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BUDGETING AND MANAGEMENT IN CANADA

20th Annual Meeting of Senior Budget Officials
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The views expressed in this draft report are those of the OECD Secretariat. It is the intention of the Canadian authorities to provide further comments on this paper.

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BACKGROUND

1. The purpose of this report is to review the budgeting and management system in Canada and the reforms that have been introduced. The discussion is divided into three chapters. The first chapter discusses the budget formulation process. The second chapter discusses the role of Parliament in the budget process. The third chapter deals with management and accountability, including a discussion of the government organisational structure, the reduction of various central input controls, new financial management initiatives and the new framework of accountability for results being applied in government management.

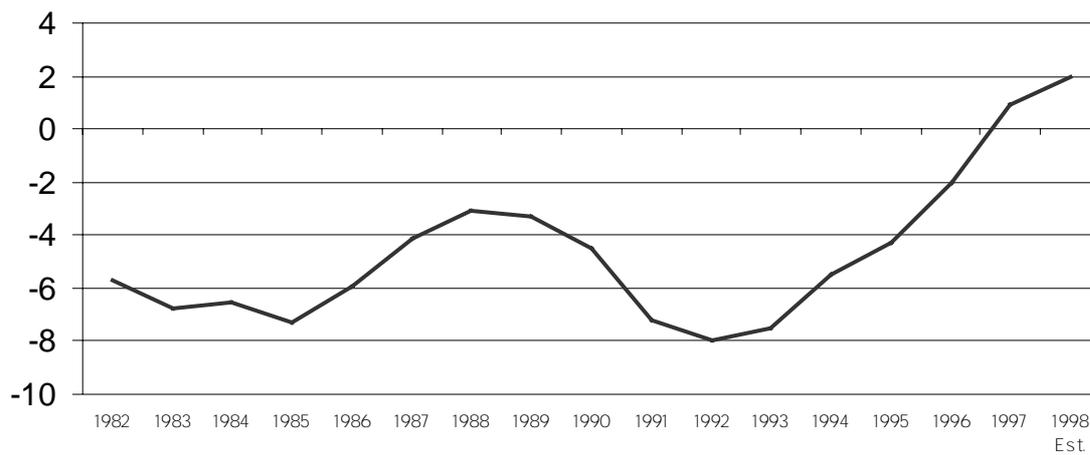
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Chapter 1
BUDGET FORMULATION PROCESS

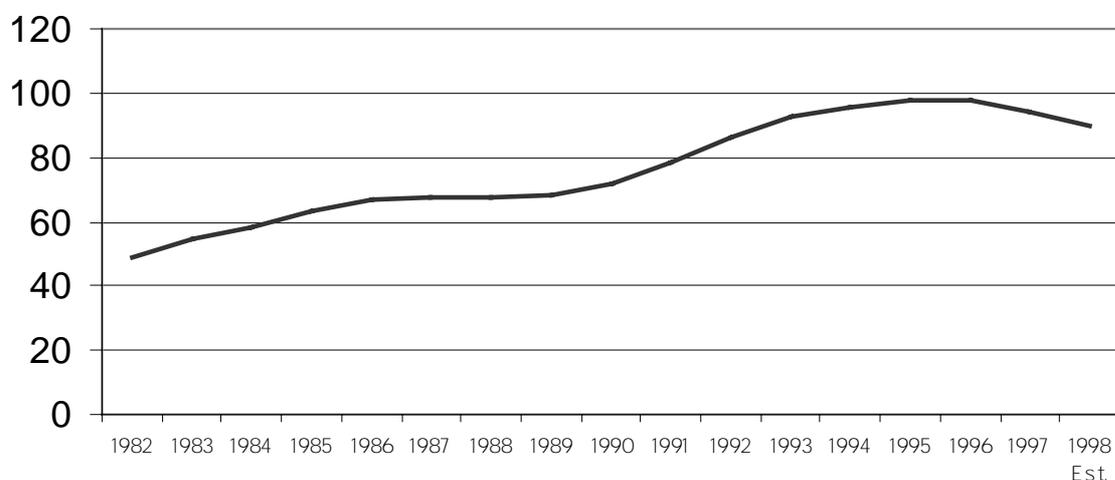
2. Canada's level of indebtedness, as a percentage of GDP, increased from a level lower than the average for OECD Member countries in the early 1980s to a high of 97.6 per cent in 1995. This was a level of debt exceeded only by Italy among G-7 nations and Belgium and Greece among the wider OECD community. Fiscal management reached a breaking point in 1994. It was recognised that the fiscal situation had reached crisis proportions and strong corrective measures were needed. Today, Canada is enjoying a budget surplus and is repaying debt. This chapter surveys these developments.

**Figure 1. General Government Financial Balance 1982-1998
as % of GDP**



Source: OECD Economic Outlook

**Figure 2. General Government Gross Debt 1982-1998
as % of GDP**



Source: OECD Economic Outlook

Overview

3. The underlying cause of the sharp deterioration of the fiscal position during the 1980s and early 1990s has been attributed primarily to a belief that the fiscal problem was largely cyclical in nature, resulting in there being insufficient public and political will to confront the fiscal problems. The deficits in each year were blamed on various temporary events in the economy which would correct themselves, there was no urgent need to take specific actions.

4. In 1984, a new government had come to power and it made specific cuts in various programs in its first budget. It attempted to do the same in the following year's budget but was met with strong public opposition and its political will for expenditure control dissipated somewhat as a result. The fall in commodity prices in 1986 and the stock market crash in 1987 and their perceived negative impact on the economy further delayed restrictive fiscal policy actions. A number of structural reforms were being made to the economy at the same time, including tax reform, privatisation and the launching of the Canada-USA Free Trade Agreement. This served to crowd out the efforts needed for fiscal consolidation and further de-emphasised it.

5. However, by the late 1980s, it became evident that actions were required to address the deterioration in the fiscal situation. A number of measures were taken in the 1989 budget. This was followed in the 1990 budget with the Expenditure Control Plan – a two-year plan which affected about 60 percent of program spending. The Expenditure Control Plan was the first comprehensive review of program spending since 1984. The Expenditure Control Plan was extended in the 1991 Budget to fiscal years 1995-96. A comparison between the Expenditure Control Plan and the actual outcome in each year is shown in the following table:

Federal Government Deficit: Projections and Outcomes

Public accounts basis; Canadian dollars

Fiscal Year	Expenditure Control Plan	Actual Outcome
1991-92	30.5 billion	34.4 billion
1992-93	24.0 billion	41.0 billion
1993-94	16.6 billion	42.0 billion
1994-95	10.0 billion	37.5 billion
1995-96	6.5 billion	28.6 billion

Source: Department of Finance

The PEMS experience

6. In 1980, Canada introduced a budget formulation process known as the *Policy and Expenditure Management System* which was in use until 1994. The system evolved over this time period but its essentials were as follows. The budget formulation process was based on a series of spending envelopes that included all spending in a particular policy area with overall expenditure ceilings for each envelope to be established. Originally, there were ten such spending envelopes. For example, a single envelope encompassed all spending in the economic development field, including agriculture, fisheries, industry, tourism, commerce, regional development and transportation. As the spending envelopes generally included the expenditures of several ministers, they were administered by a series of cabinet committee composed of all ministers whose spending was included in a given spending envelope. The objective was to foster resource reallocation by having all government programs in a given field judged side by side; funding for one program could be reduced to finance an increase in another program.

