

April 2000

Foreword and Main Points

Table of Contents

	Page
Foreword	5
Main Points	
Chapter	
1 Service Quality	7
2 Human Resources Development Canada – Service Quality at the Local Level	9
3 Citizenship and Immigration Canada – The Economic Component of the Canadian Immigration Program	11
4 Indian and Northern Affairs Canada – Elementary and Secondary Education	13
5 Canada Customs and Revenue Agency – Travellers to Canada: Managing the Risks at Ports of Entry	14
6 Canada Customs and Revenue Agency and Department of Finance – Handling Tax Credit Claims for Scientific Research and Experimental Development	15
7 Royal Canadian Mounted Police – Services for Canada’s Law Enforcement Community	17
8 Department of Finance – Managing Canada’s Debt: Facing New Challenges	18
9 Streamlining the Human Resource Management Regime: A Study of Changing Roles and Responsibilities	20



Report of the Auditor General to the House of Commons for April 2000

Foreword

I am pleased to present the April volume of my 2000 Report. Bound with this Foreword are the Main Points of 9 separately issued chapters:

1. Service Quality
2. Human Resources Development Canada – Service Quality at the Local Level
3. Citizenship and Immigration Canada – The Economic Component of the Canadian Immigration Program
4. Indian and Northern Affairs Canada – Elementary and Secondary Education
5. Canada Customs and Revenue Agency – Travellers to Canada: Managing the Risks at Ports of Entry
6. Canada Customs and Revenue Agency and Department of Finance – Handling Tax Credit Claims for Scientific Research and Experimental Development
7. Royal Canadian Mounted Police – Services for Canada’s Law Enforcement Community
8. Department of Finance – Managing Canada’s Debt: Facing New Challenges
9. Streamlining the Human Resource Management Regime: A Study of Changing Roles and Responsibilities

In my first Report of 2000, it is not surprising that a common element in these chapters is the challenge facing each of the departments and agencies we examined — keeping pace with a rapidly changing environment in which they do business.

To be able to adapt readily to change, they must know whether what they are doing still works. This means they must know clearly what they are trying to achieve and, where they work in collaboration with others, what each is supposed to do.

Departments and agencies also need to know the risks their environment presents. They need to target their resources appropriately to areas where the risks are highest. And they need to train their people and give them the tools to manage those risks.

Finally, they need to continually measure their performance. If they find they are not getting the results they want, they need to act with a sense of urgency to make the necessary adjustments.

The chapters in this Report show mixed performance. Some of the organizations we examined are doing some of these things; none is doing all of them. What is most worrisome is that some of the most serious problems we found are the same ones reported, by this Office and others, ten or more years ago. These problems need action now. And departments and agencies can help to avoid new problems ahead if they will incorporate the measures outlined above.



Service Quality

Chapter 1 – Main Points

1.1 The purpose of our audit was to see whether the federal government is providing better quality of service to Canadians, after a decade of commitments and a series of initiatives to improve it. In 1996, we provided a midcourse assessment of the government's progress. In the current audit, we revisited the same 13 services delivered by 10 government departments and agencies.

1.2 The most significant improvement since 1996 has been to make telephone services more accessible. Canadians are now able to obtain faster responses to their enquiries once their calls are answered. Despite that improvement, however, we are concerned by the high percentage of calls not answered when lines are busy and calls abandoned while the caller waits on hold to speak to an agent. At the Canada Customs and Revenue Agency (Taxation) the percentage of unanswered calls remains high at 54 percent, although it has improved since 1996, when it was 73 percent.

1.3 For most services delivered by means other than telephone, such as counter service, there was not enough performance information for us to determine whether service has improved. The Passport Office has measured some of its key results and demonstrated significant improvement in its performance. Many departments and agencies have taken initiatives since 1996 to improve service but have not sufficiently measured the results.

1.4 Departments and agencies need to consult more with their clients to identify the aspects of service that matter most to them, as well as the quality of service they expect. This information would help the service providers establish appropriate targets and indicators of performance to measure.

1.5 Communication to clients at points of service has improved since 1996. Canadians visiting these offices are better informed about the level of service they can expect. However, more attention is needed to informing them on what it costs to provide the services, whether targets have been met and how they can lodge and resolve complaints.

Background and other observations

1.6 The demand by Canadians for services of the federal government — such as enquiries about citizenship and immigration, Old Age Security, passports, weather or statistical information — has increased significantly since 1996. Volumes of service are higher in 10 of 13 service lines we audited. At the same time, the environment for delivering services continues to evolve with rapid advances in information technology and growing use of alternative methods of service delivery.

1.7 Telephone services have become increasingly prominent, while the use of counter services has declined. In the government telephone services we audited, the volume of telephone enquires climbed from 36 million in 1996 to 56 million in 1999, an increase of 54 percent. The numbers of written enquiries (mail, fax and e-mail), while still important in some services lines, are generally much lower.

1.8 Although service managers have acted on our 1996 recommendations and sought ways to make continuous improvements, none of the recommendations has been implemented fully. However, we noted a shift among public service managers and staff toward a stronger focus on service and innovation.

