I do not know if there is the material inside each, but it is outside, which is important.

Senator SMITH (*Queens-Shelburne*): There has been some publicity about the total number of civil servants as compared with a date a year previous to that. I think the public was expecting some quick results from the early implementation of the recommendations of the Glassco Commission—recommendations which they were led to believe would result in a drastic cut in the number of civil servants. Would you care to comment on the present position with regard to number and tell us whether the general opinion is that it is due to the growth of the country, of the population, the growth of demand for the government services, or is there some other reason for this apparent growth in the number of civil servants.

Mr. BRYCE: It would be better to ask Dr. Davidson that question. There is no doubt that in many cases you can see quite tangibly where it comes from. It is growth. The Post Office needs more letter carriers if it is going to cover the growing suburbs of Montreal, Toronto or Vancouver or other cities. In Income Tax, we have more income tax payers and we need more assessors to deal with that, despite automation. Growth is undoubtedly one of the factors, but it is not the only factor.

Perhaps here I should point to my own problems in this regard. The Department of Finance has been told by two Royal Commissions that it should increase its staff and be more on top of economic conditions, be more ready to deal with economic questions. I have been told to get on with this and we have been recruiting more staff. I would not say this is due to the growth of the country: it is rather due to the feeling that the government should do a better job in a particular field. Perhaps I would be tempted to say, that the more active governments become, the more active Treasury has to be to try to keep track of what they are doing—I will not say to stop them from what they are doing but to see that what they are doing makes financial sense and makes economic sense. Of course, it is the policy of successive governments to do new things, to do more things and you cannot do them without hiring people for the purpose. Whether we are as efficient as we ought to be, I leave to others now. I do not see enough of the workings of departments to warrant my venturing an opinion on this. It is a big organization.

Senator CROLL: Who does see enough?

Mr. BRYCE: I think this is clearly a Treasury Board responsibility.

Senator CROLL: To see that.

Mr. BRYCE: Yes. This is the function that the Glassco Commission clearly thought was the Treasury Board's central function, to see that departments were managing economically and were not overstaffed, not hiring more people than necessary.

Senator SMITH (*Queens-Shelburne*): Of course there is some real control over some department deputy who has a hidden desire to build his empire, in that he bumps up against the Treasury Board. When he requests an increase in staff of 200, he is put over the grill and I suppose this happens before approval

is given. He cannot go to the Civil Service by himself and say that he wants 100 men to do various jobs. Is not a request like that always passed on to Treasury Board for approval?

Mr. BRYCE: That is right and they should—and I think they do—require him to justify the staff he has had, and plans to continue having. If you concentrate on just the increases, you may leave a lot of inefficient operations going on. I remember many years ago, when I became Secretary of the Treasury Board, or a year or two later when I had some time to devote to this, looking into the administration of the Superannuation Act. It was not so much a question of needing more staff as trying to see what was required. We found that by changing our systems of operation we were able to save a good deal of money, to get along with fewer people and to transfer those we had to vacancies which arose elsewhere. This was really by more efficient operation. It is that sort of thing we want to make sure is going ahead all the time, so that we are operating as efficiently as possible, even in those things we are simply continuing to do.

Senator SMITH (*Queens-Shelburne*): Mr. Bryce, in connection with this general subject, are you yet in a position to indicate to us whether you think that considerable dollar savings would be involved if and when the major Glassco Royal Commission recommendations are accepted and put in effect? Or is the great saving in the fact that you have a more efficient service which will deal with problems in a better fashion and give the public better service?

Mr. BRYCE: The basic savings, I think, must come from better efficiency, better management. I would hope that some of that would show up in the saving of expenditure, as well as in the rendering of a better service to the public. In all fairness, I think that some of the savings should be passed on to the taxpayer. I have known instances, which I cannot recall at the moment, where that has been the case.

The CHAIRMAN: Shall we go on with the second part that Mr. Bryce is going to deal with the specific recommendations?

Senator LAMBERT: I should like to ask another question, having to do with deficit financing, as such. How many countries, which have not revalued their currencies, have been able to meet the current demand of revenues and taxation?

Mr. BRYCE: Without budget deficitting?

Senator LAMBERT: Countries which are not caught in the toils of deficit financing.

Mr. BRYCE: I would like to be able to answer that question, sir, but, in all honesty, I have had my eyes so much on the Canadian problem that I have not made the kind of survey that would be necessary.

Senator LAMBERT: Is it not true that the United States is among them?

Mr. BRYCE: I think the United States is still operating at a modest deficit, and that the United Kingdom is also operating at a modest deficit—less than it looked some months ago.

Senator LAMBERT: I suppose France and West Germany are more or less solvent?

Mr. BRYCE: Oh, yes. I do not think there is any question of their solvency. How far they are really operating at a deficit is partly a matter of how they keep their accounts. We all keep our accounts a little differently, and what we call a deficit is somewhat different from what the United States calls a deficit. Even the United States now puts out about three definitions of a deficit. You can pay your money and take your choice, whether they have a deficit or not, and how much. Frankly, sir, if the committee would like to go into that sort of thing on another occasion, we could try to prepare something for you.

Senator LAMBERT: It is a pretty broad question, but I would say it is a matter of projecting into the future a certain philosophy or policy, or putting away or building up some kind of reserve to take care of it.

Mr. BRYCE: Yes. Even in our own case, we will end up this year by assuming a deficit. As the Minister of Finance has said, the deficit will be a good deal less than he forecast in our budget. I would not be at all surprised but what that deficit will be less than the amount we are charging for our accruing liabilities on our employee pension plans, which runs to something over \$200 million a year. That is a deficit that we are recognizing for our future liabilities; but we are not paying anything out. It is that sort of thing that creates our deficit. Our civil servants are earning future pension rights which we recognize as a charge into our costs, and which you can say that this year will be what creates our deficit. If you think of the money that we take in by way of taxes and pay out in expenditures, other than that sort of accruing costs, we are now taking in more than we are paying out.

Senator POWER: On the theory of Gladstone, that if you only have £1, and you spend 21 shillings you are in deficit; but it is not that simple nowadays.

Mr. BRYCE: No; and for governments now to disentangle their whole array of transactions, including borrowing, and lending, and to try to assess their economic effects, is a very complicated matter. We put out in the budget this past year some figures on what we called our budget, in terms of not the Public Accounts that we normally use, but the national accounts, which is what the statisticians use in calculating the national income, or the gross national product—the economic magnitudes. That showed that the Government was taking in as much as it paid out, if I can put it in the most crude terms, and that in terms of the economy as a whole we were not doing what is called deficit financing. Indeed, if you look at it that way, we are no longer running a deficit, but perhaps a slight surplus.

Senator LAMBERT: The loans to provinces each year are assets, then?

Mr. BRYCE: We exclude from that the loans we make to Central Mortgage to make mortgage loans to individuals. We exclude that sort of thing, but we certainly treat as expenditures the moneys we pay over to provinces to help them meet their requirements.

When we get into this question of deficit financing, you have to take into account all these kinds of considerations and relate them to what the economic role of the budget ought to be. When you look at it in that way, our accounting figures are less significant than our economic figures. It is rather a long story to go into, but if the committee on some other occasion would like to do that systematically, we can produce material.

Senator LAMBERT: Does not a great deal of the soundness of this argument or point of view depend on the extent of your capitalization? In other words, is it not just as possible for a country like Canada, as for a large industrial corporation, to over-capitalize itself, so that it even has not the ability to pay dividends, if necessary, in relation to the taxpayer. Where does the line of demarcation come between solvency and insolvency in relation to capitalization in the country's affairs?

Senator CROLL: I suppose the answer is that a country cannot become insolvent. I have never heard of a country becoming insolvent. It can become temporarily hard up.

Mr. BRYCE: Of course, a country can get into a hopeless state of inflation.

Senator BAIRD: You cannot pay your debts if you are insolvent, can you?

Senator CROLL: The figure that you gave on human depreciation, is that an annual figure?

Mr. BRYCE: I beg your pardon, sir?

Senator CROLL: You did not use that phrase. You spoke of the figure you set aside for future benefits.

Mr. BRYCE: Oh, these are the accruals of our obligations.

Senator CROLL: Annually?

Mr. BRYCE: Annually, yes. If you look at our last Public Accounts, our annuity, insurance and pension liabilities in the year, between March 1962 and March 1963, went up by over \$500 million.

Senator CROLL: In what length of time?

Mr. BRYCE: In 12 months. Part of that was annuities and part was—

Senator CROLL: Does it rise each year by that sort of figure?

Mr. BRYCE: Yes. If you take the accruing liability in the Civil Service pensions in that year, that rose by \$137 million. If you take it for the Canadian Forces, it rose by \$327 million. These pension liabilities build up to an enormous amount, but we are paying out very little of that.

The CHAIRMAN: That is true. However, if the Government were a private company it would in point of fact be paying that into some trustee account as against the ultimate liability.

Mr. BRYCE: Not every private company does that, sir. You do that if it is a trustee plan or if it is run by an insurance company. Some companies just make a memorandum of their accruing liability.

Senator CROLL: A memorandum they tear up and forget about in due course.

Senator O'LEARY (*Antigonish-Guysborough*): This is accrual accounting rather than the normal cash accounting?

Mr. BRYCE: It is. In fact, it is more than that; it is actuarial accounting.

Senator LAMBERT: Thanks very much for your patience.

Senator SMITH (*Queens-Shelburne*): This fund, this amount of deficit, or whatever you want to call it, is that the fund a former Minister of Finance, Mr. Abbott, used to find a way to reduce his surplus? It seems to me there was some contribution made to reimburse pension funds which were getting in bad shape.

Mr. BRYCE: We create deficiencies in those accounts when we increase pay rates, because our liabilities for pensions in the future depend on what pay rates are going to be at the time people retire. The practice now is—and I am speaking from memory—that we recognize those liabilities as soon as we have determined them with any precision. For example, the Minister of Finance tabled the latest report of the actuaries on the public service superannuation fund just the other day, and he indicated he was proceeding to implement the policy he had outlined to the House in March of last year. I have given instructions recently to increase that liability account by some \$110 million. We will ask Parliament's authority to charge this, in that particular case, to net debt, as we did last year—and this is a rather technical problem. But, again, we have recognized a liability for some \$20 million-odd for a particular set of pay increases that took place last year. We will ask Parliament for authority to charge that to our expenditures, so much a year over five years, so as to show that this is part of the cost of running the Government.

Senator SMITH (*Queens-Shelburne*): That is the same thing that was done some years ago.

Mr. BRYCE: Years ago we did not have a systematic plan. We knew there was an excessive liability there that had not been charged to expenditures, and from time to time Ministers of Finance did ask Parliament for authority to

make lump sum charges to expenditures. This has had the effect of reducing the surpluses at the time.

Senator CROLL: Those were other days.

The CHAIRMAN: Shall we proceed now with the outline of the specific recommendations Mr. Bryce was going to deal with?

Mr. BRYCE: Perhaps I could go through the sort of summary list here of what the Glassco Commission recommended, the ones on page 94:

The number of votes be reduced and all cost elements of individual programmes be consolidated within the same vote.

I gather there is fairly general agreement with that. Naturally, the pattern of votes is something it has been traditional to work out with the Public Accounts Committee, and that has been done and is in process. Dr. Davidson and Mr. Steele spoke of that at some length to you.

The second recommendation:

Departmental estimates be prepared on the basis of programmes of activity and not by standard objects of expenditure.

As the inventor of the standard objects classification some 15 years ago—or, rather, the standardizer of it, I would quite agree with that. I think that has largely outlived its usefulness, except in answering questions, which can be done by cross-classification, and I think that recommendation makes good sense.

The CHAIRMAN: It would take a little time though.

Mr. BRYCE: Yes, that is my understanding.