7. This, however, did not materialise. As the Treasury Board Secretariat noted in a 1995 publication¹, "In reality, however, PEMS did not achieve the intended results. Policy committees never came to grips with the difficulties of trade-off and reallocations." Ministers simply did not "volunteer" any savings initiatives because those savings would enter the envelope "pool", i.e. they could be used for any program within the spending envelope, not necessarily a spending program for the minister who originated the savings proposal. Another minister, whose program was thought to be more deserving, might benefit from a savings initiative offered by another minister. This in fact is how the system was to operate in theory. In practice, however, the system worked in such a manner that ministers did not offer any savings initiatives whatsoever. There was no reallocation; not even by a minister to fund another program under his control because the savings in one program could be "hijacked" by another minister through the cabinet committee system. The shared approach to fiscal management simply did not work; there were no obvious incentives on individual ministers to act in a fiscally responsible fashion. This was further complicated by the fact that the Cabinet in the late 1980s had grown in size to around 40 ministers, each with his own portfolio. As the Treasury Board Secretariat noted, "The incentive for individual ministers to offer up reductions was weak since the end results would be the reallocation of these resources often to another Minister...PEMS was based on a shared approach to fiscal management. It did not succeed because the partnership that was envisaged was never achieved."² The system of policy envelopes was eventually abandoned.

8. The policy envelopes were augmented by numerous central policy reserves. They however served to reinforce the reluctance to reallocate resources for unforeseen new initiatives. It was considered responsible budgeting to incorporate reserves for new policy initiatives as needed during the year. In practice, the focus of all ministers became to obtain funds from the policy reserves rather than to reallocate resources to fund new initiatives. Therefore, the system served to foster incremental increases in programs (often small individually) that in the end added up to significant additional spending. It should be noted that the size of the reserves was reduced over time, but the underlying behaviour remained the same.

9. At the same time, the Minister of Finance and the President of the Treasury Board Secretariat (see box) would be formulating centrally driven expenditure reductions in specific programs. This was further proof that the shared approach to expenditure management as envisaged by the PEMS did not work. These endeavours were generally met with great hostility from other Cabinet members. Although some targeted cuts were implemented, the Cabinet in the end had to rely largely on wage and entitlement benefit freezes and across-the-board cuts in order to meet its expenditure objectives. This was the most politically acceptable route in the first instance, but there were severe limits to it. Across-the-board cuts could be justified in terms of efficiency (productivity) gains for general operating costs, but could hardly be applied to all government expenditures. Across-the-board cuts also served to undermine any sense of priority setting in government.

10. In the end, there simply was no real fiscal policy anchor which was appropriate to the underlying fiscal situation. Under these circumstances, it was extremely difficult to maintain the discipline necessary to achieve fiscal consolidation. This was further exacerbated by the fact that in the early 1990s, the budget was based on inaccurate economic forecasts, primarily reflecting a severe economic downturn – the worst since the Great Depression. The economic assumptions were consistently more “optimistic” than the actual economic situation justified. This led to the actual fiscal outcome being significantly worse than originally forecast.

11. This is the background to the deterioration of the fiscal position during the 1980s and early 1990s and the lead-in to the reforms to the budget formulation process instituted by a new government in 1994 and 1995.

The Department of Finance and the Treasury Board Secretariat

The central budget office function in Canada is divided between the Department of Finance and the Treasury Board Secretariat. The Department of Finance is responsible for general economic affairs and for the fiscal policy framework. In addition, it is directly responsible for the administration of several transfer programs. The Minister of Finance presents the budget to parliament. The Treasury Board Secretariat is responsible primarily for the operating costs and capital components of the budget and for general management in government. This accounts for roughly 30 per cent of total government outlays in Canada. The President of the Treasury Board presents *the Estimates* to parliament. The Department of Finance has a staff of 580 while the Treasury Board Secretariat has a staff of 800.

Reforms to the Budget Formulation Process

12. In 1994 and 1995, significant reforms were made to the budget formulation process and formalised with the introduction of a new *Expenditure Management System*. These reforms can be divided into two groups. First, reforms to create a hard budget constraint. Secondly, reforms to meet the new hard budget constraint. Each of these is discussed in turn below.

Establishing a Hard Budget Constraint

13. The key reform was to establish and maintain a hard budget constraint. This took the form of a new government (elected in October 1993) committing to lowering the deficit to 3 per cent of GDP by fiscal year 1996-1997. At first, this had not been considered an especially challenging fiscal objective by outside observers.

14. That assessment would change. The economic crisis in Mexico soon engulfed the economy. The Canadian dollar weakened substantially; there were significant increases in interest rates; credit-rating agencies downgraded the sovereign debt of the Canadian government. The mood of the public also changed profoundly, the culmination of a change in public attitudes which had been developing over the past 1-2 years. It now viewed deficit reduction as an urgent task as evidenced by a number of public opinion polls. In response, the government reaffirmed its commitment to fiscal consolidation and to reducing the deficit to 3 per cent of GDP by fiscal year 1996-1997, a fiscal objective that had now become more challenging due to the unfavourable economic environment. The government went to great lengths to publicise its actions and to generate further public understanding of the actions required to meet this constraint. For example, it instituted a formal pre-budget consultation process which is discussed further in the chapter on the Role of Parliament.

15. There was much greater political commitment to this target than previous governments had exhibited. The government introduced successive rolling 2-year fiscal objectives. The reason for this relatively short time horizon was that the government wanted to be absolutely confident that it could deliver what it had promised and be held accountable for meeting its promises. In political terms, the government had -- by design -- created heavy potential costs for itself if it did not succeed. In economic terms, Canada's credibility in the financial markets was already very low due to the high annual deficits and the rapid build-up of debt. A failure to deliver by this government could have had serious consequences.

16. The government also established two institutional features to its budget formulation process to promote its effectiveness: it started using systematically-biased "prudent" economic assumptions and incorporating a contingency reserve. The previous perception of "optimistic" economic assumptions being used in the budget had significantly downgraded the believability of government-generated economic forecasts. Rather than relying on internally generated economic forecasts to be used in the budget, the government started employing the average of forecasts made by private sector economic forecasters and then adjusting them downwards. This was done in order to achieve credibility -- both in the eyes of the public and in the eyes of financial markets.

17. The Department of Finance systematically revises the private sector forecasts downwards as a further measure of prudence. This takes the form of the government adding 50-100 basis points (0.5-1.0 percentage points) to the average private sector economic forecasts for interest rates and then feeding this through its entire econometric model, thus producing lower forecast economic activity. This provides a buffer in order to maintain the government's fiscal objectives. As a further buffer, the government established a significant contingency reserve fund -- 2.5 billion-3.0 billion Canadian dollars each year. This fund can only be used to compensate for forecasting errors and unpredictable events. It cannot be used for any new policy initiatives. Recourse has never had to be made to the contingency reserve funds and they have been applied to deficit reduction (surplus) in their entirety in each year.

Prudent Economic Assumptions

Canada instituted the following measures of prudence to foster the credibility of the economic assumptions applied in the budget and to act as a buffer against any forecasting errors and unpredictable events:

- Using average private sector economic forecasts
- Systematically revising downwards the average private sector economic forecasts by adding 50-100 basis points to the interest rate forecasts and feeding this through the entire economic forecast model.
- Contingency reserve equal to 2.5–3.0 billion Canadian dollars each year. Can only be used to compensate for forecasting errors and unpredictable events. If not used, goes towards deficit reduction (surplus) in its entirety.

