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THE TREASURY BOARD OF CANADA*

The Treasury Board is a Committee of the Privy Council of Canada established by statute, having certain delegated executive powers and responsibilities. Therein lies its importance in Canada's system of government. The legislature makes the laws, levies taxation and appropriates public revenues. The executive carries out the laws and supplies the services required. This is admittedly an oversimplification, since the making of laws and their enforcement are not entirely distinct processes. The legislature, in deciding upon broad social and economic policies, often instructs the executive to make rules and regulations for the implementation of those policies. Under such circumstances, the law can be made while it is being administered and enforced.

In a parliamentary democracy, the cabinet is, in essence, the real executive. It has been said that, if such a political system has a centre of gravity, that centre is the cabinet. Walter Bagehot once wrote that "a cabinet is a combining committee, a hyphen which joins, a buckle which fastens the legislative part of the state to the executive part of the state". It formulates and carries out all executive policies. It prepares most of the legislative program. It exercises almost exclusive control over all matters of finance and is responsible for the administration of all government departments. It can be seen, therefore, that the Treasury Board, which has been endowed by statute with certain delegated executive powers of the Cabinet in these various areas, has indeed a very important place in the structure of Canada's parliamentary system.

Early Development

The need for such a federal body to act as co-ordinator and overseer of the financial affairs of government departments was recognized in the earliest days of Confederation. The British North America Act carried forward the financial rules and procedures of the former Province of Canada. A single

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* Based on a speech to the National Defence College on October 6, 1969, by the Honourable C.M. Drury, President of the Treasury Board.

Consolidated Revenue Fund was created, in which all moneys received were to be deposited, with Parliament alone enjoying the power to authorize expenditures from the Fund. A Treasury Board was also established to supervise all matters relating to finance, revenue and expenditure. It was created by Order-in-Council on July 2, 1867. Two years later, however, with the passing of the Department of Finance Act of 1869, it was made a statutory committee of the Privy Council consisting of four Cabinet Ministers, with the Minister of Finance as Chairman. The Act stated that the Board should act as a committee of the Queen's Privy Council on all matters relating to finance, revenue and expenditures that might be referred to it by the Council or that the Board might think it necessary to call to the attention of the Council. The duties and powers conferred by this Act are still the central core of the responsibilities and functions of the Treasury Board.

Some doubt exists, however, about how effectively the Board performed as a central control agency in those early decades, extending into the 1920s. Although by 1910 it had begun the practice of reviewing departmental estimates, it appears that the Treasury Board met only intermittently and was relatively inactive, concerning itself with such matters as reclassification of positions, travel expenditures and internal or household matters of government. As the activity of the Federal Government expanded and became more involved in the economy, weaknesses began to appear in the Government's administrative machinery, particularly in the area of financial control. Ministers and their deputies were unable to maintain adequate control over the size of their staffs and their money. Until 1930, the handling of public funds was governed by the Consolidated Revenue and Audit Act of 1878, and control over departmental expenditure was very loose. In some cases, departments overspent their votes without being aware that they had done so. With the onset of the Great Depression, the Government of the day, as part of its economy drive, decided that measures would have to be implemented to tighten the control over the use of federal funds. This resulted in the revised Consolidated Revenue and Audit Act of 1931, which established a pattern of central control over the financial operations of departments. The Act created a new officer, the Comptroller of the Treasury, whose task it was to ensure that the funds voted by Parliament were used for the purpose intended and that the authority to spend was not exceeded. He was charged with the responsibility of keeping a continuous record of commitments and of maintaining for each department detailed accounts of authorizations, commitments and payments.

At the same time as this new office was established, the Treasury Board began to function as a stronger financial-control agency. There was a general tightening of control over expenditure, and throughout the 1930s the Board became more involved in restricting the expenditure programs of the various departments and developed stronger administrative control in order to achieve economies in government.