The third recommendation:

The establishment review be undertaken as part of the overall review process.—

I quite agree with that. As a matter of fact, I always did it that way when I was in the Treasury Board, and it was changed subsequently, really in order to try to spread out the work load of the Treasury Board staff. I think it makes sense to settle on a program before you try to settle on the number of people who are going to do it. I may say the reason for doing it first was largely, not to try to get the size of the establishment but because we were trying to get some sort of organization of the classification of positions at a time when the service had been growing rapidly and there was a lot of necessity to review the classification of jobs. The separation was, I think, to a considerable extent for that reason.

The fourth:

More objective standards for analysis and comparison be developed and employed by senior departmental management and the Treasury Board in the review process.

I am wholeheartedly in agreement with that, and I think most are who have studied the project. The difficulty here is to develop the standards. It is hard to measure government operations and develop standards to say how much a man's productivity is. I would hate anybody to try to measure my output in a year. I do not know what standard they would use.

The CHAIRMAN: They would have to put something on your brain.

Mr. BRYCE: But certainly this is a highly desirable thing, and I think a lot of effort should be devoted to achieving it.

The next one:

Where appropriate, revenues be offset against related expenditure, and that votes be shown in the estimates and controlled on a net basis.

I certainly agree with that, in principle. I understand Dr. Davidson and other witnesses have spoken of some of the practical problems here, and the committee is probably better aware of the limitations there, now, than I am.

The next two recommendations are:

All departments and agencies be required to prepare and submit to the Executive long-term plans of expenditure requirements by programmes.

And that:

Based thereon, an overall forecast of government expenditures and prospective resources for a period of five years ahead be prepared annually.

I must say I think this is desirable. The Treasury Board now gets some sort of forecasts, and is making more. I am trying to organize a forecast now for seven years, because when we sit down with the provinces over the next year or so in the Tax Structure Committee we are going to have to assess the scale and nature of our expenditures right through to 1971. This is a bit of crystal ball gazing. The problem is to avoid making it a "shopping list," with every department trying to put in those things it would like to have, when the Treasury and the Government do not really want to engage in battles on things that really are not immediate issues. So the problem is to make such forecasts realistic and not to have them full of mere aspirations. I do not know we have really sold this one as yet. Moreover, sometimes it is very hard to get a government to make a decision looking five years hence. There are all sorts of delicate questions to be considered. Let us say, for example, we were going to try to forecast our defence expenditures for the next five years. We do not really know what is going to confront us and what the situation in NATO will be, and all that sort of thing. But, on the other hand, I think all the senior officials are agreed that we should do this internally. Whether the Government should publish its forecasts and have to defend them publicly is quite a different matter. If it is going to have to do this, it is going to have to spend an awful lot of its time wrangling over things that are not really firm decisions.

Senator SMITH (*Queens-Shelburne*): Wouldn't that system be easy to put into operation in almost every department except National Defence? I mean, the ordinary business of government to me is Fisheries and Public Works, and a few more of those things.

Mr. BRYCE: I can assure you we had the darndest problem trying to get the public works program, even for the City of Ottawa, licked into any shape five years ahead.

Senator CROLL: Ottawa is not a good example. Stability is what we want for Ottawa.

Mr. BRYCE: You add up all the things people want, and it comes to an impossible total. You have to wrangle out whose projects are going to be deferred and whose are not. It all takes the time of ministers, who have too little time to do their job. This is one of the big problems in making forecasts which a government is going to have to stand behind and defend.

Senator CROLL: Really, didn't we attempt some years ago to do what we called a bit of cyclical foretelling in budgeting? We said we would do it on the basis of one, two or three years and the answer came in the election immediately afterwards when the Opposition attempted to tear us to pieces by saying we had overtaxed in that year. That was the end. If we were in Opposition we would probably have done the same thing.

The CHAIRMAN: This is a little different. It does not actually involve expenditures or taxation until the particular year in which it arises, but it does involve some forecasting as to possible or probable expenditures.

Senator POWER: It involves the brains of every deputy minister.

The CHAIRMAN: But it still is not cyclical budgeting.

Senator CROLL: But it is cyclical forecasting.

Mr. BRYCE: The next group of recommendations is on page 99 of the report. They are briefly that departments and agencies be given the necessary financial authority and be held accountable for the effective management of the financial resources placed at their disposal. I think we all agree with the spirit of that and there only remains the practical problem of getting the departments equipped and ready to do it in time.

Senator POWER: Is it suggested that they have not been given that up to the present time?

Mr. BRYCE: The Glassco Commission argues that the detailed scrutiny of their transactions and everything they do by Treasury Board and the Civil Service Commission and others have watered down their real responsibility and therefore it recommends that they should be given more clear-cut responsibility and then held accountable.

Senator POWER: Does it not have to go before Treasury Board?

Mr. BRYCE: They have to go before Treasury Board to get their programs and budgets approved, but not every transaction.

Senator POWER: Such things as increases in salary, and so on?

Mr. BRYCE: They should have more discretion in classifying jobs and in awarding contracts and in deciding what supplies they are going to need.

Senator POWER: I don't know what poor Mr. Ronson would have said about that.

Mr. BRYCE: He is still about and you could ask him. The next recommendations are:

The Treasury Board continue to lay down policies on financial and administrative matters common to all departments and agencies, but in a less restrictive manner.

I think all departments and agencies will say "amen" to that but it has to be more clearly defined.

That departments and agencies be granted more discretion in the negotiation of contracts.

Mr. Balls indicated that the Government moved in that direction some weeks ago.

That greater use be made of per diem rates and other measures to simplify travel regulations.

I think we are all in favour of that, but the difficulty is when you start setting per diem rates that you have to decide whether you need a bigger per diem to spend a night in Montreal than in Toronto or Winnipeg. Then another question is, does a senior officer get a bigger per diem rate or not, or does a man who is travelling half his time get a smaller per diem rate than the man travelling only occasionally. There are numerous practical problems, but a widespread view is that this is sensible and that we should try to set standard per diem travelling allowances.

Senator CROLL: There are numerous complaints on that account.

Mr. BRYCE: The next recommendations, on page 100, are those to which I have already referred about pre-audit. You have heard from both Dr. Davidson and Mr. Balls, and as I indicated at the beginning, I would rather not express an opinion on this at this stage until I can study it in more detail.

Then on page 101 there is the recommendation for the appointment of the senior financial officer in each department and agency subject to the concurrence of the Treasury Board. We have spoken about that earlier. The next recommendation is that departments be responsible for designing and maintaining the accounting records necessary to meet their requirements. You have already heard expert testimony on that from Mr. Balls and Dr. Davidson, and I have nothing to add. However, I think some of the smaller departments would prefer that the Comptroller's expert staff should operate their accounts. We all feel it is highly desirable that departments should take a greater interest in using their accounts on a managerial basis so that the operating heads of the departments will look at them from time to time to see if they are running ahead of their budgets or if they are exercising enough control over these people travelling to Europe or wherever they go. In other words we should become more cost conscious and budget conscious and use our accounts for that purpose.

The next recommendation was that we should adopt accrual accounting. You have had a considerable amount of expert testimony from the Auditor General and the Comptroller of the Treasury and the Secretary of the Treasury Board about that. I do not think I can add anything to that.

The next recommendation was that the costs of major common services should be charged to user departments. I think it was called "vote billing" in some discussions. For example, the cost of the cheque issues of the Comptroller of the Treasury should be charged to the purpose for which the cheques were issued. I am in favour of that and it is a question of how far it is practical to carry it without getting into too expensive a bookkeeping operation. I think that is now pretty widely agreed.

The next is that departments and agencies adopt modern management reporting techniques. I think all the experts in this matter have come to agreement on that.

The next is that departmental management be responsible for establishing and maintaining a proper system of internal audit. I think the testimony you have had from others more directly involved has been clearly in favour of this, and I would certainly have no contrary opinion. The next relates to enforcing tax collections. I think that does not come within the scope of what we have been discussing. This also applies to the scales of fees and charges, reported on page 107.

I think you have already discussed the recommendation that consumable stores be controlled by greater use of revolving fund accounts. I think that is becoming more widespread all the time.

The next recommendations were regarding payroll audits of the Department of National Revenue (Taxation Division) and the Unemployment Insurance Commission. You have had some more expert testimony on that than I can give you.

Dealing with the recommendations that an interdepartmental committee on auditing be established, Mr. Balls and Mr. Henderson have mentioned that that is under consideration at the moment.

Regarding accountability to Parliament, the commission recommended that the form of the estimates be revised so that the votes will more clearly describe the purposes of expenditure, that more comparable and complete supporting information be provided and unnecessary detail eliminated. I think you have already had ample testimony on that. It is largely a matter for Parliament itself, as well as for the Government, and progress is under way already in that.

I notice it has been suggested, I think by the Auditor General, that the Estimates should include some text, and not just figures of what is proposed. In other words that there should be some explanation or justification. I would



be inclined to utter a word of caution on that. If we once start including such text in the Estimates book it will be full of commercials. It seems to me it is better to stick to the figures.

The next recommendation is that improvements be made in the public accounts to eliminate unnecessary detail and to explain variances between actual and estimated expenditures. This is now being worked out by a sub-committee of the Public Accounts Committee, as Mr. Balls explained to you, and it certainly carries the approval of the Department of Finance.

The next and more contentious recommendation, so far as I am concerned, is the one on page 112 that the statement of assets and liabilities be replaced by a separate accounting for outstanding debt, direct and indirect, with no reference to net debt.

The effect of this recommendation would be to do away with the distinction we make in the Estimates between loans and investments on one hand, and expenditures on the other. For example, if we asked Parliament to approve a loan, let us say, to Central Mortgage and Housing Corporation for purposes of making mortgage loans on housing, that would not be distinguished at all from an appropriation for an ordinary expenditure. The Glassco Commission which, of course, included some very distinguished accountants, had very little good to say about our statement of assets and expenditures that appears in the public accounts. I myself feel that there is more usefulness than they suggested to it. Perhaps I can illustrate it.

It seems to me that to state what our liabilities are, what our debt is, without taking into account, for example, the fact that we have two and three-quarter billion dollars worth of foreign exchange among our assets is to neglect a matter of quite considerable importance. In the year ending March 1963 we had \$820 million in Canadian dollar cash of one kind and another, and we had \$2½ billion of foreign exchange. We had a wide variety of other assets. I would have thought that we should show in some kind of way in the public accounts things that are such clearly good assets as that. The real argument comes down to how we are going to treat some of our other assets about which there is more room for argument.

Senator POWER: Such as loans to harbour commissions, and things like that?

Mr. BRYCE: Exactly—loans to harbour commissions that are really not paying their way. I think everybody knows we have a problem as to what is shown in our balance sheet in regard to the Canadian National Railways. The Government has announced several times its intention to bring before Parliament at some stage a bill to provide for recapitalization.

Our investment in the Bank of Canada yields us an enormous return every year. I would hate to leave it out of the balance sheet entirely. Our investment in Polymer Corporation is clearly a valuable one, and should not be neglected.

On the other hand, some of our loans and investments are to Government enterprises that are dependent upon appropriations to meet even the interest, in considerable part, as well as the repayment of principal. There is a number of problems here which we recognize.

When I testified before the Public Accounts Committee several months ago I said that we would be prepared in another year or two—I suggested we not do it next year because we are going to be so busy with provincial matters—to bring forward some proposals for the consideration of the Public Accounts Committee, and this committee if it is so interested, as to what principles ought to guide us as to what assets we show on our books and how to treat them. The practices we follow have evolved over the years since Sir Henry Drayton set up certain general principles away back in the early twenties.

Meanwhile, Crown companies and Crown agencies of one sort and another have come to have a much greater importance, and we have been led to treating some of the funds that have been turned over to Crown companies as loans rather than grants because of administrative and accounting reasons. This has been questioned by the Auditor General and it has been questioned by members of the Public Accounts Committee. I think it was questioned in regard to the C.B.C. by members of this committee at one of your previous meetings.