Meeting the Hard Budget Constraint

18. In meeting the hard budget constraint, the government recognised that across-the-board cuts would no longer suffice. It also completely abolished the central policy reserves in recognition of the fact that there were no new funds available. This was also designed to change the mindset: targeted cuts in specific programs had to be employed. This was achieved by a process known as Program Review. Program Review was a comprehensive assessment of the proper role of the government in the economy and as such included reviews of the various programs that the government was involved with. Program Review was announced in the new government's first budget in February 1994. In launching Program Review, the Minister of Finance described it as "a review of all aspects of departmental spending to ensure that lower priority programs are reduced or eliminated and that the government's diminished resources are directed to the highest priority requirements and to those areas where the federal government is best placed to deliver services."

19. Canadian authorities cite three key reasons for the success of Program Review. One was the crisis atmosphere. In explaining the success of Program Review, the minister responsible for the exercise stated that "very few things are ever put into place unless we have no choice...So when you have no choice it's a bit like the threat of death. It makes you think better." Secondly, there was a general realisation that across-the-board cuts were hurting the good as well as the bad programs and that they simply were not viable for achieving the necessary cuts. Third, the process by which Program Review was carried out played a large role in its success.

Program Review Timeline

February 1994	The launch of program review is announced in the budget.
Spring 1994	Creation of program review secretariat at the Privy Council Office (Cabinet Office) The six criteria for program review are enunciated Department and agencies to self-review their programs Specific targets given to departments and agencies
Summer 1994	Execution
Autumn 1994	Department of Finance and Treasury Board Secretariat review proposals Committee of senior officials review proposals Committee of senior ministers review proposals
February 1995	Cabinet approves measures Measures presented to Parliament in the budget

20. The Program Review exercise was located in the Privy Council Office (Cabinet Office) and was headed by a special Minister Responsible for Public Service Renewal. A special cabinet Committee on Program Review was created. Its membership was composed of a cross-section of the Cabinet and included the most senior ministers in the government.

21. In the first instance, six criteria for carrying out program review were enunciated and departments and agencies given the mandate to self-review their programs according to the six criteria. This process did not yield significant savings.

22. As a result, each department and agency was given a target for expenditure reductions, ranging from 5 - 60 per cent to be implemented over the coming three years starting with the fiscal year 1995-96. The targets were proposed by the Department of Finance and the Treasury Board Secretariat and approved by ministers. The targets were based primarily on "intelligence" on each program gathered by those central agencies over the years. The Department of Finance and the Treasury Board Secretariat had participated in a number of expenditure reduction exercises over the years, which had identified specific cuts in programs. These cuts had often not been implemented but the central agencies made a very conscious decision to maintain and update this inventory of expenditure reduction options.

23. A number of factors led to the acceptance of these cuts. First, as noted earlier, there was a fiscal crisis atmosphere in Canada during this time. Second, the Minister of Finance had the strong backing of the Prime Minister in carrying out the reductions. Third, this was a new government and the respective line ministers had not become "entrenched" in their portfolios. Each minister was given responsibility for developing program changes to meet the assigned targets. The proposals were examined and commented upon by a committee of senior officials (deputy ministers) and then by the committee of senior ministers. Ministers frequently had to revise their proposals as the two committees judged their proposals to be unrealistic or infeasible. Departments and agencies then had to submit formal business (adjustment) plans that showed in detail how they would alter their activities in order to achieve the reductions. The results were given a final vetting by full cabinet in mid-January 1995 and then incorporated into the February budget. This exercise was repeated on a much more limited basis the next year and thus added a fourth year to the original Program Review timeframe. The second round of Program Review differed somewhat from the first round as many of the cuts were made in order to fund new high priority spending initiatives rather than being dedicated entirely towards deficit reduction.

The Six Criteria for Program Review

- Does the program serve a public interest?
- Is this an appropriate role for the government?
- Could this be better done by another level of government – provincial? – municipal?
- Could this be left to the private sector or volunteer sector?
- Could the program be delivered more efficiently?
- Is it affordable?

24. Separate from Program Review, major reforms were made in the system of transfers to the provinces with the aim of making them more cost effective and flexible. In addition to delivering spending cuts through reduced funding to provinces, these changes have led to improved control of federal spending in this area. The new Canada Health and Social Transfer (CHST), made in the form of a block grant to provinces, replaced transfers under the Canada Assistance Plan (CAP), with funding of provincial social welfare programs based on a shared-cost basis and the Established Programs Financing (EPF) system, which provided block grants to finance provincial post-secondary education and health. The switch away from cost-sharing towards the provision of block grants was designed to increase the incentive for provinces to limit additional social expenditure since individual provinces would bear the full incremental cost of any expansion in their social welfare programs, rather than being able to share those costs with the Federal government. In addition, reforms were made to the unemployment insurance system to reduce the generosity of the program and return it to more of an insurance program.

25. The results of Program Review and the changes in the major transfer programs were essentially to lock in the key variables of government expenditure for the next four years. The hard decisions taken in 1994 and 1995 involved expenditure targets for each program until 1998-99. Implementing those hard decisions of course involved significant effort in each of the out-years. The actions associated with Program Review and the reforms to the transfer programs can be viewed as a one-off corrective measure. The challenge for Canada is to ensure that a hard budget constraint is maintained in the current environment of relative fiscal abundance and that the reallocative mechanisms are in full use. The danger is that such measures will be abandoned now that the economic and fiscal environment is friendlier.

Current Practice

26. It is useful to outline the main points in the annual budget process as it is now practised.

Budget Formulation Timetable	
Late June	Cabinet Retreat I
Late September	Cabinet Retreat II
Fall	Two cabinet committees review new policy initiatives
Late January	Cabinet reviews budget strategy
Early February	Prime Minister and Finance Minister make final decisions on Budget
February	Budget (Estimates) presented to Parliament
1 April	Start of fiscal year
Late June	Approval of Budget (Estimates) by Parliament

27. The annual budget cycle starts with a Cabinet retreat immediately following the recess of Parliament in the summer. A second Cabinet retreat takes place immediately prior to the opening of Parliament in September. At these retreats, the Minister of Finance will provide information on the economic and fiscal outlook and the likely fiscal policy stance required in the coming year. No decisions are taken at these meetings but they do serve as the initial phase of the budget process. The first retreat can be described as a theme setter, a way to condition the expectations of ministers. The second retreat begins to formulate the key elements of the upcoming budget. In contrast to other Cabinet meetings, there are no official minutes kept of the discussions at these Cabinet retreats.

28. During this time, the Department of Finance works to get more aspects of the fiscal framework in place - for example, updating economic assumptions and how they will impact on existing policies. The Treasury Board Secretariat updates the operating costs and capital components of the fiscal framework in a process known as Annual Reference Level Updates (ARLU).

29. Departments are also busy with new policy initiatives. The new initiatives are framed to be in line with the government's general themes that were discussed at the Cabinet retreat (which in turn would flow from *the Speech from the Throne* – see box). New policy initiatives are presented directly by ministers to one of two cabinet committees: the economic union committee or the social union committee depending on the nature of their initiatives. The committees meet every week during the fall to discuss the merits of the policy proposals presented to them by ministers and in the end rank them for possible funding. The two committees may have joint meetings to discuss such proposals.

30. The Treasury Board Secretariat has also recently instituted a separate *Program Integrity* process. This is designed to correct any critical shortfalls in funding of *current* programs. This is in recognition of the fact that the processes intended to prioritise new policy initiatives run the risk of overlooking “risks” to current programs.