Postwar Expansion of Activity

The Second World War, of course, led to a vast expansion of Government activity and initiative. During the war, the work of the Cabinet was facilitated by the establishment of a small body known as the War Committee, which exercised a general comprehensive supervision over the war activity of the Government. Though not an executive body, it co-ordinated and initiated approved major projects. With the return of peace, the War Committee was disbanded but the continuing pressure of increased Government activity necessitated the establishment of a new series of Cabinet committees. In this realignment of the Cabinet's workload, the Treasury Board assumed greater importance and its increasing regulatory responsibility led to a reassessment of its role within the executive. This resulted, in 1951, in the replacement of the Consolidated Revenue and Audit Act by the Financial Administration Act, which clarified the role and responsibilities of the Treasury Board along with those of the Comptroller of the Treasury. The Board was empowered "to act on all matters relating to finance, revenues, estimates, expenditure and financial commitments, accounts, establishments, the terms and conditions of employment of persons in the public service and general administrative policy in the public service". By virtue of these statutory powers, a large number of matters that had formerly required submission to the Governor-in-Council could now be dealt with by the Board itself. In summary, the Board assumed a larger role in the central direction of Government activity. One significant change in this respect was with regard to contracts. Until 1951, the major administrative responsibility for the control of contracts remained in the hands of Cabinet. With the new Act, all major contract proposals, whether for the acquisition of land, the construction of works and buildings, or the purchase of supplies and services thereafter, required specific approval by the Treasury Board and all other contracts became subject to its regulations.

Glassco Recommendations

The next stage in the evolution of Treasury Board functions came as a result of the findings of the Royal Commission on Government Organization (the Glassco Commission). In 1960, the Government, recognizing that the role of the Government and the character of its activities had changed radically over the years, established this Commission "to inquire into and report upon the organization and methods of operation of the departments and agencies of the Government of Canada and to recommend the changes therein which they consider would best promote efficiency, economy, and improved service in the despatch of public business". The urgent need was to identify the tasks of management facing the Government of Canada and to devise patterns of organization and guides to action that would accomplish these tasks. The Commission felt that the needs of effective management fell into two general categories -- those associated with the administration of departmental operations and those involved in the central direction and co-ordination of Government activities as a whole.

With respect to the central direction and co-ordination of Government activity, the Commission pointed out that the policies and programs of each department and agency must be balanced against and harmonized with those of other departments and agencies and that they must justify themselves in terms of their contribution to the general interests of the Canadian people. Thus the authority of each department must be subject to the overriding needs of the Government for the general interests of Canadians.

While central direction is the collective responsibility of the Government as a whole, the Commission was of the opinion that such a task was only effectively carried out if there was one person or agency responsible to furnish initiative and to ensure that collective decisions were executed. Over the years, the Treasury Board had been progressively delegated the tasks of central management. But, in the Commissions's view, the Board was handicapped by the fact that the Ministers on the Board, and particularly the Chairman, the Minister of Finance, were charged with other very heavy ministerial responsibilities. The Commission concluded that the Board should be strengthened by the appointment of a presiding Minister who could give day-to-day guidance to its staff, provide the initiative needed, and ensure that general considerations of good management found expression within Cabinet. The Commission also felt that there should be a redefining of the role and character of the Board's staff that would recognize that the essential task of the staff was to assist ministers in discharging their collective responsibility for program priorities and administrative standards.

These conclusions and recommendations led to the Government Organization Act of 1966, whereby the historic connections between the Minister and Department of Finance and the Treasury Board were changed in a number of important respects. The Board was established as a separate department of government under its own Minister, the President of the Treasury Board, with the Minister of Finance as a member of the Board. The President of the Board, in addition to assuming the duties formerly vested in the Minister of Finance as Chairman of the Board, became the Minister responsible for the new department and in this capacity was given, for the first time, power to act on behalf of the Board in the intervals between Board meetings.