The CHAIRMAN: That is right.

Mr. BRYCE: I would not propose to go into this at length today, but I would suggest that this is a subject that the committee might in another year care to look at. Meanwhile, we are giving some study to the department to care to look at. Meanwhile, we are giving some study in the department to seeing if we can get a clearer test as to what assets we will show, in the sense that we would treat in our estimates that we put before Parliament the amounts to be advanced for those purposes as loans and investments rather than expenditures proper.

Senator BAIRD: Doctor Bryce, would you agree that the recommendations there are not up to your expectations; that they were not as good as you thought they might have been?

Mr. BRYCE: Not as good as we had hoped for when the commission was set up?

Senator BAIRD: Yes.

Mr. BRYCE: That is a question that stops one and makes one try to think. I would say, sir, that I was not disappointed. I have read the whole five volumes of the report, and I felt that the commission did some very valuable work. I thought it got to the heart of the matter in regard to the first four reports in its so-called plan for management. In other words, the commission was urging us really to give primary attention to the way in which we managed the public service rather than just to particular prescriptions for this and that, and I think that that is a sensible thing.

Senator O'LEARY (*Antigonish-Guysborough*): With respect to the last item on which you were speaking do you feel that when you finally evolve some way of complying with this recommendation it will be a matter of classifying these into groups, that is, the Crown companies, on the basis of past experience plus what you can predict fairly safely? Do you think this will be the basis for accepting the recommendation in part?

Mr. BRYCE: It may be, sir, but I would not like to be too categorical. I would cite one example about which there is a good deal on record now. For more than two years, and preceding the time I became Deputy Minister of Finance, we have had a running dispute with the Auditor General and the Public Accounts Committee over how we treat the loans made to the National Capital Commission to acquire property in the green belt. We hold there many millions of dollars worth of property in order to control its use. It is very valuable property that has cost us \$30 million or so. I am convinced, and I think most of those who have looked into the matter are also convinced, that over the long term this will be a very good investment for the Government of Canada. In the meanwhile, however, it costs us something each year to hold that property in the restricted uses for which it was set up, because we can only lease it for those restricted uses at less than the interest on what we paid for it.

This was done deliberately by Parliament. It was specifically provided in the National Capital Act that the Commission can do this. Of course, the appropriations for loans for acquiring this property were passed by Parliament on the understanding that this was the purpose. I think this is a very

sensible purpose, but what has happened is that we have loaned money to the National Capital Commission to do this and they have to come to Parliament each year and ask for an appropriation to cover the difference between the interest that they have to pay on those loans and the rents they receive from the properties. I have always regarded this as a good measure of what it is costing us to maintain the green belt, and it is a proper thing for Parliament to review this from time to time.

Others say that we cannot sell this property; that it is not the policy to sell it, so why do we carry it on our books as an asset. This is the kind of issue that we want to try to sort out. There is no doubt that it is a real asset. If we want to liquidate the thing and allow some of these properties to be developed as subdivisions—

Senator BAIRD: But you have absolutely no intention of ever having to do that, have you?

Mr. BRYCE: No.

Senator BAIRD: Therefore, I should imagine you should not claim it as an asset.

Mr. BRYCE: It is a very real asset and the question is, should we regard it as an asset to be shown in that way?

Senator BAIRD: From a monetary standpoint, though.

Mr. BRYCE: This is the question and we have so far felt this was the right thing, and this is the view the Government has taken. I just cite this as one example of the kind of thing we should review.

Senator BAIRD: I see your point.

Senator O'LEARY (*Antigonish-Guysborough*): You do not increase the asset by the appropriation of the interest for making the asset?

Mr. BRYCE: No. We regard that as the current cost of maintaining the control for which it was established.

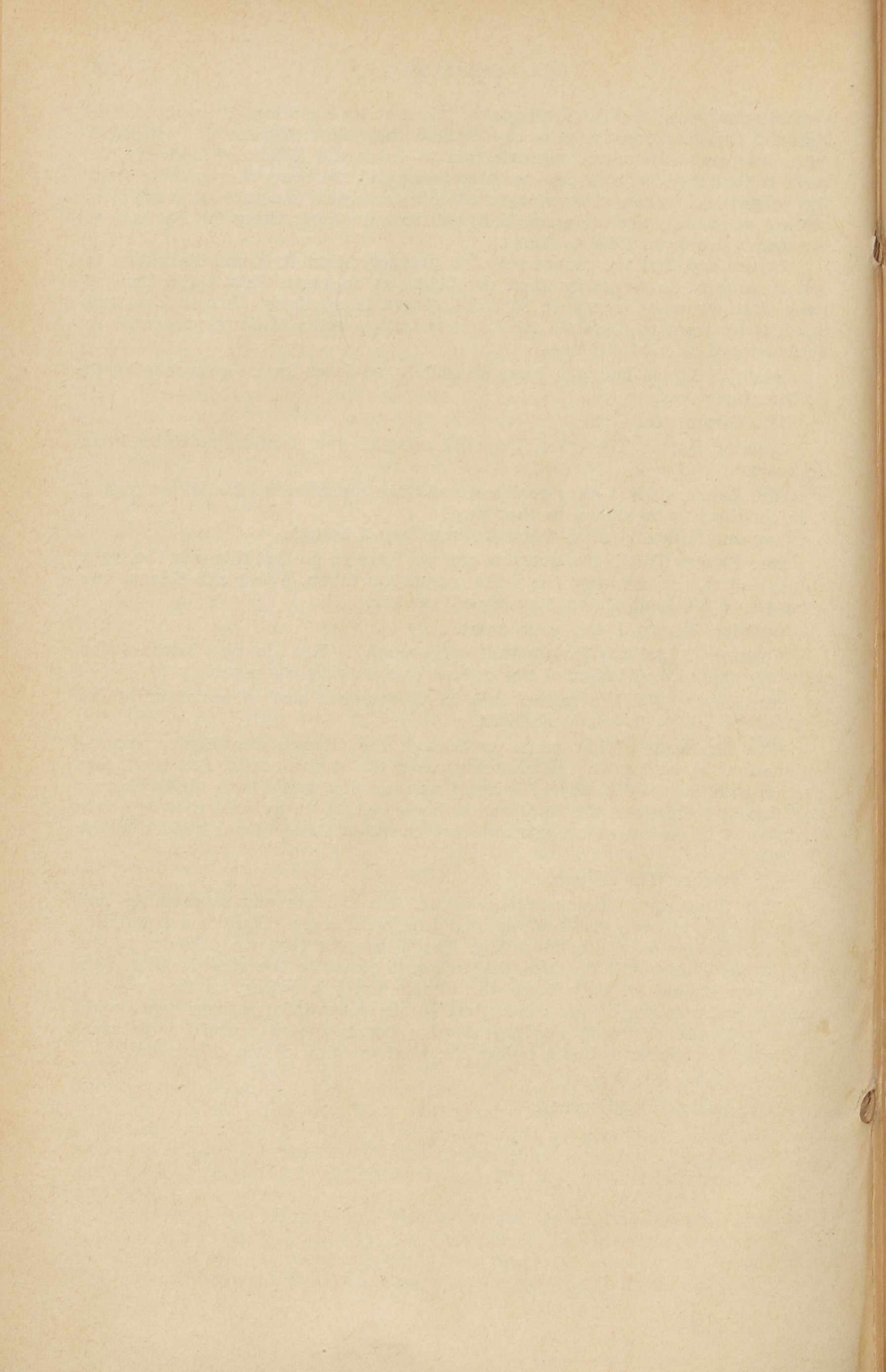
The CHAIRMAN: That takes us through the Glassco Commission recommendations as well as the general remarks made at the outset. Are there any further questions to Mr. Bryce? If not, I am sure you would wish me to express our thanks to him for the information he has given to us, which is not only of interest to us but of considerable use in the making of our report to the Senate.

Mr. BRYCE: Thank you.

The CHAIRMAN: Honourable senators, this finishes our proceedings and witnesses. No meeting has been arranged for next week. There is a possibility that the Senate may not be sitting. May I suggest that we adjourn to the call of the Chair with the idea that when it comes to the consideration of a report we should sit only when the Senate itself is sitting, so that we can have a full meeting of the committee. In the meantime, perhaps you would leave it to the chairman and the steering committee to proceed with some drafting of a report to bring before the next meeting of the committee.

Hon. SENATORS: Agreed.

The committee adjourned.





Second Session—Twenty-sixth Parliament

1964

# THE SENATE OF CANADA

PROCEEDINGS  
OF THE  
STANDING COMMITTEE  
ON

## FINANCE

To which was referred the Estimates for the fiscal year  
ending March 31, 1965.

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The Honourable T. D'Arcy Leonard, *Chairman*

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WEDNESDAY, NOVEMBER 25, 1964

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No. 11

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REPORT OF THE COMMITTEE

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ROGER DUHAMEL, F.R.S.C.  
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY  
OTTAWA, 1964

THE STANDING COMMITTEE  
ON  
FINANCE

The Honourable T. D'Arcy Leonard, *Chairman*

The Honourable Senators:

Baird	Macdonald ( <i>Brantford</i> )
Beaubien ( <i>Bedford</i> )	McCutcheon
Beaubien ( <i>Provencher</i> )	McKeen
Belisle	Méthot
Bouffard	Molson
Buchanan	O'Leary ( <i>Antigonish-Guysborough</i> )
Burchill	Paterson
Choquette	Pearson
Connolly ( <i>Halifax North</i> )	Pouliot
Crerar	Power
Croll	Quart
Denis	Rattenbury
Dupuis	Reid
Farris	Robertson ( <i>Shelburne</i> )
Flynn	Roebuck
Gershaw	Savoie
Grant	Smith ( <i>Queens-Shelburne</i> )
Grosart	Stambaugh
Haig	Taylor ( <i>Norfolk</i> )
Hayden	Thorvaldson
Hnatyshyn	Vaillancourt
Horner	Vien
Isnor	Welch
Lambert	Woodrow
Leonard	Yuzyk (50)

*Ex Officio members*

Brooks  
Connolly (*Ottawa West*)

## ORDER OF REFERENCE

Extract from the Minutes of the Proceedings of the Senate, Wednesday, May 20th, 1964:

“Pursuant to the Order of the Day, the Senate resumed the debate on the motion of the Honourable Senator Connolly, P.C., seconded by the Honourable Senator Hugessen:

That the Standing Committee on Finance be authorized to examine and report upon the expenditures proposed by the Estimates laid before Parliament for the fiscal year ending 31st March, 1965, in advance of the Bills based on the said Estimates reaching the Senate, and

That the said Committee be empowered to send for persons, papers and records.

After debate, and—

The question being put on the motion it was—  
Resolved in the affirmative.”

J. F. MacNEILL,  
*Clerk of the Senate.*





## MINUTES OF PROCEEDINGS

WEDNESDAY, November 25, 1964.

Pursuant to adjournment and notice the Standing Committee on Finance met this day at 11.00 a.m.

*Present:* The Honourable Senators Leonard (*Chairman*), Baird, Beaubien (*Bedford*), Belisle, Burchill, Crerar, Flynn, Gershaw, Grosart, Haig, Lambert, Méthot, Molson, Power, Rattenbury, Smith (*Queens-Shelburne*), Stambaugh and Vaillancourt.—(18)

Supplementary Estimates "C" were explained by the Chairman and discussion followed thereon.

The Chairman read the report on the Estimates as approved by the Steering Committee.

After discussion, the Report was amended as proposed by the main Committee.

On Motion of the Honourable Senator Power it was resolved that the Report, as amended by the Committee be now reported.

At 12.45 p.m. the Committee adjourned to the call of the Chairman.