31. Very late in the year, the Finance Minister and the Prime Minister will decide how much money to allocate for the policy initiatives taking into account *inter alia* the rankings established by the committees and the results of the Program Integrity process. The Prime Minister and the Finance Minister take the final decisions on resource allocation after consultation with ministers. Although the broad

outlines of the budget will be known to all cabinet members, the exact details of the budget are only known to the Prime Minister and the Finance Minister when it is presented to Parliament.

Speech from the Throne

The Speech from the Throne is the prime vehicle for articulating the government's longer-term policy priorities. The Speech is read in Parliament by the Governor-General. It is considered to be the most important statement of the government's political intentions and is a major tool in seeking coherent policy actions. Many of the themes from the Speech from the Throne are represented in the budget as the cabinet uses the contents of the Speech from the Throne in guiding its prioritisation choices. The most recent Speech from the Throne of 23 September 1997 outlined key priorities as follows:

Building a stronger Canada;
 Investing in children;
 Investing in quality care and good health;
 Building safer communities;
 Creating opportunities for young Canadians;
 Investing in knowledge and creativity;
 Expanding opportunities in Aboriginal communities;
 Looking outward; and
 Celebrating the millennium.

Conclusion

32. The budget situation in Canada has been turned around in recent years. The years of advancing budget deficits and debt accumulation have given way to budget surpluses and debt reduction. The Program Review exercise and the reforms to major transfer programs were a very important part of an effective response to the fiscal crisis. The record since 1993-94 has done much to restore credibility to the federal government's budget making. A new budget process has sought to institutionalise these new practices.

33. But the climate of relative fiscal abundance places different pressures on the institutions of budgeting. The past two budgets have seen quite substantial increases in program spending. The Government was re-elected on the platform of dividing the "fiscal dividend" equally between new spending on the one hand and debt reduction and tax reduction on the other hand. The government's aggregate fiscal policy objectives are characterised as running "a balanced budget, or better." With the prudence measures in place in the budget, this should result in significant budget surpluses.

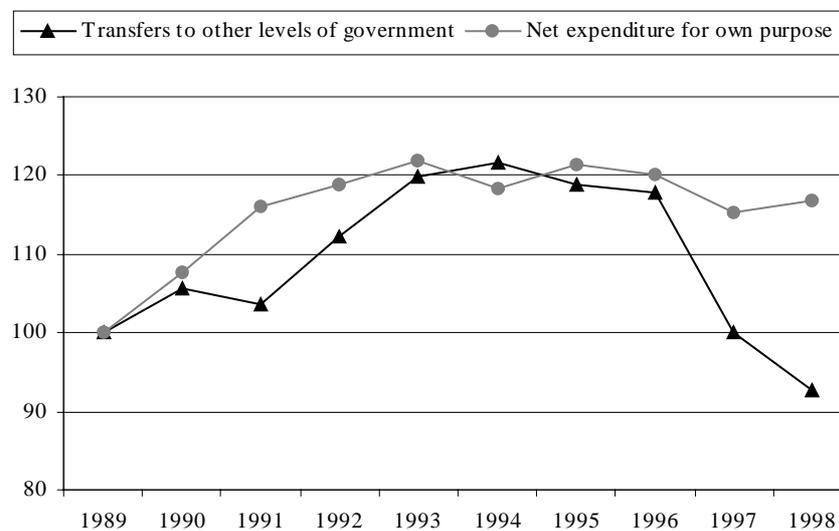
34. The federal government's debt level remains significantly higher than the OECD average. Even today -- after several years of fiscal consolidation and at historically low levels of interest rates -- public debt charges absorb 27 per cent of revenue. The need to maintain fiscal discipline in order to bring the debt levels down to levels more commensurate with other OECD Member countries is a top priority for the Canadian government.

Sources of changes in the federal budgetary balance

	1993-94 to 1998-99 (billions of dollars)
Factors increasing the balance	
Reduction in program spending	15.4
Higher revenues due to economic growth	37.8
One-time revenue adjustments	2.7
Net impact of revenue actions	0.0
Subtotal	55.9
Factors reducing the balance	
Spending actions in 1998 and 1999 budgets	7.5
Increase in public debt charges	3.4
Inclusion of Contingency Reserve in 1998-99	3.0
Subtotal	13.9
 Net improvement in federal budgetary balance	 42.0

Source: The Budget Plan 1999

Changes in Federal Government transfers to other level of Government Base 100 – 1989



Source : Public Accounts of Canada, 1998, Vol 1

Chapter 2
THE ROLE OF PARLIAMENT

A Note on Terminology

A specialised terminology is used in the parliamentary budget process. The *Budget* is the document tabled in the House of Commons by the Minister of Finance giving the government's overall fiscal plan for revenues and expenditures, including new initiatives. The *Main Estimates* are the detailed plans for government expenditures, by department and agency, tabled several days after the Budget by the President of the Treasury Board. Together, these and other related documents are referred to as "*money bills*." In this chapter, the term *budget process* is used to refer to the development and authorisation of both the budget and the Estimates.

Introduction

35. Constitutional provisions, political traditions and institutional features all place limits on parliament's ability to modify the government's "money bills".

36. The Canadian Constitution grants the government the exclusive power to initiate expenditure proposals. Parliament can only approve the government's proposals, either in full or at a reduced level of funding, or reject them altogether. Parliament itself is prohibited from proposing new expenditure programs, or increasing the level of funding requested. This constitutional provision is common to all Westminster countries and derives from 18th century budgeting practices in Great Britain where the monarch "billed" Parliament for his expenses; the Parliament did not "volunteer" funds to the monarch.

37. The role of Parliament is further limited by the Confidence Convention: a vote on any "money bill" is considered a vote of confidence in the government. This is not enshrined in any legislation but is rather a political tradition enforced through party discipline. The Confidence Convention is interpreted very strictly in Canada to mean that *any* vote on a "money bill" is a vote of confidence in the government. Absolutely no changes to the government's proposals are permitted. For example, the Clark government resigned in 1979 due to Parliament's refusal to adopt its budget proposals. More frequently, the government would ensure that its proposals enjoy the support of parliament before introducing them, or withdrawing specific aspects of them in case parliamentary support is not ensured.

38. Parliament does not approve the Main Estimates prior to the start of the fiscal year. The fiscal year starts on 1 April but the Main Estimates is not approved until just before Parliament's summer recess in late June. (Special provisions govern the funding of government during this interim period as is discussed later in this chapter.) A quarter of the fiscal year has thus elapsed when Parliament formally approves the Main Estimates as proposed by the government.

39. Another factor limiting Parliament's role in the budget process is the fact that over 70 per cent of government expenditure does not require annual funding through the budget process but is rather "statutory" in nature. Such expenditures can be divided into three categories. First, interest payments and other public debt charges. Second, funding for transfer (grant) programmes to provincial governments. The programs for the provinces, however, come up for renewal every five years. Third, various entitlement programmes whose original enabling legislation granted permanent spending authority for them. There is no need for Parliament to approve appropriations on an annual basis for these programs, or even to discuss them at all.

40. These factors have conditioned Members of Parliament to devote little effort to a discussion of the Main Estimates. A recent report by the House of Commons Committee on Procedure and House Affairs included the results of a survey among serving Members of Parliament. Members were quoted as using expressions such as "a profound degree of dissatisfaction", "a total waste of time," a "cursory review" and "futile attempts to bring about change" to describe the current system.³ There has also been a very substantial turnover of Members of Parliament at recent elections which has severely diminished institutional knowledge of the complex parliamentary budget process.

41. A number of reforms have been instituted in recent years to the role of Parliament in the budget process. These are discussed as part of the general outline of the parliamentary budget process in the following section.