Current Powers

The Financial Administration Act was also amended, and it is from this revised Act that the Board now derives its current powers and responsibilities. Section 5 of the Act reads as follows:

"The Treasury Board may act for the Queen's Privy Council for Canada on all matters relating to:

(a) general administrative policy in the Public Service;

(b) the organization of the Public Service or any portion thereof, and the determination and control of establishments therein;

(c) financial management, including estimates, expenditures, financial commitments, accounts, charges for services, rentals, licences, leases, revenues from the disposition of property, and procedures by which departments manage, record and account for revenues received or receivable from any source whatever;

(d) the review of annual and longer term expenditure plans and programs of the various departments of government, and the determination of priorities with respect thereto;

(e) personnel management in the Public Service, including the determination of terms and conditions of employment of persons employed therein; and

(f) such other matters as may be referred to it by the Governor in Council."

The effect of the amended Act was to establish the Treasury Board even more clearly than before as the agency of government chiefly responsible for formulating central management policy, including the financial management functions of short-range and long-range expenditure forecasting, program analysis, estimates preparation, supervision and control of expenditures, leases, contracts, and financial commitments. For the first time, too, responsibility for providing leadership and stimulus to improved management performance in the government service was explicitly vested in the Board. Possibly, however, the most important widening in the duties and responsibilities of the Board was in the field of personnel management. In part, as a result of being designated as the principal agent of the Government in collective bargaining, the Board had assigned to it, in addition to its previous duties relating to organization and establishment control, exclusive responsibility for classification, rates of pay and conditions of work, and for determining generally the policy governing personnel management in the Public Service.

Thus the Treasury Board is now, in effect, the supreme operational executive body within selected areas of government activity. The authority of the Board is, however, hedged, in that the Cabinet must remain the ultimate executive authority. Section 5, Subsection 4, of the Financial Administration Act guarantees this by stating that "the Treasury Board in the exercise of its powers under this or any other statute is subject to any direction given to it by the Governor in Council and the Governor in Council may, by order, amend or revoke any action of the Board".

Primacy of Financial Administration

While the Treasury Board has, over the years, been assigned broader central management functions, its most important responsibilities have always been and still are related to financial administration.

Financial decision-making in government is concerned essentially with the problem of allocating the limited resources at the Government's disposal among competing demands. In the private sector, the market mechanism serves as the basis of resource allocation. Since this does not apply in the public sector, substitute means are required for determining objectives and the extent to which resources are to be used to attain established objectives. While the Canadian public, through the political party and voting process, expresses its broad preferences, resource allocation in the public sector rests largely in the hands of legislators and public administrators.

Dr. W.C. Clark, when Deputy Minister of Finance, very effectively presented in an article he once wrote the essential features of Canada's financial administration and decision-making process. It can be summarized as follows:

(1) A budget system -- that is, a systematic statement and consideration, usually given once a year, of the financial standing of the Government, so that Cabinet, Parliament, and the nation may know what the current position is and what it is likely to be in the future.

(2) The acceptance by Cabinet of the responsibility of preparing this statement, of formulating estimates of future expenditure and of devising expedients for raising funds to meet these expenditures, all of which it submits to Parliament.

(3) The acceptance by Parliament of the responsibility of receiving these statements and plans and of scrutinizing and appraising them.

(4) The acceptance by both Cabinet and Parliament of the doctrine that approval by Parliament in no way diminishes the responsibility of the Cabinet, either for the proposals originally submitted or for any modification in these proposals which may be made after discussion.

(5) A combination of rigid control over major appropriation items with a degree of flexibility in matters of supporting details and the power to abstain from making any authorized expenditure if the Cabinet should consider such abstention desirable.

(6) As an aid to the foregoing and as insurance that the wishes of both Cabinet and Parliament will be carried out, there must be adequate administrative machinery, and the presentation of material in such a way that the House of Commons can deal with it intelligently. The House has its own auditor, the Auditor General, and its own auditing machinery, primarily the Standing Committee on Public Accounts.