Attest:

F. A. Jackson,  
*Clerk of the Committee.*



## REPORT OF THE COMMITTEE

WEDNESDAY, November 25, 1964.

The Standing Committee on Finance to which was referred the Estimates laid before Parliament for the Fiscal year ending March 31, 1965, reports as follows:—

1. On May 20th 1964 the following order of reference was adopted by The Senate:

That the Standing Committee on Finance be authorized to examine and report upon the expenditures proposed by the Estimates laid before Parliament for the fiscal year ending 31st March, 1965, in advance of the Bills based on the said Estimates reaching the Senate; and

That the said Committee be empowered to send for persons, papers and records.

2. In obedience to the foregoing, the committee held a meeting for organization on May 21st, 1964. The Honourable Senator Molson was elected vice-chairman and a Steering Committee was appointed consisting of the Honourable Senators Flynn, Haig, Smith (*Queens-Shelburne*) and the Chairman and Vice-Chairman.

3. Subsequently the Committee held 11 meetings and heard evidence from senior officials of the Treasury Board, from the Comptroller of the Treasury, the Auditor-General and the Deputy Minister of Finance.

4. This is the first occasion since 1956 that the Estimates have been referred to a Committee of the Senate. Prior to 1956, the Finance Committee under the chairmanship of the Honourable Senator Crerar, and later of Honourable Senator Hawkins studied the estimates and made reports thereon which were helpful and valuable. In the interval, since 1956, an important development that has taken place is a Report, officially known as the "Report of the Royal Commission on Government Organization" but more commonly called the Glassco Report after the distinguished Chairman of the Commission. Under that shorter title it is designated in this Report.

5. The Glassco Report dealt with many matters other than the Government Estimates, but as your Committee is concerned only with the Estimates, it is that aspect of the Glassco Report that has demanded our attention.

In dealing with the Glassco recommendations, it is desirable to re-state the place and importance of the Estimates in our Parliamentary system of government, and the methods and procedures whereby they are currently prepared, presented and approved.

6. The control by Parliament of the spending by the Executive has its roots deep in our constitutional history, going back in England as far as the days of the Long Parliament. In Canada, it was embodied in our Act of Union, and in the British North America Act. The Executive alone can initiate measures imposing charges upon the public exchequer, and in order to do so it must table in Parliament its Estimates of Expenditures. In the case of its Main Estimates, these are tabled on or about the commencement of the fiscal year to which they apply, so that Parliament may have early and ample opportunity to deal with the spending program for the new year. They are usually tabled on or about February 1st each year.

7. Many months of preparation, however, have preceded the tabling. About the first day of July 1963 the Treasury Board requested the various departments of government to submit to it their establishment plans (that is to say, the expected numbers of staff members) and their expenditure requests, setting a deadline of November 1st, 1963, for such submission. Then during the months of November and December 1963 these submissions were studied, analyzed and, if necessary, revised by the Treasury Board and its staff. Discussion, argument and negotiation take place vigorously between all levels of Treasury Board staff and departmental staff during this period. The Ministers who are members of the Board met in December 1963 and conducted an intensive review of the estimates. It is at this stage that the various Departmental Ministers appear before the Treasury Board as suppliants for their particular areas of responsibility. The results were then recommended by Treasury Board to the Cabinet. The final decision on the Estimates was made by the Cabinet and thereafter the Estimates were printed and placed before Parliament.

8. In the light of the time factor involved in this procedure, it is understandable that from time to time during a fiscal year supplementary estimates are prepared and submitted to Parliament to cover expenditures unforeseen at the time of the preparation of the main estimates, or resulting from subsequent legislative action. Three such supplementary estimates have been tabled in Parliament for the current year, to date.

9. As of November 24th, 1964 the Estimates have not yet been approved and therefore no final Supply Bill has been voted by Parliament for the expenditures for this year. Because it has been necessary to supply the government with money on account so that it may carry on the business of the country, some five interim supply bills have been passed by Parliament so far this year, providing generally for expenditures for nine months and, in some cases, for ten or eleven months. It is an anomalous situation that most of the money has been spent before Parliament has approved the expenditures themselves.

10. The procedure as so described for this year is consistent with the pattern that has been followed for some years. It is familiar to all members of Parliament and need not have been set out in this report, were it not for the fact that in recent years criticisms have been voiced that seem to warrant examination.

11. It is far from satisfactory to have so long a period of time elapse before the final vote of supply by Parliament and to have so much money spent before the Estimates have been approved. Having in mind the increasing multiplicity and magnitude of Parliamentary duties, it would be desirable to bring about an earlier disposition of the estimates and the consequent bill or bills of supply. In this connection it is noteworthy that in the United Kingdom 26 days before August 5th of each session are given for the consideration of the annual estimates on supply. Therefore, there is a limit on the debate and a deadline for the final passing of supply.

12. The consideration of the estimates has traditionally provided an opportunity for debate, not confined to the items of expenditure, but also on grievances, within relevant limits, against the Executive. Indeed, at times this aspect of the debate may completely overshadow consideration of the financial items themselves.

13. The Senate as an integral part of Parliament has to debate and vote upon supply Bills before they are passed. Traditionally, it has exercised both the above-described functions when dealing with supply bills, namely, scrutinizing expenditures and airing any grievances which Honourable Senators may

have against the Executive. Depending on circumstances, therefore, a debate could take two or three days, or no longer than one day.

14. Insofar as the financial aspect of supply bills is concerned, so long as the estimates are referred to the Finance Committee at each session, an opportunity is provided for the examination and scrutiny of expenditures. As to the other aspect, the airing of grievances, the rules of the Senate do provide other opportunities for members to raise such questions. Nevertheless, it is desirable to preserve and protect our rights in this respect in the debate on supply bills. Unfortunately, it has happened on a number of occasions over the past ten years that the Senate has been faced with an indirect form of closure forced upon it by the pressure of events and primarily caused by the insufficiency of time between the date a supply bill reaches the Senate and the deadline by which the government's legislative authority to spend would be exhausted.

15. Your committee calls attention to this situation in the hope that ways and means may be found to bring about an earlier and speedier disposition of the estimates and of the Supply Act or Acts based thereon, and to express its willingness to deal with such estimates with promptness and despatch to meet any earlier deadline that Parliament may wish to prescribe.

16. In carrying out the reference to it this year, your Committee did not examine in detail the estimates of any particular department, but it did consider the estimates in general, and questions as to various aspects of a number of departments were put to the witnesses before us. The Committee did devote considerable time to the procedures, forms and substance of the Estimates and in particular made a study of the recommendations of the Glassco Report to which we have referred. These recommendations were designed to bring about greater economy and efficiency in the financial management of the government. They have all been under intense study by the Government and its officials; some have been accepted and are being implemented, and others are in the process of being put into force. Four outside management firms have been engaged to do pilot studies for four different departments of government for the purpose of determining how the Glassco suggestions can best be built into the departmental systems of accounting and financial reporting.

17. The Glassco Report made this general statement, at page 94, of Volume I of the abridged Edition:

"The conclusion is inescapable that the present procedures in developing and reviewing the Estimates are wasteful and inefficient. The form of the Estimates does not permit intelligent criticism and, in placing the major emphasis on the nature of expenditure rather than on its real purpose, the matters coming under senior review are the less important details of administrative judgment. Any valid assessment of performance by departmental management is excluded and it is virtually impossible to form any objective judgment from the Estimates as to the desirability of continuing, modifying or enlarging specific programmes in the public interest."

18. Your Committee concurs in general with this analysis. Certain specific recommendations are then made in the Glassco Report and some of the major ones with our comments thereon are as follows:—

(a) "That the number of votes be reduced and all cost elements of individual programmes be consolidated within the same vote."

Departmental estimates are broken down into subdivisions classified as "Votes" for the convenience of Parliamentary decision. This recommendation has been accepted by the government and largely applied in the 1964-65 estimates. In 1961-62, the Main Estimates included 495 votes, over three times

the number currently used in the United Kingdom. The 495 votes have been reduced to approximately 240 in the current estimates and no doubt there can be a further reduction.

(b) "That departmental estimates should be prepared on the basis of programmes of activity and not by standard objects of expenditure."

Your Committee agrees that the *primary* emphasis in the estimates should be on the "programme" rather than on the standard objects of expenditures. The significance of an expenditure must be related to the purpose for which it is being incurred. Departments should justify their estimates by relating them directly to the programme that occasions them and, in turn, justify the programme as being worth the amount expended upon it, not only on its own account but also in competition with other needs for which money is required. This change however should not take place at the expense of omitting relevant details such as are contained in the standard objects of expenditures.

(c) "That the establishment review should be part of the overall review process of expenditures."

In essence, this means that the determination of the number of staff required in a department should be part and parcel of the determination of the cost of the various programmes of the department. The logic of this proposition is self-evident and it has been accepted by the government and is endorsed by your committee.

(d) "That all departments and agencies should be required to prepare and submit to the Executive long-term plans of expenditure requirements by programmes, and that based thereon an overall forecast of government expenditures and prospective resources for a period of five years ahead should be prepared annually."

At present government budgeting and accounting are on a year to year basis. This is necessarily so, because Parliament should and does annually exercise its control and review of a government's administration. Nevertheless, a government should be aware of its probable longer term financial requirements. Increases in population alone will make greater demands upon many branches of government service. Most businesses now must project their budgets ahead for five years or more to be ready to meet changing conditions, obsolescence, new products and other potential developments. The use of such a forecast does not involve a decision to agree with projected expenditures but its value would lie in preventing decisions being made currently that would not take into account the future consequence of that decision by itself, and also in the context of its relative effect on overall operations.

(e) "That Departments and agencies be given the necessary financial authority and be held accountable for the effective management of the financial resources placed at their disposal."

This is probably the most significant of all the recommendations made by the Glassco Commission. In essence, it is a de-centralization of financial responsibility. The theory supporting it is that by making a department itself responsible for its financial expenditure, it will exercise that responsibility more effectively and economically than if some outside body is, as the Report puts it, "likened to a policeman patrolling the departments to ensure financial rectitude".

Your Committee desires to sound a word of caution in connection with this recommendation. The change, of itself, will not automatically bring about the desired improvement. Its success will depend upon how the key personnel in the civil service respond to the challenge involved in this delegation of greater responsibility to them, and assume the higher degree of accountability for the

efficient and economical financial management of departmental affairs. In each department there must be a fully qualified and competent financial administrator under the Deputy Minister. In this connection your Committee has noted with approval that a course for training such personnel has now been set up in the Civil Service. It is to be hoped, but it still remains to be seen, that skilled and competent internal financial management within departments will bring about greater efficiency and savings. It should perhaps be made clear that such extension of authority within departments refers only to expenditures authorized by Parliament. Indeed, the change may well require even greater vigilance and more careful scrutiny of public expenditures by the Executive and Parliament.

(f) "That the costs of major common services be charged to user departments."

At present in many instances free services are provided to various departments of government, among which might be mentioned accommodation, furniture, power, franked mail, superannuation and other employee benefits. Your Committee agrees with the principle of this recommendation and, so long as its implementation does not superimpose an elaborate or expensive system, it is desirable that the costs of such services should be charged to the user department of them.

(g) "That where appropriate, revenues be offset against related expenditure, and that votes be shown in the Estimates and controlled on a net basis."

As the Glassco Report states, it is normal in industrial budgeting to relate revenues and costs. In government those revenues derived from services rendered are generally only incidental. Your committee agrees in principle with this recommendation of the Glassco Report and we have noted that the officials of the Treasury Board are studying the practical problems it presents for the purpose of seeing how far the desired result can be achieved.

19. It is not our function in this Report to deal with recommendations of the Glassco Commission other than those relating to the Estimates. We have said enough to indicate our approval in general of the relevant ones. We emphasize, however, that decisions to spend are in the first instance decisions of government policy and that even Parliament's control over such decisions must be viewed in the light of our system of responsible government. Therefore, the total amount of the Estimates and the objects thereof are the primary responsibility of the government of the day and, once those decisions have been made, the most that management can do, and in practice Parliamentary scrutiny also, is to see that the expenditures are made as efficiently and as economically as possible, and without waste, extravagance or duplication.