The Parliament of Canada

The Canadian Parliament is composed of two chambers: the House of Commons and the Senate. The House of Commons has 301 members elected in single-member constituencies for 5 year terms. The Senate is not elected. It is ordinarily composed of 104 members who are appointed by the Prime Minister for life-long terms, with mandatory retirement at age 75. Constitutionally, the House of Commons enjoys pre-eminence in budgetary matters. There are 5 political parties currently represented in the House of Commons (and 2 independent members). The next general elections can be held no later than 2001.

The Parliamentary Budget Process

42. The parliamentary budget process can be divided into two very distinct periods: the Pre-Budget Consultation Process and the Approval Process.

The Pre-Budget Consultation Process

43. In the fall of 1994, a formal Pre-Budget Consultation Process was introduced involving parliament. Previously, the Minister of Finance had conducted consultations with a number of interested parties in a series of one-on-one discussions. This formalised process was part of the government's endeavours to reduce the tradition of secrecy associated with the budget formulation process which had become the subject of persistent and increasing criticism. The stated purpose of the Pre-Budget Consultations was "to provide Canadians with a formal mechanisms by which they could make suggestions as to the contents of the next budget." The Pre-Budget Consultations would, however, appear to have been launched primarily to educate the public about the dire fiscal situation and create an environment more conducive to accepting the difficult budget decisions that lay ahead. By using Parliament as the vehicle for this, it also served the purpose of involving the Opposition in this discussion.

The Pre-Budget Consultation Process

Late September	House of Commons Standing Committee on Finance begins public hearings on budget policy.
Mid-October	Minister of Finance announces government's broad budget policy themes to the Committee and releases the government's Economic and Fiscal Update report.
Late November	Committee completes public hearings on budget policy.
Early December	Committee presents its report on pre-budget consultations.
Mid-December	House of Commons debates budget policy. No vote is taken.

44. In mid-October, the Minister of Finance appears before the Committee. This is a major event and is televised nationally. During his presentation, the Minister outlines the current and prospective economic situation and relates this to the government's broad budget policy objectives. Concurrently, the Department of Finance releases the *Economic and Fiscal Update*, which provides supporting material to the Minister's presentation. During his presentation, the Minister of Finance outlines a number of specific questions that he wishes the Committee to report back on following their consultations.

45. After the Minister's presentation, the Committee continues its public hearings. In 1998, the Committee held a total of 20 public hearings in 10 different locations throughout Canada. These hearings have in the past included "town hall" meetings where ordinary citizens participate, as well as meetings where organised interest groups participate. The Committee concludes this process by presenting a report in early December. This report serves to prepare the ground for the government's budget proposal. There are generally several minority opinions released in addition to the Committee's (majority) report. In recent years, the Opposition has decided to use one of its "allotted days" (see below) to debate general budget policy on the basis of the report and the minority opinions. There is, however, no vote taken.

46. It must be emphasised that Parliament has no decision-making role in this process. The Pre-Budget Consultations started during the fiscal crisis of the mid-1990s as a vehicle for promoting the government's budget policy. Although the nature of the fiscal issues faced by Canada has changed over time, there is no indication that this process will be abandoned. The Pre-Budget Consultations have been an important element in opening up the budget process and creating an atmosphere where the public feels it can have an input.

The Budget Approval Process

47. The government presents a hierarchy of documents to Parliament at the launch of the budget approval process:

- The Budget;
- The Main Estimates, including
- The Reports on Plans and Priorities.

48. The Budget is a comprehensive statement of the government's fiscal framework, consistent with the government's strategic priorities as outlined in the Speech from the Throne. The Budget discusses the overall level of revenues, expenditures, surplus (or deficit) and relates these aggregates to the economic environment. In addition, the Budget contains a detailed technical announcement of proposed changes in tax laws. The Minister of Finance introduces the Budget.

49. The Main Estimates contain details of the government's expenditures. They are composed of three parts. Part I provides an overview of government spending and provides the link between the Budget and Part II of the Estimates. Part II of the Estimates then itemises each government expenditure for which parliamentary approval is required. Part II also contains, for information purposes only, an estimate of the cost of statutory programs for which spending authority has been granted through existing legislation. The Estimates are legalistic in nature. The President of the Treasury Board introduces the Main Estimates.

50. The Reports on Plans and Priorities were introduced in 1994. They were a recasting of the traditional Part III of the Estimates.⁴ They are prepared by each individual department (ministry) and agency. The reports were designed to provide detailed information through a focus on results in a more strategic, multi-year perspective on program delivery. They contain information on objectives, initiatives and planned results, including links to related resource requirements over a three-year time horizon. In the current year, more than 80 separate documents were presented to Parliament. They are tabled in Parliament by the President of the Treasury Board on behalf of the minister who presides over the respective department (ministry) or agency. This is further discussed later in this report.

Supplementary Estimates

The Main Estimates provide funding only for programs and activities for which there is existing parliamentary authority, i.e. separate enabling legislation. Parliament will be asked in Supplementary Estimates tabled later in the year for funding for new initiatives once the necessary legislative provisions have been made. The Supplementary Estimates will also contain funding for unforeseen contingencies. Provision is made in the budget for funding for new initiatives and contingencies. In 1998, supplementary estimates bills altogether increased total appropriations by over 5 per cent.

51. The Estimates must be presented to Parliament no later than 1 March, one month prior to the start of the fiscal year. There is no such legal requirement regarding the timing of the Budget. In fact, there is no legal requirement to introduce the Budget at all. In practice, however, the Budget is presented to Parliament several days prior to the introduction of the Estimates so as to provide an appropriate overall context to the Estimate. The Reports on Plans and Priorities must be presented no later than 31 March, the day before the start of the fiscal year. Previously, Part III had been introduced at the same time as Part I and Part II.

The Budget Approval Process

Late February	Minister of Finance introduces Budget. President of the Treasury Board introduces Estimates. Standing Committees begin their examination of the Estimates.
Late March	President of the Treasury Board introduces Reports on Plans and Priorities for each department (ministry) and agency. Parliament grants Interim Supply to end-June.
1 April	Start of fiscal year.
Late May	Standing Committees to report on the Estimates.
Late June	Approval of the Estimates.

52. Following the presentations by the Minister of Finance and the President of the Treasury Board, the House of Commons begins its deliberations. This is known as the *Business of Supply*. As Parliament will not finish its deliberations until just prior to its summer break at the end of June, it grants the government *Interim Supply* from the beginning of the fiscal year on 1 April until the end of June. Interim Supply allows the government to spend during this period the funds necessary for its ongoing operations.

53. The Estimates are then automatically referred to the Standing Committees of the House. Each Standing Committee examines those parts of the Estimates that fall within its mandate. For example, the Standing Committee on Agriculture examines the proposed expenditures of the Department of Agriculture and Agri-Foods. There is, however, no committee that co-ordinates the examination of the Estimates, or examines them on an aggregated level. A number of reforms have been introduced to provide Standing Committees with better information to conduct their examination of the Estimates --- the Reports on Plans and Priorities being the prime example. The Standing Committees can call Ministers, senior officials and other interested parties to appear. The Committees are to report back to the House on the Estimates before 31 May. If they have not reported, they are deemed to have reported. This was designed so that Committees could not delay the parliamentary budget process by not reporting back to the House.

54. In fact, committees do not report back at all as a general rule. A senior official of one department (ministry) reported that they themselves had called the committee, rather than the other way around, in order to present their Report on Plans and Priorities to the committee. At the conclusion of the presentation, questions from committees member focused on *why* the department had taken the time to present the report, not on any of the information contained in the report. This is not an isolated example.