Fundamental Principles

The basic principles of this system are, therefore, that no tax shall be imposed and no money spent without the authority of Parliament and that expenditures shall be made only for the purposes authorized by Parliament. Along with Parliament, Cabinet is, however, also an integral part of the financial decision-making process, in that it determines the general magnitude of expenditures when it establishes policy in the various fields of government activity. While, in practice, Ministers exercise their collective responsibility for policy in Cabinet, most of the detailed supervision and co-ordination of expenditures is delegated to the Treasury Board. It has the important function of rationalizing the requirements of all departments and fitting them into the budgetary picture as a whole. In consultation with the departments, it indicates to them the overall expenditure policy of the Government and what the Government considers the nation can put into particular activities at any given time. The burden of determining priorities at this planning stage rests primarily upon the individual department, where it properly belongs, since Ministers and officials are in the best position to compare the importance of one activity with another within the sphere of responsibilities of any particular department. But within the framework of the general policy conclusions of the Cabinet, the Treasury Board is responsible for co-ordinating and establishing priorities among the many competing expenditure programs and activities of the various departments. From its central position, the Board must ensure that the proposals of departments are consistent with each other and with Government policy generally. In so doing, it tries to eliminate duplication of effort, not only among federal departments and agencies but also with the provinces and private industry. It can be seen, therefore, that the Board, in being an integral part of the financial decision-making and resource-allocation process, can have an influential policy role.

Program Review and Main Estimates

The actual administrative procedure which makes this process operative takes the form of two major budgetary submissions by the various departments each year. In May, departments prepare and submit to the Treasury Board forecasts of activities and expenditures for the next five-year period. This process, known as the Program Review, is undertaken with the full knowledge on the part of departments of the priorities the Government has established. The Treasury Board analyzes these proposals in the light of the Government's established priorities, the various requests from all departments and agencies, the available funds and the Government's decisions about the level of expenditure for the coming years. In summary, the objective of the exercise is to allocate available resources among competing requirements of all departments.

On the basis of its analysis, the Treasury Board then proposes to the Government specific financial targets for each department for the next fiscal year. After departmental targets have been approved by the Government and communicated to each department, work begins on the other annual submission -- the main estimates for the next fiscal year. These detailed estimates will, in many cases, differ from the material submitted at the time of the Program Review to the extent that expenditure cuts have been made in the original proposals and departments have to reallocate resources among their proposed programs. The Treasury Board also reviews and analyzes this submission. The main estimates submission assumes that the total resource requirements have been settled. It provides the information that the Board requires to ensure that such resources are efficiently and economically employed. When the Board is satisfied with the estimates, they are submitted to Cabinet for consideration. Once approved by Cabinet, they are recommended to the Governor General and then laid before the House of Commons.

In all its work, the Treasury Board must, of course, have a knowledge of revenue policies and there must be a very close working relation between the Minister of Finance and the President of the Treasury Board and between the staffs of their departments.

Structure of the Board

The administrative arm of the Board, the Treasury Board staff, is divided into three branches, each concerned with one of the Board's major responsibilities. The Program Branch is the focus for the Secretariat's consideration of departmental matters. It is divided into three parts. One is made up of a number of divisions concerned with economic, scientific, social, cultural, defence and external programs. The second one is made up of a number of divisions concerned with transportation, communications, general government services and common services programs.

Each division deals with a group of departments having a related function or purpose and is expected to be well informed about the departments assigned to it so that it can effectively co-ordinate the assessment of individual departmental submissions to the Board Secretariat.

The third part of the Program Branch is the Budget Co-ordination Group, which is responsible for compiling the estimates and for otherwise co-ordinating the separate findings and decisions having to do with all the individual programs of government. The Group also includes the Financial Management Division, where accounting-policy matters are developed for consideration by Ministers, and the Management Information Systems Division, charged with developing a computer-based information system for the Treasury Board and with the development of general policy and the provision of advice on the use of computers throughout the Government.

The Personnel Policy Branch of the Secretariat, as its name implies, is generally responsible for the development of policy governing personnel management in the Public Service. It is divided into six major organizational units.

The Planning and Co-ordination Division is responsible for relations with departmental personnel units, planning of programs designed to improve communications with managers, supervisors and employees, and provision of a personnel research service.