20. In addition to its studies of the Glassco recommendations, your Committee inquired into a number of matters concerning the Estimates in general and also as to particular items. The questions and the answers submitted by the Treasury Board Officials appear in the printed proceedings of the Committee, with suitable appendices where required, and for the purposes of this Report it is sufficient to say that all relevant information was obtained upon the items as to which members were concerned.

21. The following observations are made as to the Estimates in general. The Main Estimates for 1964-65 totalled \$6,703,513,508, or \$84,378,008 more than those of the previous year. It should be noted, however, that there was a substantial reduction in the current Estimates of the Department of National Defence from those of the preceding year, amounting to \$109,000,455.

It would be misleading, however, to compare the Estimates of respective years without taking into account the Supplementary Estimates. In the current year Supplementary Estimates have been filed totalling \$221,763,280 and the Minister of Finance in his Budget speech in March estimated that the total

expenditure for the year would be about \$7,125,000,000, or \$233,000,000 more than in the preceding year, an increase of a little more than 3%. It is interesting to follow the trend of increases in expenditures over past years, and a table of the history for ten years is appended. This year's percentage increase in federal expenditures should also be viewed in relation to the 8% increase in the Gross National Product of Canada for the current calendar year over the preceding year, as currently estimated.

22. In the course of its deliberations, your Committee considered the place of Crown corporations and agencies with relation to the Estimates. Some of them do not appear in the Estimates at all and others appear with inadequate information. Having in mind that the purpose of the Estimates is to enable Parliament to scrutinize the financial operations of government, your Committee believes it would be useful on another occasion to examine the financial statements of one or more Crown corporations and to give the managements thereof the opportunity to testify as to their operations. Your Committee would be prepared to undertake such action if the Senate in the future should deem this advisable.

23. Your Committee desires to record its thanks and its appreciation for the evidence submitted by those senior officials of government who appeared before it and their courtesy and co-operation.

All of which is respectfully submitted:

T. D'ARCY LEONARD,  
*Chairman.*

Table of Percentage Increases of Federal Government Expenditures  
Over Preceding Year, Covering Period 1955 - 1965

Fiscal Year ending March 31	Budgetary Expenditures (in millions)	Increase between years
1965	7125 (est)	3%
1964	6892	5%
1963	6571	1%
1962	6521	9%
1961	5958	4%
1960	5703	6%
1959	5364	5%
1958	5087	5%
1957	4849	9%
1956	4433	4%
1955	4275	



## THE SENATE

### STANDING COMMITTEE ON FINANCE

#### EVIDENCE

OTTAWA, Wednesday, November 25, 1964.

The Standing Committee on Finance, to which was referred the Estimates laid before Parliament for the fiscal year ending 31st March, 1965, met this day at 11 a.m.

Senator T. D'Arcy Leonard (*Chairman*) in the Chair.

The CHAIRMAN: Honourable senators, it is 11 o'clock and as we have a quorum we will proceed.

I should apologize for having called this meeting at such short notice, but there is some pressure of time. The reference to this committee asked us to deal with the estimates in advance of the bills being submitted to Parliament, and as all honourable senators know, in the last week or ten days it would appear that arrangements have been made whereby the estimates would be finally approved in the House of Commons, and the final supply bill presented there so as to reach the Senate either on a Friday of this week or early next week. Consequently it seemed to me and to the steering committee that the Standing Committee on Finance should finish its report on the estimates before the supply bill is actually debated in the Senate, and therefore our work should be discharged as soon as possible.

Now before we go on with the draft report which has been mimeographed this morning and which is in your hands and has been approved for presentation today by the steering committee, subject, perhaps, to some further changes that some members of the steering committee may want discussed by the full committee, I would suggest we should have a look at supplementary estimates (C). Honourable senators may not have a copy of this estimate at the moment, but it was tabled the day before yesterday and does constitute part of the reference to this committee. I feel that if there is anything in this supplementary estimate that should be reported on by the committee we should consider it before we consider our draft report.

Now, pending your having copies of the supplementary estimates I might just give you the explanations that have been given to me in connection with supplementary estimates (C), and then if I can answer any questions I shall do so when you have an opportunity of asking them later at this meeting.

The supplementary estimates (C) cover further expenditures of \$89,270,001. The schedule has first of all an item dealing with the Transport Department, of \$1. Actually that does not involve an expenditure, and I presume technically it does not come within our purview, but it is in effect an authority to the Minister of Transport to take certain action in connection with television licences, and the authority is sought in this fashion through the supply bill, or through the estimates under the item of \$1 so that the regulations can be drafted or authorized governing this particular aspect of television licences.

Now that is the explanation given to me of that item. As I say it does not really involve any expenditure at all.

The next item is for the Board of Transport Commissioners and is for \$70,000,000. This is the continuation of payment of railroad subsidies pending

the enactment of legislation arising from the recommendations of the Macpherson Royal Commission on railway problems.

I think honourable senators are familiar with the fact that the recommendations did include provision for an increase in freight rates, and that this has not been implemented. In the meantime and until legislation is adopted by Parliament, subsidies have been granted and this would continue such grant for 1964-65. The previous year's payments, 1963-64, under this heading were \$68,101,000. In 1962-63 they were \$70,598,000. And in 1961-62 they were \$69,009,000.

Senator BURCHILL: Why do the amounts vary in different years?

The CHAIRMAN: I think the figures represent the actual payments under the various items. I take it the calculation would be made between the 8 per cent increase which went through and the 17 per cent which was originally authorized. The wording reads as follows:

...for the purpose of reimbursing the said companies for such diminution in their aggregate gross revenues during the said period as in the opinion of the said Board is attributable to such companies maintaining the rate level for freight traffic at an 8% increase instead of 17% as authorized by the said Order; and to provide payments to the said companies of an aggregate amount in respect of the calendar year 1964 of \$50,000,000 to be paid in instalments at such times and in accordance with such methods of allocation as may be determined by the said Board for the maintenance by such companies of the rates of freight traffic at the said reduced level.

That is the only explanation I can give. I assume it would tie in to some extent with the actual amount of freight carried.

Senator POWER: Has it anything to do with the Maritime Freight Rates Act? If it has then there is a variation there in the quantity of freight carried in the Maritimes.

Senator SMITH (*Queens-Shelburne*): No, Mr. Chairman, my information on this is that this is simply a continuation of the payments that have been made in the last year or so to the railways to compensate them for not being able to operate under the increase that had been authorized by the Board of Transport Commissioners. The legislation to deal with railway traffic in the country has not been placed before Parliament yet. This has nothing to do with the payments under the Maritime Freight Rates Act, which have always been a separate item in the estimates.

The CHAIRMAN: There is no mention of the Maritime Freight Rates Act in this memorandum that I have.

Senator CRERAR: May I ask a question, Mr. Chairman? I did not have the estimates before me when you gave your explanation. You will see on page 4 under "Veterans Affairs" an item "North West Field Force, \$3,000". Does that refer to the Northwest Rebellion?

The CHAIRMAN: I have not come to that yet. I do not know the explanation of it. Perhaps I will come to that as we go along. I am sorry that we were not able to get somebody from the Treasury Board here because we called this meeting on such short notice. All I have is the file.

We go on now to the next item, which is "Veterans Affairs" on page 4. This requires a supplementary estimate of \$9 million to provide, effective from the 1st day of September, 1964, for increases in War Veterans Allowances. I will give you several examples of the increase.

In the case of a single person the present rate is \$84, and that is increased to \$94. In the case of a married person, it is increased from \$144 to \$161.

Then, as you know, in connection with these War Veterans Allowances there are maximum amounts of income that are permitted beyond which the War Veterans Allowance ceases or is decreased. These maxima are increased. For example, in the case of a single person the annual income permitted is increased from \$1296 to \$1596, and for a married person from \$2088 to \$2664.

Then we come down to the way in which this amount is expected to be spent, and as we go down the list there we see the North West Field Force, the South African War, World War I, World War II and Special Force (Korea), dual service (World Wars I and II) and Civilian War Allowances.

I take it that the answer to your question, Senator Crerar, is that this is the Northwest Rebellion.

Senator CRERAR: If I understand it correctly, these are pensions—

The CHAIRMAN: No, not pensions.

Senator CRERAR: Allowances.

The CHAIRMAN: Yes, allowances. They are war veterans' allowances—what we used to call the burnt out pension.

Senator POWER: It is for so-called worn out veterans who have no pensionable disability.

The CHAIRMAN: And who have a limited income.

Senator CRERAR: Then that must have been handed down to the descendants of those who served in the Northwest Rebellion.

The CHAIRMAN: No, I think there are still some left.

Senator CRERAR: They would be over 100 years old.

Senator POWER: I think there are widows of those who had been in receipt of the war veterans allowance. It was given first of all to the veteran himself. During the past five or six years this allowance has been extended to widows.

The CHAIRMAN: Yes, that is the explanation. It is not paid to descendants yet.

Senator POWER: No, I do not think so.

The CHAIRMAN: The schedule sets out all the new rates, and the application. Then we come to pensions.

Senator POWER: Before you go on to that do I take it that this supplementary estimate will be substituted for an amendment to the act? You see, the War Veterans Allowance Act, as I remember it, contains schedules in which the amounts payable are set forth. That is in the act. Normally, the way of changing that would be by amending the act. I am wondering whether they are amending it by way of the estimates rather than amending the act itself. You see, this says it is to authorize the Government to amend the War Veterans Allowance regulations. I thought the regulations were statutory, but I may be wrong.

The CHAIRMAN: My understanding is that once this is embodied in the supply bill that will come before us it becomes statutory authority for these changes, and they will be immediately implemented. I do not know whether, as a matter of proper procedure, the War Veterans Allowance Act will also have to be revised.

Senator POWER: It would seem to authorize the Government to amend the War Veterans Allowance Act. I suppose you are right.

The CHAIRMAN: This is an act that has the effect of a special Act of Parliament dealing with this subject, and these increases are all retroactive to September 1.

Then we come to the pensions, and there the vote is for the sum of \$10,100,000. I should mention that there is a vote of \$170,000 for an increase

in benefits including treatment and related allowances, and then comes the item of \$10,100,000 representing the increase in the pensions of veterans.

Senator SMITH (*Queens-Shelburne*): Mr. Chairman, do you have the information as to whether that increase is a flat 10 per cent across the board?

The CHAIRMAN: I will give you some of the examples that are set out here. I see that the figure of 10 per cent is mentioned. This reads:

The cabinet has approved the recommendation of the Minister of Veterans Affairs that the rates of pensions set forth in schedule A and B of the Pension Act be increased by ten per cent, and that the maximum attendance allowance provided under the Act be increased from \$1,800 to \$3,000 per annum. The legislative changes required to give effect to these increases are set out in the wording of this item.

That answers Senator Power's question. It is a 10 per cent increase across the board.

That, I think, covers all the items other than the matter of "Loans, Investments and Advances". This also does not represent an expenditure. It will be recalled that under the Canada Student Loans Act loans are made by banks to the students, and the federal Government guarantees the loans. The demand for loans has outrun the provision that was made, and therefore the Government has come back and asked for authority that loans may be made by chartered banks for a further amount of 8 million under a guarantee of the federal Government. I should point out to you that the original amount set out in the act was, I think, \$30 million. That was allocated under a formula by the provinces. Some provinces are exhausting or will exhaust the allocation to them and on the other hand other provinces will not take the full amount provided under the formula. Therefore this provision now being made of an additional \$8 million is not subject to a formula of allocation by provinces: it is in the nature of a floating amount that can be allocated where it will be needed.