55. The rules governing the running of the House are contained in the Standing Orders which require that a certain number of days are reserved for debate of the government's expenditure proposals in full House session. There are 20 such days that are referred to as *allotted days*, 19 of which are reserved for the Opposition. This means that the Opposition is free to choose any topic for debate during those days. Although these days are fully used by the Opposition, they are not used for debate on the Estimate per se. Rather, they are simply an opportunity for the Opposition to debate general policy on any matter of their choice, rather than to specifically debate the Estimates. The fact that these Opposition days are distributed throughout the year rather than all being used prior to the approval of the Estimates reinforces this. In late June, a vote is taken on the Estimates.

56. The Committee on Procedure and House Affairs in April 1997 recommended that Standing Committees be permitted to report to the House proposing reallocation of up to 5 percent within each of

the estimates referred to them. This Committee also recommended that other conventions be reinterpreted to allow the Government to bring back to the House a modified spending proposal to give effect to the recommendation. The Government could then agree or reject Committee views and provide the House the reasons for so doing. The recommended change has not been accepted by the Government.

The Auditor General

The Auditor General is an agency of parliament.

In 1977, the Auditor General's mandate was expanded to allow for the auditing of "value for money". Since then, the orientation of the Auditor General has increasingly been on such value for money audits. The Auditor General's most recent Report on Plans and Priorities indicates that value for money audits account for about 60 per cent of its total activity. More recently, the government has been emphasising reporting for results by government organisations. Recent legislation for new Alternative Service Delivery agencies has called for the Auditor General to attest the performance information provided by the agencies.

Conclusion

57. As can be seen from this discussion, Parliament is not in a position to alter the government's "money bills" once they have been introduced as this would be equated with a vote of non-confidence in the government as the Confidence Convention is currently interpreted. This does, however, mask the fact that the government consults extensively with Parliament prior to introducing any "money bills" to ensure that they enjoy the support of parliament. Similarly, the government will withdraw certain aspects of its budget framework if majority support for them is not certain. As such Parliament can exert strong influence on the government in this indirect manner. There does not appear to be a desire to make this role of Parliament more explicit by relaxing the interpretation of the conventions governing parliament's role in the budget process and by reforming certain institutional features of the parliamentary budget process.

Chapter 3
MANAGEMENT AND ACCOUNTABILITY

58. A number of management reforms have been introduced in recent years in the Canadian government. This chapter discusses them by reviewing the reduction of central input controls (human resource management and common service provision), new financial management initiatives and the introduction of accountability for results systems. Prior to that, a brief overview of government organisational structure is provided to give context to the reforms initiated.

Government Organisational Structure

59. There is great diversity in the organisational structures employed by the Government of Canada. Today, it is composed of departments, service agencies of different types, tribunals and quasi-judicial bodies, and Crown corporations. The last three types of organisations are often referred to jointly as “agencies” for convenience sake. These organisations are not uniform in nature. Rather, efforts are made to tailor each organisation to the type of work it performs. As such, they differ from one another by their statutory mandates, relationships to ministers, the degree of flexibility granted to their managers, and the nature of the accountability framework for ministers and employees. Each organisation reports to a minister and through the minister to Parliament. Each minister, therefore, oversees a variety of independent but related organisations.

60. A *department* serves the need of its minister and the government, to shape laws and policies and to provide those services that require regular ministerial oversight and direction. Departmental acts give a minister general authority for management and direction of the department. There are 24 departments at present.

61. In addition to providing general support to ministers, departments are responsible for significant service delivery functions (and related policy advice) as well. In most cases, these are quite substantial responsibilities. Nearly half of all public servants work directly in departments. The largest department has close to 40,000 employees. Some of the service delivery functions carried out by departments have been organised as Special Operating Agencies (SOA) which were launched in 1989. SOAs are an integral part of departments and are used primarily to “ring fence” activities that generate user charges for a significant portion of their expenditures.

62. The typical organisation chart for a department is a line-and-staff configuration. The senior public servant is referred to as a Deputy Minister. In some departments, he has an immediate deputy known as an Associate Deputy Minister. Other senior executives in departments are known as Assistant Deputy Ministers and Directors-General. The head of a Special Operating Agency would normally have the rank of Assistant Deputy Minister or Director-General. The Deputy Minister is responsible for the administration of the department and is answerable to the minister for any actions taken by departmental officials. The Prime Minister plays the key role in selecting the Deputy Ministers and the Associate Deputy Ministers although they are formally appointed by the Governor-in-Council on advice of the Prime Minister. Deputy Ministers typically serve for 4-5 years in their post and they generally have a public service background.

63. *Service agencies* provide services within an agreed-upon policy and legislative framework. There are at present some 50 service agencies. These agencies are usually managed on the basis of greater accountability for results and require only general ministerial monitoring. Many are created by statute, which further defines their accountability. Usually, the minister is responsible (and must answer) for agencies. While the power and accountability relationships between heads of agencies, Parliament and the minister for each agency vary, the head of the agency usually has responsibility for its management, under the direction of the minister.

64. Three new service agencies have been established recently as Alternative Service Delivery agencies. These are the Canadian Food Inspection Agency, the Canada Customs and Revenue Agency and the Parks Canada Agency. An important feature of these agencies is to improve service to the public, for example by consolidating into single agencies similar services previously performed by one or more departments or agencies, or consolidating similar activities performed by different levels of governments into a single agency. The objective is to view the services provided by the agencies from the viewpoint of the citizens requiring the services and attempting to overcome existing institutional and jurisdictional boundaries in the delivery of services to citizens.

65. *Tribunals and quasi-judicial bodies* make decisions or hear appeals to give effect to government policies at arm's length from the government and on an independent basis. Their independence is their key distinguishing characteristic. There are at present 26 tribunals and quasi-judicial bodies. They are often quite small with less than 10 members of staff whose function is to hear administrative appeals. The minister's role is generally limited to making recommendations to the Governor-in-Council on appointment of members of the tribunals. The minister also tables their reports on plans and priorities and annual reports in Parliament. The chairman or president is usually the chief executive officer of a tribunal, supervising and directing its work.

66. *Crown corporations* provide business-like service within an agreed-upon policy and legislative framework. Ministers oversee these corporations by approving their business plans and tabling their annual reports to Parliament. There are at present 37 Crown corporations. By far the largest in terms of employment is the Post Office with over 40,000 staff. Many of the commercial enterprises were privatised during the 1980s and early 1990s. Crown corporations have their own statutes that spell out the responsibilities of the minister, board of directors, and head of the corporation. These corporations are responsible to Parliament through ministers whose role includes recommending to the Governor-in-Council the names of prospective members of the boards of directors. Ministers also approve their business plans before submitting them to Treasury Board, and tabling their annual reports in parliament. The president of a Crown corporation is the chief executive officer who, on behalf of the board of directors, directs and controls the business of the corporation.

67. Two key characteristics stand out concerning the organisational structure employed by the Government of Canada. First, the sheer diversity of organisational structures employed. Canada places great emphasis on tailoring the organisational structure of each agency to fit the type of work it performs. Second, most agencies report directly to the minister, rather than through the department. To an outside observer, this could pose challenges to ministers due to the sheer number of agencies that report directly to them. Canadian officials emphasised, however, that this system operates quite effectively and efficiently.

Reducing input controls

68. Important progress has been made in reducing input controls in Canada. In 1993, a system of *Operating Budgets* was inaugurated. As a general rule, operating costs are now all consolidated in one appropriation. The government does, however, retain central policies in certain areas, principally human resource management and common service provision.