The Manpower Division is concerned with measures aimed at improvements in manpower utilization. It is responsible, among other things, for policies governing the training and development of executive personnel and the character and use of manpower records and information systems.

The Compensation and Conditions Division is responsible for policies relating to pay, leave, hours of work, compensation for overtime, allowances paid to employees of the Public Service and the payment of travel and removal expenses. It is also responsible for standards relating to physical conditions of work and for occupational health and safety.

The Staff Relations Division is concerned with the processes of collective bargaining. It is responsible for the co-ordination of bargaining policy, the negotiation and administration of collective agreements and other matters affecting the relation between organized employees and the Government as employer.

The Classification Division is responsible for the development and application of standards governing the classification, evaluation and grading of positions and the grievance procedure.

The Pensions and Social Insurance Division is responsible for advising on the development of Government personnel policy, including its financial and administrative implications, in the fields of pensions, life, health and other forms of income continuance insurance or benefit plans for Government employees.

The third major area of the Secretariat's responsibility, that of developing techniques for evaluating the effectiveness and efficiency of programs and institutions, and planning and implementing approved organizational changes, is the responsibility of the Planning Branch.

Today, government is big business in every sense -- in terms of employees, expenditures and the variety and complexity of its activities. It, therefore, demands from its central financial-control and management agency more than administrative clearance of appropriations and expenditures and a routine scrutiny of management functions in the public service. Modern government requires from such an agency meaningful assessments of new and existing programs in terms of objectives and results and complete and understandable data on such programs so that the government is in the best possible position to make policy decisions.

New Financial Management Techniques

The Treasury Board is, therefore, constantly striving to improve its performance as a central control agency through the introduction of modern financial-management techniques. Over the past few years, the Treasury Board has taken a number of steps in this regard, following upon the recommendations on financial management made by the Glassco Commission. Better methods and techniques, such as improved accounting systems, promote the more effective management of financial resources. But they do not in themselves solve the basic problem of how to make the best use of scarce resources. The Treasury Board has, therefore, developed and is implementing a programming-planning-budgeting approach to resource allocation in the Federal Government. Program budgeting is concerned with the presentation of expenditure proposals in a way that will enable effective decisions to be made on the allocation of resources. The program-budgeting system differs greatly from traditional forms of government budgeting in its concentration on the results and benefits as opposed to just a consideration of the resources required. Intensive study is made of feasible alternative ways of attaining defined objectives with a view to determining the approach most likely to achieve the greatest benefit for a given cost, or the approach by which a given objective will be achieved at minimum cost. Furthermore, it emphasizes longer-term dollar requirements rather than just those of next year. It therefore requires longer-term planning and expenditure forecasting. It also requires that consideration be given to indirect and associated costs as well as those directly related to a given proposal. Program budgeting is, therefore, a device to bring together related proposals from different departments so that a more complete picture can be presented about any particular area of government activity.

While program budgeting is not a substitute for experience, it has proven to be a useful technique of bringing analysis to bear on existing programs or new proposals. Government departments and agencies often keep doing the same sorts of thing they have done for years and, without the re-examination of objectives and program evaluation required by the program-budgeting system, they may be inclined to rule out relevant alternatives. Similarly, in the case of new proposals, the analysis inherent in program budgeting requires the defining of what are the program objectives, what the program is trying to accomplish and how the program's accomplishments fit in with what other government agencies or private industry are doing in the same area.

One very important aspect of this entire approach is that it should lead to a substantial expansion in information on which planning is based and to much better co-ordinated data. This has significant policy implications. This system will provide Ministers with more relevant data on which to make decisions and the Government will be in a better position to assess and decide upon changes in policies and programs on the basis of an overall view of Government expenditures.

The role of the Treasury Board in the Canadian system of government has not been static and cannot be so in the future. Government influence on the conduct of economic and social life has grown tremendously in the last half-century and, with the complex problems and needs of modern society, there does not appear to be any indication that the Government's role can be significantly reduced. It is, therefore, vital to ensure that the resources which the Government disposes of are allocated and administered in the most efficient and effective way possible.

RP/A