Senator BURCHILL: The \$8 million is not shown here. It is just \$1.

The CHAIRMAN: It is \$1 as far as expenditure is concerned, because the Government is not expending any money in these estimates. The \$8 million is in the description. This is again an example really of legislation by the Supply Bill. Parliament has not authorized any amount to be guaranteed beyond the figure of \$30 million. This raises that \$30 million by \$8 million to \$38 million. It is not money that is being advanced or is being put out by the Government. It simply authorizes the banks to put out that additional money under the guarantee of the Government. Therefore it is legislation through the Bill of Supply instead of by a separate act of Parliament amending the Canada Student Loans Act.

Senator STAMBAUGH: Can you give us an idea of the amount put out that the provinces are taking advantage of?

Senator BAIRD: It is in the House of Commons *Hansard*.

Senator STAMBAUGH: We can get that, then.

The CHAIRMAN: The minister's statement says:

I am informed that since only two provinces, Ontario and Prince Edward Island, are likely to exceed the quotas provided for them this year, less than one-half of the foregoing authority is likely to be utilized. Nevertheless, it seems desirable to provide for a general increase rather than an increase which is confined to two provinces.

Senator STAMBAUGH: That practically answers what I was curious about. I see that students in Toronto said they did not want it.

The CHAIRMAN: I read that, too.

Senator STAMBAUGH: I wonder whether that was right across Ontario.

The CHAIRMAN: Apparently not. Apparently it is being utilized to the full. There were some figures, and I am quoting them now from memory, that the amount allocated in Ontario was something over \$12 million.

Senator STAMBAUGH: Another reason I ask it is this. I was talking to the President of the University of Alberta and he was very much in favour of this. According to him, it was being taken up by a great many students. I wondered whether we were doing something special out there. I suppose that in Ontario they do not need the money.

The CHAIRMAN: Apparently in Ontario they are using it.

Senator SMITH (*Queens-Shelburne*): I would like to point out to my colleague Senator Stambaugh that in the little Province of Nova Scotia something like 2,000 students have taken advantage of the amount. I do not recollect what the total was. On the basis of the total student population, I heard them say it was a great success.

The CHAIRMAN: While the \$8 million is not just for these two provinces, it will be available to any other province that goes beyond its first allotment, nevertheless, having in mind that Prince Edward Island would probably not require a large proportion of the \$8 million it does suggest that Ontario will be taking a fair amount of the additional \$8 million, so that one would assume that the plan is being used in Ontario.

Senator BAIRD: In other words I presume that the \$30 million has already been taken up?

The CHAIRMAN: No, it has not, because it was allocated by provinces; and the two provinces have run almost on top and the others are much lower down, so that in aggregate it has not been taken up as yet. After all, it has been in effect only for several months. There will be another year coming along, or even summer courses in the course of the next year.

Senator SMITH (*Queens-Shelburne*): Or even some student becoming unable to pay, in the middle of the term, and being forced to have recourse to this.

The CHAIRMAN: And there may be applications being processed which have not gone through yet.

Senator MOLSON: And it does not include Quebec.

The CHAIRMAN: Quebec is dealt with in a different way, by reimbursement.

Senator MOLSON: But the sum of money here does not include any loans to Quebec.

The CHAIRMAN: I am not sure.

Senator SMITH (*Queens-Shelburne*): We are not guaranteeing the loans, but we are paying the interest on them.

The CHAIRMAN: That is so.

Senator CRERAR: I definitely object to the principle underlying this, and I have done it before. I may say that 50 years ago this method of voting money would not have had a hearing for a second. What we are doing here is by a vote of \$1 we are authorizing the Finance Minister to increase the obligations of the Treasury up to the extent of \$8 million. I do not see why in the world they could not have put that right in the vote. This is a device to keep the total of the estimates down. We do not know how much of the \$8 million will be used. Surely it will be possible to make some estimate and put that estimate in the vote so that we could know what it was. This principle is a thoroughly unsound principle. I have objected to it before when it was done by the last administration, and I object to it now.

Senator STAMBAUGH: We are not actually authorizing any Government money to be spent on this.

Senator CRERAR: We are authorizing obligations.

Senator STAMBAUGH: That they might pay out if it was not paid back.

Senator CRERAR: Certainly, is not that an obligation? Is it not the same as if you do not pay, when I back your note?

Senator STAMBAUGH: But you have not the obligation to back my note. I hope not.

The CHAIRMAN: Might I interject in connection with this point that no money will fall due in the current estimates, so there will not be any actual expenditure. Senator Crerar's point may well be considered when we come to the estimates for 1965-66, when there may be defaults and claims upon the Government under the guarantee.

Senator STAMBAUGH: There may be some loss and then you have to vote the amount of the loss.

The CHAIRMAN: That is right, but up to March 31, 1965 no loans will fall due and there will be no loss. Technically, that is the situation.

Is there any further discussion on the supplementary estimates?

If not, we move on to the Draft Report. I suggest, purely as a matter of convenience to the members of the committee that, subject to whatever you feel about it, I might read through the report and, as I do so, if you notice anything you wish to bring up, you might put a question mark or tick or other comments on your own copies of the draft. Then, when I have covered the report as a whole, we will go back and pick up the questions. I suggest that procedure, because there may be some questions arising, say, in paragraph 4, which are covered in paragraph 10. Does that procedure meet with the approval of the committee?

Hon. SENATORS: Agreed.

The CHAIRMAN: The Draft Report is as follows:

The Standing Committee on Finance to whom was referred the Estimates laid before Parliament for the Fiscal year ending March 31, 1965, report as follows:—

1. On May 20th 1964 the following order of reference was adopted by The Senate:

That the Standing Committee on Finance be authorized to examine and report upon the expenditures proposed by the Estimates laid before Parliament for the fiscal year ending 31st March, 1965, in advance of the Bills based on the said Estimates reaching the Senate; and  
That the said Committee be empowered to send for persons, papers and records.

2. In obedience to the foregoing, the Committee held a meeting for organization on May 21st, 1964. The Honourable Senator Molson was elected vice-chairman and a Steering Committee was appointed consisting of the Honourable Senators Flynn, Haig, Smith (*Queens-Shelburne*) and the Chairman and Vice-Chairman.

3. Subsequently the Committee held 11 meetings and heard evidence from senior officials of the Treasury Board, from the Comptroller of the Treasury, the Auditor General and Deputy Minister of Finance.

4. This is the first occasion since 1956 that the Estimates have been referred to a Committee of the Senate. Prior to 1956, the Finance Committee under the chairmanship of the Honourable Senator Crerar, and later of Honourable Senator Hawkins studied the estimates and made reports thereon which were helpful and valuable. In the interval, since 1956, an important

development that has taken place is a Report, officially known as the "Report of the Royal Commission on Government Organization" but more commonly called the Glassco Report after the distinguished Chairman of the Commission. Under that shorter title it is designated in this Report.

5. The Glassco Report dealt with many matters other than the Government Estimates, but as your Committee is concerned only with the Estimates, it is that aspect of the Glassco Report that has demanded our attention.

In dealing with the Glassco recommendations, it is desirable to re-state the place and importance of the Estimates in our parliamentary system of government, and the methods and procedures whereby they are currently prepared, presented and approved.

6. The control by Parliament of the spending by the executive government has its roots deep in our constitutional history, going back in England as far as the days of the Long Parliament. In Canada, it was embodied in our Act of Union, and in the British North America Act. The executive government alone can initiate measures imposing charges upon the public exchequer, and in order to do so it must table in Parliament its Estimates of Expenditures. In the case of its Main Estimates, these are tabled on or about the commencement of the fiscal year to which they apply so that Parliament may have early and ample opportunity to deal with the spending program for the new year. They are usually tabled on or about February 1st each year.

7. Many months of preparation, however, have preceded the tabling. About the first day of July 1963 the Treasury Board requested the various departments of government to submit to it their establishment plans (that is to say, the expected numbers of staff members) and their expenditure requests, setting a deadline of November 1st, 1963, for such submission. Then during the months of November and December 1963 these submissions were studied, analyzed and, if necessary, revised by the Treasury Board and its staff. Discussion, argument and negotiation take place vigorously between all levels of Treasury Board staff and departmental staff during this period. The ministers who are members of the board met in December 1963 and conducted an intensive review of the estimates. It is at this stage that the various departmental ministers appear before the Treasury Board as suppliants for their particular areas of responsibility. The results were then recommended by Treasury Board to the Cabinet. The final decision on the Estimates was made by the Cabinet and thereafter the Estimates were printed and placed before Parliament.

8. In the light of the time factor involved in this procedure, it is understandable that from time to time during a fiscal year supplementary estimates are prepared and submitted to Parliament to cover expenditures unforeseen at the time of the preparation of the main estimates, or resulting from subsequent legislative action. Three such supplementary estimates have been tabled in Parliament for the current year, to date.

9. As of November 24th, 1964 the Estimates have not yet been approved and therefore no final supply bill has been voted by Parliament for the expenditures for this year. Because it has been necessary to supply the government with money on account so that it may carry on the business of the country, some five interim supply bills have been passed by Parliament so far this year, providing generally for expenditures for nine months and, in some cases, for ten or eleven months. It is an anomalous situation that most of the money has been spent before Parliament has approved the expenditures themselves.

10. The procedure as so described for this year is consistent with the pattern that has been followed for some years. It is familiar to all members

of Parliament and need not have been set out in this report, were it not for the fact that in recent years criticisms have been voiced that seem to warrant examination.

11. It is far from satisfactory to have so long a period of time elapse before the final vote of supply by Parliament and to have so much money spent before the Estimates have been approved. Having in mind the increasing multiplicity and magnitude of parliamentary duties, it would be desirable to bring about an earlier disposition of the estimates and the consequent bill or bills of supply. In this connection it is noteworthy that in the United Kingdom 26 days before August 5th of each session are given for the consideration of the annual estimates on supply. Therefore, there is a limit on the debate and a deadline for the final passing of supply.

12. The consideration of the estimates has traditionally provided an opportunity for debate, not confined to the items of expenditure, but also on grievances, within relevant limits, against the executive government. Indeed, at times this aspect of the debate may completely overshadow consideration of the financial items themselves.

13. The Senate as an integral part of Parliament has to debate and vote upon supply bills before they are passed. Traditionally, it has exercised both the above-described functions when dealing with supply bills, namely, scrutinizing expenditures and airing any grievances which honourable senators may have against the executive government. Depending on circumstances, therefore, a debate could take two or three days, or no longer than one day.

14. In so far as the financial aspect of supply bills is concerned, so long as the estimates are referred to the Finance Committee at each session, an opportunity is provided for the examination and scrutiny of expenditures. As to the other aspect, the airing of grievances, the rules of the Senate do provide other opportunities for members to raise such questions. Nevertheless, it is desirable to preserve and protect our rights in this respect in the debate on supply bills. Unfortunately, it has happened on a number of occasions over the past ten years that the Senate has been faced with an indirect form of closure forced upon it by the pressure of events and primarily caused by the insufficiency of time between the date a supply bill reaches the Senate and the deadline by which the government's legislative authority to spend would be exhausted.

15. Your committee calls attention to this situation in the hope that ways and means may be found to bring about an earlier and speedier disposition of the estimates and of the Supply Act or acts based thereon, and to express its willingness to deal with such estimates with promptness and despatch to meet any earlier deadline that Parliament may wish to prescribe.

16. In carrying out the reference to it this year, your committee did not examine in detail the estimates of any particular department, but it did consider the estimates in general, and questions as to various aspects of a number of departments were put to the witnesses before us. The committee did devote considerable time to the procedures, forms and substance of the Estimates and in particular made a study of the recommendations of the Glassco Report to which we have referred. These recommendations were designed to bring about greater economy and efficiency in the financial management of the government. They have all been under intense study by the Government and its officials; some have been accepted and are being implemented, and others are in the process of being put into force. Four outside management firms have been engaged to do pilot studies for four different departments of government for the purpose of determining how the Glassco suggestions can best be built into the departmental systems of accounting and financial reporting.