Human Resource Management

69. Human resource management has historically been organised on a centralised basis in Canada. The Public Service Commission (PSC), an agency of parliament in formal terms, and the Treasury Board Secretariat (TBS) are the key central agencies for human resource management. The Public Service Commission has the exclusive authority for appointment to and within the Public Service for most public servants. Its mandate is to ensure that such decisions are based on merit and not on patronage. The Treasury Board Secretariat, acting for the Treasury Board, is the "employer" of most public servants. All pay agreements are concluded by the TBS with representatives of public servants on a service-wide basis and are fully funded from the centre. A third player, the Clerk of the Privy Council, is formally the Head of the Public Service.

70. Reforms have been made to the role played by the Public Service Commission in staffing. Recruitment for most public servants is, however, still performed by the PSC. Individual departments do not generally advertise job openings but can do so with PSC approval. Most external recruitment is performed by the PSC on behalf of departments on a central basis. The following box shows the variety of positions that the PSC was recruiting for in March 1999.

EXAMPLES OF VACANCIES
Public Service Commission – 10 March 1999

- Cabinet Liaison Officer
- Senior Budget Officer
- Chaplain
- Research Scientist
- Legal Counsel
- Senior Psychologist
- Marketing and Finance Officer
- Plant Biochemistry Technician
- Nurse
- Marine surveyor
- Internet Website Developer
- Airworthiness inspector
- Campground attendant

71. Once the PSC has advertised a job and a suitable number of candidates have submitted their applications, they are forwarded to the department concerned. The PSC has delegated some of its authority to appoint persons to the Deputy Ministers of each department. Previously, the PSC had made such appointments directly. The term Deputy Minister is used in this context although it refers to the heads of all organisations within a portfolio except the Crown Corporations which generally operate according to private sector labour practices, usually under the *Canada Labour Code*. The delegations to the Deputy Ministers are negotiated on a case by case basis by the PSC. Internal appointments made by departments can be appealed to the PSC. The delegations are viewed as prescriptive and process-oriented by departments. It is not uncommon for staffing actions to take 6-12 months, although there are examples of shorter and longer time frames. It is important to note that the PSC is still legally responsible for the appointment; they have in fact delegated to Deputy Ministers the authority to make appointments in the name of the PSC. Despite the delegations to Deputy Ministers, the PSC still operates with a staff of over 1,200 persons.

72. Departments have also recently been granted increased freedom to move a person (deploy) from one job to another within or between departments if the two jobs were at an equivalent level. A further initiative is now in place to compress the number of job groups and levels within groups through the *Universal Classification Standard* from the present 72. This will increase the scope for mobility within the service. Increased opportunity to hire "casual" workers, for example seasonal workers, who are exempt from the formal recruitment and appointment process has been introduced as well.

The Executive Group

The above delegations from the Public Service Commission do not apply to the Executive Group. The Executive Group principally refers to Assistant Deputy Ministers, Directors-General and Directors whose appointment is handled directly by the Public Service Commission. Deputy Ministers and Associate Deputy Ministers are not appointed by the Public Service Commission but by Governor-in-Council on the recommendations of the Prime Minister.

73. As noted, the Treasury Board Secretariat is the employer of most public servants. On a day to day basis, they are however under the control and supervision of the Deputy Minister of their respective department. The primary employer role of the Treasury Board Secretariat is the negotiation of collective agreements with the unions representing public servants. The Treasury Board Secretariat also has a general management role with respect to human resources with the exception of recruitment and appointment as noted. It establishes policies, standards and practices in such areas as training and development, pensions, insurance programs, travel and relocation policies and job classification. The Treasury Board Secretariat retains direct responsibility for the classification structure and standards, but has delegated its responsibility for classification actions within those standards to departments for all positions below the level of Assistant Deputy Minister. It should be noted that as part of the fiscal consolidation program, Canada enacted legislation to remove the collective bargaining rights of employees and instituted a salary freeze. Collective bargaining has, however, now been resumed. All collective bargaining agreements are negotiated on a central level. There are few regional variations in salaries, no performance bonuses (except for the Executive Group and some other senior level officials) and there is no two-tier system that allows a main agreement to be negotiated at the centre with further negotiating at departments. However, there are extensive consultations by the Treasury Board Secretariat with departmental officials as part of the collective bargaining process. All collective bargaining agreements are funded directly from the centre. It should be noted that Canada also had a system of person-year ceilings in place until 1993 which was administered by the Treasury Board Secretariat.

74. Certain government organisations have the status of "separate employers." This exempts them from many of the central HRM controls. They can recruit their own staff, they can appoint their own staff, and they can enter into separate collective bargaining agreements with their staff. The separate employers had, however, to have their negotiating mandate approved by the Treasury Board Secretariat --- i.e. to prevent the separate employers from negotiating higher salary raises than the TBS was. Most recently, the requirement to have the negotiating mandate approved by the Treasury Board Secretariat has been reviewed for new separate employers and abolished in certain instances. It must be emphasised that the status of separate employer is not reserved for small organisations. For example, the Department of National Revenue has been converted into the Canada Customs and Revenue Agency (an Alternative Service Delivery agency) which has the status of separate employer. The Agency has a staff of 40,000 public servants.

75. Canada has been moving away from central input controls in the human resource management field. The status of "separate employer" for the new Alternative Service Delivery agencies should, however, be viewed as one model of reform rather than a systemic change. The lessons learned from the new Alternative Service Delivery agencies may be an important guide to future reforms in this area.

Common Service Provision

76. The Treasury Board Secretariat has a comprehensive set of policies for the management of common service provision.

77. The outstanding example is the provision of accommodation (office space) to government organisations. As a general rule, all accommodation is provided by a single central agency which assigns office space to departments. It does not charge rent for its services. It receives a direct budget appropriation and then provides its services "free".

78. As a further example, all departments must seek their legal services from the Department of Justice. There is no user charging for these services. The Department of Justice receives a direct appropriation and then provides its services "free" to departments. Individual departments are not permitted to hire lawyers or contract for legal services except with the approval of the Department of Justice where they can demonstrate a need for specialist expertise not available by the Department of Justice. Such additional legal services are charged directly to the individual departments.

79. The Estimates documentation does contain for information purposes the value of "services provided without charge" by common service agencies to each department and agency. It should be noted that Canada has been moving in the direction of establishing user charges and freedom of choice for common service provision. For example, translation services have been moved to this new commercial framework. (Canada has two official languages, English and French.)

Financial Management Initiatives

80. Canada was one of the first countries in the world to start moving away from cash-basis accounting standards and towards accrual-basis accounting standards. By the late 1980s, Canada had adopted modified accruals as its basis of accounting. The main difference between full accruals and modified accruals is that capital expenditure on physical assets are immediately expensed in modified accruals whereas they are capitalised (i.e. reported as assets in a balance sheet) in full accruals with only the annual depreciation of those physical assets being expensed (in the operating statement). In the 1995 Budget, the Minister of Finance announced the government would move to full accrual basis financial reporting starting with fiscal year 2001-2002. The budget, however, will continue to be reported on modified accrual basis. This dichotomy of accounting regimes employed for budgeting and financial reporting may become a source of difficulty when implemented. It should be noted that the implications of moving to accrual budgeting are now being actively considered.