17. The Glassco Report made this general statement, at page 94, of Volume I of the abridged Edition:—

“The conclusion is inescapable that the present procedures in developing and reviewing the Estimates are wasteful and inefficient. The form of the Estimates does not permit intelligent criticism and, in placing the major emphasis on the nature of expenditure rather than on its real purpose, the matters coming under senior review are the less important details of administrative judgment. Any valid assessment of performance by departmental management is excluded and it is virtually impossible to form any objective judgment from the Estimates as to the desirability of continuing, modifying or enlarging specific programmes in the public interest.”

18. Your Committee concurs in general with this analysis. Certain specific recommendations are then made in the Glassco Report and some of the major ones with our comments thereon are as follows:—

(a) That the number of votes be reduced and all cost elements of individual programmes be consolidated within the same vote.

Departmental estimates are broken down into subdivisions classified as “Votes” for the convenience of parliamentary decision. This recommendation has been accepted by the government and largely applied in the 1964-1965 estimates. In 1961-62, the Main Estimates included 495 votes, over three times the number currently used in the United Kingdom. The 495 votes have been reduced to approximately 240 in the current estimates and no doubt there can be a further reduction.

(b) That departmental estimates should be prepared on the basis of programmes of activity and not by standard objects of expenditure.

Your committee agrees that the *primary* emphasis in the estimates should be on the “programme” rather than on the standard objects of expenditures. The significance of an expenditure must be related to the purpose for which it is being incurred. Departments should justify their estimates by relating them directly to the programme that occasions them and, in turn, justify the programme as being worth the amount expended upon it, not only on its own account but also in competition with other needs for which money is required. This change, however, should not take place at the expense of omitting relevant details such as are contained in the standard objects of expenditures.

(c) That the establishment review should be part of the overall review process of expenditures.

In essence, this means that the determination of the number of staff required in a department should be part and parcel of the determination of the cost of the various programmes of the department. The logic of this proposition is self-evident and it has been accepted by the government and is endorsed by your committee.

(d) That all departments and agencies should be required to prepare and submit to the executive long-term plans of expenditure requirements by programmes, and that based thereon an overall forecast of government expenditures and prospective resources for a period of five years ahead should be prepared annually.

At present government budgeting and accounting are on a year to year basis. This is necessarily so, because Parliament should and does annually exercise its control and review of a government’s administration. Nevertheless, a government should be aware of its probable longer term financial requirements. Increases in population alone will make greater demands upon many branches of government service. Most businesses now must project their budgets ahead for five years or more to be ready to meet changing conditions,

obsolescence, new products and other potential developments. The use of such a forecast does not involve a decision to agree with projected expenditures but its value would lie in preventing decisions being made currently that would not take into account the future consequence of that decision by itself, and also in the context of its relative effect on overall operations.

(e) That departments and agencies be given the necessary financial authority and be held accountable for the effective management of the financial resources placed at their disposal.

This is probably the most significant of all the recommendations made by the Glassco Commission. In essence, it is a de-centralization of financial responsibility. The theory supporting it is that by making a department itself responsible for its financial expenditure, it will exercise that responsibility more effectively and economically than if some outside body is, as the report puts it, "likened to a policeman patrolling the departments to ensure financial rectitude".

Your committee desires to sound a word of caution in connection with this recommendation. The change, of itself, will not automatically bring about the desired improvement. Its success will depend upon how the key personnel in the civil service respond to the challenge involved in this delegation of greater responsibility to them, and assume the higher degree of accountability for the efficient and economical financial management of departmental affairs. In each department there must be a fully qualified and competent financial administrator under the deputy minister. In this connection your committee has noted with approval that a course for training such personnel has now been set up in the Civil Service. It is to be hoped, but it still remains to be seen, that skilled and competent internal financial management within departments will bring about greater efficiency and savings.

(f) That the cost of major common services be charged to user departments.

At present in many instances free services are provided to various departments of government, among which might be mentioned accommodations, furniture, power, franked mail, superannuation and other employee benefits. Your Committee agrees with the principle of this recommendation and, so long as its implementation does not superimpose an elaborate or expensive system, it is desirable that the costs of such services should be charged to the user department of them.

(g) That where appropriate, revenues be offset against related expenditure, and that votes be shown in the Estimates and controlled on a net basis.

As the Glassco Report states, it is normal in industrial budgeting to relate revenues and costs. In government those revenues derived from services rendered are generally only incidental. Your committee agrees in principle with this recommendation of the Glassco Report and we have noted that the officials of the Treasury Board are studying the practical problems it presents for the purpose of seeing how far the desired result can be achieved.

19. It is not our function in this Report to deal with recommendations of the Glassco Commission other than those relating to the Estimates. We have said enough to indicate our approval in general of the relevant ones. We emphasize, however, that decisions to spend are in the first instance decisions of government policy and that even Parliament's control over such decisions must be viewed in the light of our system of responsible government. Therefore, the total amount of the Estimates and the objects thereof are the primary responsibility of the government of the day and, once those decisions have been made, the most that management can do, and in practice Parliamentary scrutiny also, is to see that the expenditures are made as efficiently and as economically as possible, and without waste, extravagance or duplicates.

20. In addition to its studies of the Glassco recommendations, your Committee inquired into a number of matters concerning the Estimates in general

and also as to particular items. The questions and the answers submitted by the Treasury board officials appear in the printed proceedings of the Committee, with suitable appendices where required, and for the purposes of this Report it is sufficient to say that all relevant information was obtained upon the items as to which members were concerned.

21. The following observations are made as to the Estimates in general. The Main Estimates for 1964-65 totalled \$6,703,513,508, or \$84,378,008 more than those of the previous year. It should be noted, however, that there was a substantial reduction in the current Estimates of the Department of National Defence from those of the preceding year, amounting to \$109,000,455.

It would be misleading, however, to compare the Estimates of respective years without taking into account the Supplementary Estimates. In the current year Supplementary Estimates have been filed totalling \$221,763,280 and the Minister of Finance in his Budget speech in March estimated that the total expenditure for the year would be about \$7,125,000,000 or \$233,000,000 more than in the preceding year, an increase of a little more than 3%. It is interesting to follow the trend of increases in expenditures over past years, and a table of the history for ten years is appended.

I have it here. It has just been given to me this morning by Treasury Board and I am going to run through it, if I may, because I think you will find it interesting in connection with this.

I shall start with 1955 and the figure I give is the figure for the following year.

Increase in 1956 over 1955	%
“ “ 1957 “ 1956	4
“ “ 1958 “ 1957	9
“ “ 1959 “ 1958	5
“ “ 1960 “ 1959	5
“ “ 1961 “ 1960	6
“ “ 1962 “ 1961	4
“ “ 1963 “ 1962	9
“ “ 1963 “ 1962	1

The figure for 1963 over 1962, which was one per cent, is the only one that is especially low there. The next one, which is 1964 over 1963, is 5 per cent and the current year is 3 per cent.

Senator VAILLANCOURT: What is the difference between the figures ten years ago and now?

The CHAIRMAN: The difference between 1955 and the present time is between \$4,275,000,000 and \$7,125,000,000, which is approximately \$2,000,-850,000.

Senator STAMBAUGH: Can you give us the increase in the gross national product in that time?

The CHAIRMAN: In 1955 the gross national product of Canada was \$27,130,000,000. The current estimate is \$45,600,000,000, which is an increase of over \$18 billion.

Senator VAILLANCOURT: That is fairly close, isn't it?

The CHAIRMAN: I took off some percentages. I am not sure I can give them to you quite accurately, but I can give you my own rough calculations. You have heard the figures of increases in expenditure and I shall now give you the figures showing the increases in gross national product starting in 1955. The increase in 1956 over 1955 was 12.1 per cent.

Senator GROSART: Is that against the 4 per cent increase in expenditures?

The CHAIRMAN: That compares with the 4 per cent. In 1957 over 1956 the gross national product was 4.3 per cent. In 1958 over 1957, 3.1 per cent;

in 1959 over 1958, 6.15 per cent; in 1960 over 1959, 3.9 per cent; in 1961 over 1960, 3.2 per cent. Then in 1962 over 1961 it was 7.7 per cent and in 1963 over 1962 it was 6.6 per cent. 1964 over 1963 is estimated at 6 per cent.

Senator LAMBERT: Those last figures come close to exceeding the gross national product.

The CHAIRMAN: Those are the figures for the gross national product I have given.

Senator LAMBERT: They are not reflected completely in the estimates?

The CHAIRMAN: In some years, yes.

Senator LAMBERT: 1963 is mentioned there as 7 per cent. That is the increase in the gross national product.

The CHAIRMAN: I would think that roughly since 1955 the gross national product has increased a little more percentagewise than the expenditure of the federal Government. However we must always keep in mind that that is only one level of government, the federal level. If we take into consideration provincial and municipal expenditures which undoubtedly have increased at a much higher percentage rate so that the total overall expenditure would not be as favourable as is reflected by the one field at which we are looking at the moment. That table will have to be appended to the report.

Then, continuing from the report, there is this sentence: This year's percentage increase in federal expenditures should also be viewed in relation to the 8% increase in the Gross National Product of Canada for the current calendar year over the preceding year, as currently estimated.

That does not quite tally with the 6 per cent figure I have got myself. It seems to be the result of the fact that the trend is upward at the present time, and I think various estimates are being made, but I would think it would run somewhere between 6 per cent and 8 per cent for the year.

The draft report continues:

22. In the course of its deliberations, your Committee considered the place of Crown corporations and agencies with relation to the Estimates. Some of them do not appear in the Estimates at all and others appear with inadequate information. Having in mind that the purpose of the Estimates is to enable Parliament to scrutinize the financial operations of government, your Committee believes it would be useful on another occasion to examine the financial statements of one or more Crown corporations and to give the managements thereof the opportunity to testify as to their operations. Your Committee would be prepared to undertake such action if the Senate in the future should deem this advisable.

23. Your Committee desires to record its thanks and its appreciation for the evidence submitted by those senior officials of government who appeared before it and their courtesy and co-operation.

All of which is respectfully submitted.

Senator VAILLANCOURT: And to that we add our thanks to the chairman.

The CHAIRMAN: Thank you.

Senator BURCHILL: Mr. Chairman, I think this is a wonderful report, and I want to congratulate you and the others who prepared it. I must confess that I have not attended very many meetings of the Finance Committee, and I missed hearing much of what was said. However, there is one thing that is not touched upon in this report and which in another year we might study, and that is the matter of duplication of services as between the federal and provincial governments. This is a tremendous field. In some matters both the federal Government and the provincial governments are doing the same kind of work, and it would be an interesting study to see how much money is being spent in that respect.

The CHAIRMAN: That is a good point. We could have to take one particular department and go through its activities.

Senator LAMBERT: I wonder, Mr. Chairman, if sufficient attention has been paid to what has been described on page 6 of the report as the most significant of all the recommendations of the Glassco Commission. That commission recommended, for example, that there should be more decentralization, and more autonomy given to the spending departments of government. It seems to me that that recommendation met with some pretty definite questioning and cross-questioning of the representatives of the Department of Finance and the Treasury Board. I have doubts in my own mind about the advisability of approving completely of that recommendation.

The CHAIRMAN: We have not approved of it. Perhaps I should read this again. Our report says:

Your committee desires to sound a word of caution in connection with this recommendation.

Nowhere do we approve it. We then go on to say:

The change, of itself, will not automatically bring about the desired improvement. Its success will depend upon how the key personnel in the Civil Service respond to the challenge involved in this delegation of greater responsibility to them...

And then we say that there must be competent men to run the departments, and then we say:

It is to be hoped, but it still remains to be seen, that skilled and competent internal financial management within departments will bring about greater efficiency and savings.

Senator GROSART: This paragraph gives me some concern. I think the key phrase is in the first three lines of subparagraph (e)—that this refers only to the effective management of the financial resources placed at the disposal of the department. I am afraid that subparagraph (e), as it is written, might give the impression that we are approving of less control of overall expenditures, whereas that is not what we are doing at all. It is my understanding from the discussion that took place that the recommendation is that once sums were allotted to departments, the departments be relieved of the necessity of getting permission every time they want to spend moneys that have been approved. I do not think that is quite clear here.

The CHAIRMAN: Have you some suggested alternative wording?

Senator GROSART: This, I take it, is a paraphrase of the recommendation?

The CHAIRMAN: The first paragraph of (e) is the Glassco recommendation, and from there on the comments are those of the committee.

Senator GROSART: I think the public would not wish to see any diminution of the present checking and auditing and safeguards provided by the Comptroller of the Treasury and the Auditor General and others. However, Mr. Chairman, I think the report is an excellent one. This may be quibbling. I do not think it is essential that there be a change in it now.

The CHAIRMAN: The actual wording on page 99, and which we were endeavouring to quote, is:

We therefore recommend that:

1. Departments and agencies be given the necessary financial authority and be held accountable for the effective management of the financial resources placed at their disposal.

That is an exact quotation of the wording.

Senator POWER: What is the procedure at present?

The CHAIRMAN: The difference is that at present every expenditure goes back to the Comptroller of the Treasury for a certificate that that expenditure is being made in line with the estimates and the vote under which it is authorized. The natural reaction is that as long as the Comptroller of the Treasury is taking that responsibility the department itself does not consider it.

Senator POWER: How do you deal with the kind of situation where the Minister of Finance, sitting around a table, says: "Here, you are in charge of this department which cost \$400 million last year. I will give you \$400 million this year. Do what you like with it". Where is there any further responsibility there?

The CHAIRMAN: The idea is that all of this funnelling into the Treasury Board will be substituted for by proper controls inside the department, which does involve internal auditing...

Senator POWER: So you have a sort of a policeman there?

The CHAIRMAN: The report says:

Detailed restrictions, centrally imposed, multiply the number of departmental submissions to the Treasury Board requesting authority to act. Thus the Board is inundated with administrative detail. A sampling of board minutes indicates that decisions are required on about 16,000 submissions annually. These vary from elaborate and far-reaching projects involving a sizeable portion of Canada's economic resources, as in a new defence installation, to a request involving a few dollars for the purchase of sugar and tea for a reception at an Experimental Farm.

Senator POWER: That could be done away with, but I do not see how that would in any way affect the total expenditure of a department.

The CHAIRMAN: Except by more economic operation. The total amount voted would, of course, remain as voted.

Senator POWER: I feel at the present time that the custom is for the deputy minister to suggest to the minister that he asks for X amount. Knowing full well that the Minister of Finance will cut it down he increases that amount so that if he gets one-half or three-quarters of what he asks he will be getting what he wants. That is the habit and the custom. Will you get over that by adopting this procedure?

The CHAIRMAN: Theoretically that is what is supposed to be done.

Senator POWER: That is, in the total amount for the department?

The CHAIRMAN: Yes.

Senator POWER: I understand the recommendation that the minister should not have to run over to the Treasury Board every ten minutes or so for such things as an increase in pay, but I do not see how you are going to reduce the total amount of the estimates.

The CHAIRMAN: All I can give you is the thinking that is behind the Glassco Commission's report that is being studied. Of course, it has not all been accepted. In a sense it makes a deputy minister more like the general manager of an operation where he must view the operation from the standpoint of its success related to the expenditure involved in connection with it. If it seems to be too expensive or too inefficient in its operations the responsibility is placed squarely on his head.

Senator LAMBERT: It means that the deputy's job is to convince the minister that he is right.

The CHAIRMAN: Yes, and also the Treasury Board are going to measure these standards of performance, I would think, more critically once this delegation of responsibility takes place.

Senator MOLSON: Do you not think, Mr. Chairman, that the presentation of departmental programs in the estimates almost provides the kind of effect that Senator Power was asking about? If the estimates emerge in the form of a program there will be so much money voted for that purpose. Within that program presumably the department will be able to change money from that purpose which was originally proposed—

Senator LAMBERT: It will be able to switch it.

Senator MOLSON: Yes, switch it to something else within that department, but in the end the cost of the program cannot exceed the amount that is placed in the estimates for it.

The CHAIRMAN: That is right.

Senator MOLSON: So if the program becomes more efficient it should save money. If it becomes—as I am sure a lot of programs in the Government become—completely redundant, under present day conditions, it should disappear. At the moment it is just a list of personnel and requirements. There is no way of seeing whether the people listed are needed for a useful purpose or are just there because there is that number of positions in the establishment.

The CHAIRMAN: I think that is a good analysis of it. This would also point up more clearly the cases where programs which might have been started originally with desirable objects, may have outlived their purpose in whole or in part. They would be more clearly identified both to the department itself and to the Treasury Board.

This particular aspect has not yet been fully accepted. Dr. Bryce said that in principle it seems to be sound but it does raise practical problems. It is in that connection that these four outside management concerns have been placed in four different departments of Government to see how this new conception could fit into the existing mode of operation. Until they have finished their studies and further study has been given by the Treasury Board itself, I do not think it is clear to anyone just how this will function in practice.

Senator LAMBERT: At the risk of being platitudinous in connection with this report—an attitude which I would abhor—should not a word be included rather to emphasize, in the final analysis, the importance of a more painstaking scrutiny of the estimates and expenditures of Government or of Parliament, so that these suggestions might be weighed in their real value? I think that is the essence of the problem. If you decentralize these things and say the Glassco Commission has recommended that deputies be given more authority and that departments are to be trusted and do not have to be policed, there is a certain relaxing effect on all members of Parliament, so that they may say “We are drifting into the final paradise of senior control”.

The CHAIRMAN: I hope there is no suggestion that Parliament will relax any of its control.

Senator LAMBERT: I think this will require still greater scrutiny than before, because there is a certain suggestion of relief from what we have always been taught to think were the final responsibilities of Government ministers and of members of Parliament.

Senator CRERAR: It appears to me that this recommendation which we are discussing now is one of the most important things in the report. I imagine that what the Glassco Commission had in mind here, what they were recommending really, is a substantial measure of decentralization.

What is meant by decentralization is to give more authority to people who are actually doing the work. I can illustrate that by reference to the National Parks, of which we have a large number. Several of them have golf clubs, some are large in area, some let out grazing privileges, some give permits to cut hay or wood or lumber. The practice has been, and I am sure still is, that if the superintendent of a park sold a permit under the regulations

to cut wood for \$10, \$15 or \$20, he would see that the individual so authorized did not go further than permitted; and then he could send a remittance of that amount to Ottawa. That procedure involved an entry in his books, a letter to a stenographer, the sending of the remittance to Ottawa, a letter of acknowledgment, and entries in the books of the department in Ottawa by the Parks Branch, and then a remittance to the Receiver General.

In many of these parks there were hundreds of these items and each one had to go through this process.

There was nothing on earth to prevent a change in that system, so that the parks superintendent and his accountant could be bonded and he could have the right to deposit these amounts in the nearest bank available to him, then to check out against those accounts such petty expenses as the cost of hiring a few men to shovel snow after a snow storm.

The amount of paper work involved in the present procedure is really enormous. I suspect that what the Glassco Commission had in mind was some method of dealing with this. It involves putting more responsibility on the man in the field. Within these processes, he can be checked. First of all, he can be bonded for the handling of funds, then the Auditor General could make periodic checks on him without notice to see that he was living within the spirit of the regulations. In that way we could cut down a great deal of the clerical work.

I have used those illustrations, but the same thing would apply in the case of family allowances and to some extent in the case of old age pensions. It certainly would apply in some aspects of agriculture where under the P.F.R.A. for instance they let out grazing leases. The amount of paper work required is tremendous and one could scarcely get enough files in the Government to handle it. There is no doubt in my mind, as a result of my own experience in the Government, that tremendous economies could be effected in that respect.

The tradition has grown up, fostered naturally by people associated with the departments, that you cannot trust the man outside to look after these things and in the public interests everything must be sent back to Ottawa in the way of revenue and sent to the Receiver General. It does not matter much which way it finds its way to the Receiver General, but this could all be done within the framework of protecting the expenditures in the estimates.

The CHAIRMAN: I think Glassco would agree with you. I think that is the basis.

Senator CRERAR: I think that is what the Glassco Commission had mainly in mind.

Senator GROSART: Mr. Chairman, you asked for suggestions which might clarify it. I suggest that we put in at the bottom of page 6, the following:

It should, perhaps, be made clear that this suggested extension of spending authority within departments refers only to expenditures already authorized by Parliament.

Senator CRERAR: I remember when I was in Mines and Resources all revenues from the Northwest Territories for trapping licences and fishing licences ran to several hundred thousand dollars a year.

The CHAIRMAN: It is not really spending authority, it is extension of authority.

Senator GROSART: I would suggest that it is an extension of spending authority, because that is exactly what they are asking for—they want authority to spend within the department, and not to have to go to the Treasury and be obliged to say, "This is the suggested expenditure within the framework of the vote."



The CHAIRMAN: It is really an extension of their authority, but not of their spending authority. In other words, if spending authority means the amount, there is no extension of it.

Senator HAIG: It is a reallocation.

The CHAIRMAN: It is extension of authority within departments.

Senator GROSART: It refers only to expenditures already authorized by Parliament.

The CHAIRMAN: If it is agreeable, then, the words "refers only to expenditures already authorized by Parliament", may be inserted at the foot of the page.

Senator GROSART: In other words, all they are asking for is the right to go ahead and spend the money when it has been authorized, instead of getting someone to say, "Yes, you are within the vote."

Senator BAIRD: It is like a general manager within his department.

The CHAIRMAN: That is right.

Senator GROSART: Mr. Chairman, this may sound like quibbling, but the phrase "executive government" is used in several places of the committee's report. It is to be found twice in paragraph 6 on page 2, and also in paragraphs 12 and 13 on page 3. It is an Americanism, and may be realistic, but it is not a phrase which has yet constitutional recognition in Canada. We speak of the Cabinet. The fact is that the executive in Parliament is one of the distinctive features of our Constitution.

The CHAIRMAN: This is a phraseology which appears in English constitutional history, and in Canada. It is used frequently in the Glassco Report.

Senator GROSART: I will not quarrel about it, but I do not like the phrase "executive government" in connection with our Canadian constitutional system.

The CHAIRMAN: Do you prefer the word "Cabinet"?

Senator GROSART: Yes, the Cabinet, or the Government. Why put in the word "executive"?

Senator POWER: Could you not put in the word "executive" as well as the word "government"?

The CHAIRMAN: That might be the best way of all—put "executive" with a capital "E" just as does the Glassco Report.

Senator POWER: I do not like the expression "executive government" either.

The CHAIRMAN: Then for the word "executive" in "executive government" wherever it occurs, substitute the first letter "e" with a capital "E".

Is it agreed that the report of the committee be presented in the Senate?

Hon. SENATORS: Agreed.

The CHAIRMAN: When I present the report in the house this afternoon, if the Senate so wishes, I shall try to make an explanation thereof, but would like to have the debate adjourned, so that we can continue discussion next week, if necessary, and I would be happy indeed if any other members of the committee would speak to the report.

Senator HAIG: I will move the adjournment of the debate, if you wish.

The CHAIRMAN: Very well. Some other senators may wish to contribute to the debate.

Senator LAMBERT: I should like to have an opportunity to read the printed proceedings of this meeting, in order to consider more carefully the suggestions of my friend.

The committee adjourned.