81. Canada does permit the carry forward of unused appropriations to foster good cash management practices. This feature was introduced in fiscal year 1993-94 with a 2 per cent maximum carry-forward for operating costs. In the following year, this maximum was increased to 5 per cent. There is also a system for carry-forwards of unspent capital appropriations which are approved on a case-by-case basis. It should be noted that there is no standing parliamentary authority for carry forwards. Rather, the Department of Finance and the Treasury Board Secretariat add amounts equal to the carry-forwards to the requested funding levels from parliament in the subsequent year. It should be noted that the annual appropriations for the new Service Delivery Agencies do not lapse until two years following the start of the fiscal year in which the appropriation was granted.

82. Canada does not apply incentive-based financial management system, such as paying interest on cash balances within the year or applying capital charges for assets.

Comptrollership

The expression “comptrollership” is commonplace in Canada. In 1977, the government created the Office of Comptroller General which has since been integrated with the Treasury Board Secretariat. Until recently, comptrollership had been taken to mean financial control and reporting. However, the Independent Review Panel on Modernisation of Comptrollership in the Government of Canada, which reported in 1998, called for comptrollership to become a more all-embracing managerial concern focused on the effective and efficient use of public resources and for all managers to become concerned with comptrollership, rather than being assigned to a special function within organisations. The Treasury Board Secretariat is currently involved with pilot projects in taking this initiative forward.

83. The major detailed ex post government-wide document is the two volume *Public Accounts of Canada*. Volume I contains the summary report and financial statement and Volume 2 contains details of revenue and expenditure. These volumes are audited by the Auditor-General. These are very substantial documents – the total length of these volumes for 1997-98 was more than one thousand pages.

84. These volumes show the sources and uses of funds for each appropriation. The sources are broken down by several groupings – that which comes from previous years, the main estimates, the supplementary estimates, and adjustments and transfers. The uses of funds are split between the following – used in the current year, lapsed or over-expended, available for use in subsequent years, and used in the previous year. It provides a very comprehensive report of the attainment of the budgeted authorities.

85. As well as these detailed statements, the Minister of Finance provides an *Annual Financial Report* to the Parliament, which acts as an ex post report on the implementation of the budget plan. This is a short statement and is supplemented by condensed financial statements of the Government of Canada. These financial statements are audited for compliance with the more detailed set contained in the public accounts.

86. Throughout the year, the monthly *Fiscal Monitor* reports on the monthly fiscal results. The Fiscal Monitor compares the results for each month and year to date for the same time period during the previous fiscal year. There is no comparison made to apportioned budgeted outlays as there are no such central cash-flow forecasts made by the Department of Finance or the Treasury Board Secretariat.

Accountability for Results

87. The quid pro quo for relaxing input controls and granting managers increased flexibility is that they be held accountable for results. Instead of controlling inputs, the focus is now on outcomes and outputs.

88. In early 1995, the Improved Reporting to Parliament Project was launched which seeks to improve departmental expenditure information, principally by augmenting financial information with performance information. As part of this project, the traditional Part IIIs of the Estimates were replaced by Reports on Plans and Priorities, which are tabled in the House of Commons in the Spring as part of the annual budget cycle, and by Performance Reports, which are tabled in the fall. These reports are prepared by the respective organisations, approved by the responsible minister and tabled by the President of the Treasury Board. These reports were originally launched as a pilot project involving six departments and agencies but has since been expanded to incorporate all departments and agencies. The Treasury Board gives extensive guidance to departments and agencies in preparing the reports and outlining what they should contain.

89. The Treasury Board has issued Review Criteria relating to results reporting which highlights good practice in reporting accountability for results. Overall, Departments should report information on their performance which allows the reader to judge how well the department is doing. There are four specific sub-criteria that good results reporting should incorporate.

90. *Context and strategies.* The report should clearly describe the mission and mandate of the organisation, the objectives of its programs and services, the major strategies used to achieve these objectives and the related environmental context. There is a need to provide an overview of what the program is trying to accomplish under what operating environment and its relationship with broader organisational goals as context for interpreting the performance reported. The *major strategies* being used, such as business lines, should be clearly described along with their sub-objectives. This should include links to other stakeholders on all of the major instruments such as loan guarantees and tax expenditures.

91. *Meaningful performance expectations.* The performance information should contain clear and concrete key performance expectations with a focus on outcome-results. *Clear* performance expectations state what would have to occur for the entity (program or activity) to be judged successful in the context of the mission, objectives, and rationale for the activities undertaken. *Concrete* performance expectations can be qualitatively or quantitatively measured and hence be credibly reported on as to whether or not they have been accomplished. *Key* expectations reflect the major intended results (usually outcome-oriented) expected from the program in relation to the interest and concerns of the users of the performance report. Key expectations also reflect the major or significant programs and elements thereof.

92. *Performance accomplishments against expectations.* The performance information should report key accomplishments in relation to expectations. The reader expects the department or agency to report on *Key* accomplishments. These allow the reader to judge the extent to which expectations have been met. Reporting of performance accomplishments needs to be selective to be useable. *Key* performance accomplishments should be reported in relation to previously stated expectations, be linked to related mission statements and objectives and include the important aspects of:

- ✓ results achieved (outputs, intermediate (program) outcomes, ultimate outcomes) and their costs;
- ✓ related financial performance;
- ✓ the capacity to adapt (ability of the entity to meet future challenges); and,
- ✓ where performance has been weak, what adjustments will be made to reflect what has been learned.

93. *Credible performance information reports.* Performance information should be relevant, fair, understandable, attributable, and consistent. *Relevant* information is timely key performance information reported at a level which is meaningful to the interests and concerns of the user. *Reliable* information can be validated. The reliability that can be placed on the performance information should be indicated, by presenting such information as the method of data collection and verification, or whether the data are estimates or actuals. *Fair* information provides a balanced picture of performance, including both strengths and weaknesses. *Understandable* performance information allows the intended reader to readily and clearly see what results were expected and the extent to which they have been achieved. It is essential that adequate explanatory and interpretive material is included so that the reader can understand the relevance and importance of the measures provided and the context in which performance has been accomplished or not.

94. The Treasury Board recognises that accountability for results reporting is new to departments and agencies and that a certain learning process is involved in successfully adopting this practice. The view is taken that each succeeding year's reports will improve as a result of the lessons learned from previous reports. It should be noted that while the Auditor General does not formally attest the performance information contained in the reports except for the three new Alternative Service Delivery agencies

mentioned previously in this chapter, he can be expected to extend his reviews of departmental management to include the quality and adequacy of the information provided. The Auditor General has been extensively consulted in the development of these new reports and the design and criteria for their assessment.

Conclusion

95. As can be seen, Canada has made significant progress in reducing centralised controls and introducing managerial flexibility. This has been accompanied by a new focus on reporting for results. There is, however, scope for further reforms as evidenced for example by the number of pilot projects underway in various fields.

96. It is noteworthy that Canada has rejected the “big bang” model of introducing public management reforms whereby large changes are implemented rapidly. Rather, Canada has adopted a more gradual approach to reform whereby it pilot tests a number of reform models for extended time periods. This may result in one model of reform being adopted following the lessons learned, certain reform models being abandoned, or a number of reform models being adopted concurrently. The Canadian public sector would appear to be open to experimenting with a wide range of public management reforms on a pilot basis.

NOTES

1. *The Government of Canada's Expenditure Management System*, December 1995, p. 5.
2. *Ibid.*, p. 6.
3. Sixty-Fourth Report of the Standing Committee on Procedure and House Affairs, April 1997.
4. This was part of the Improved Reporting to Parliament Project which also included the introduction of Performance Reports. This is further discussed in the next chapter under *Accountability for Results*.