1.9 We were discouraged to find slow progress on the project to improve the government's telephone directory listings (the Blue Pages). The need to redesign them was identified in 1990 by the Public Service 2000 Task Force on Service to the Public.

1.10 Over the past three years, departments and agencies have provided Parliament with more information on service quality, and the information they report is more likely to be meaningful. But better information is needed on performance trends and on costs.

1.11 Since 1998, the Treasury Board Secretariat has given departments and agencies more guidance and support to improve service delivery. However, it has not systematically monitored progress across the government, and the information it has reported to Parliament has not been adequate to provide a clear understanding of progress in improving the quality of service to Canadians.

The response of the Treasury Board Secretariat on behalf of the government is included at the end of the chapter. The Secretariat indicates that the new Blue Pages telephone directory format will be implemented according to established publication schedules. The Secretariat agrees with our recommendations on measurement, client satisfaction and reporting. It indicates that it is working with departments to develop an approach designed to promote continuous improvement in service delivery across the government.



Human Resources Development Canada

Service Quality at the Local Level

Chapter 2 – Main Points

2.1 Human Resources Development Canada (HRDC) has made considerable progress in addressing service quality. National initiatives in recent years have included developing a policy to guide its approach to high-quality service, implementing a new service delivery network to make services more accessible to Canadians and setting out national service commitments to clients. Initiatives at the local level include upgrading the service-related skills of employees and using new technologies.

2.2 Although HRDC has defined national service commitments, we found they are not communicated consistently to clients at points of service. Further, local offices do not consistently inform clients about performance toward service delivery targets, the cost of services, and how to lodge complaints about the service received and obtain redress.

2.3 The Department does not have performance measures for all of its national service commitments. Measures of service performance focus on waiting time for counter services and the speed of processing and payment, but there are weaknesses in the measurement of both these indicators.

2.4 Despite improvements in the timeliness of Employment Insurance payments over the past three years, estimated incorrect payments have increased over this period from \$4 to \$6 for every \$100 paid out. Available information shows that both underpayments and overpayments have increased for a variety of reasons, including a decline in the quality of information submitted by employers. We found that local office managers focussed mainly on speed of payment. There are neither performance targets nor measures of accuracy for the processing of claims at the local level.

2.5 Employment assistance services are increasingly provided by non-governmental organizations, under contribution agreements with HRDC. The agreements we reviewed do not set out service performance expectations or targets. Nor do they require the non-governmental organizations to be accountable for the quality of the services they provide.

2.6 There are gaps in the information the Department provides to Parliament on its performance in meeting its national service commitments. We also found gaps in the information that would help to provide context for the service performance that it does report. For example, information on the timeliness of paying Employment Insurance claims cannot be assessed in relation to information on the accuracy of payments.

Background and other observations

2.7 Almost one in three Canadians is a client of HRDC. Each year the Department processes 60 million to 80 million program claims and applications, sends about 100 million letters and pays out over \$50 billion in various benefits. Most programs and services are offered at the local level, through one of the federal government's largest service delivery networks. It comprises 320 Human Resource Centres of Canada, 5,000 self-service kiosks, 21 telephone centres and 10 mail centres. Almost 80 percent of HRDC's 21,000 employees work at the local level.

2.8 To make continuous improvements in the quality of services, managers need to seek more feedback from clients at the local level through such means as client satisfaction surveys and analysis of client complaints. There is no policy for handling complaints in either the Employment Insurance Program or the Income Security Programs. However, the latter has started to develop such a policy.

2.9 The Department does not have the cost information it needs to manage the trade-off between the cost of its main services and their quality. We believe it needs to give more attention to developing and implementing action plans at the local level for continuous improvement in service quality.

The Department's responses to our recommendations are included in this chapter. For the most part, the Department agrees with the recommendations and indicates the steps that it is taking or intends to take to address them.



Citizenship and Immigration Canada

The Economic Component of the Canadian Immigration Program

Chapter 3 – Main Points

3.1 We noted serious deficiencies in the management and delivery of the economic component of the Canadian Immigration Program, whose purpose is to recruit highly qualified individuals who can readily contribute to our economy and adapt to our society. These deficiencies seriously limit Canada's ability to maximize the economic and social benefits that immigration affords, and to protect the integrity of its Immigration Program.

3.2 We found that immigration offices abroad are overtasked. They have much difficulty coping with the volumes of work and responsibilities assigned to them. Immigration levels set by the government are not met, and applicants are waiting longer and longer for their applications to be finalized — sometimes more than three years.

3.3 We noted weaknesses that leave Citizenship and Immigration Canada open to criticism of the quality and consistency of its decisions in selecting immigrants. Visa officers need better selection criteria, better training and better tools to assess immigrant applications more effectively. In addition, the Department does not sufficiently monitor the quality of their decisions. We noted significant differences in approval rates among officers processing similar cases.

3.4 Our audit revealed significant weaknesses in the management of medical assessments of prospective immigrants. Since our last audit in 1990, the Department and Health Canada have been unable to take a position on whether changes to standards for medical examinations are required to determine if an applicant poses a danger to public health and safety, or could place excessive demand on health care systems or social services. The same routine tests have been required for the last 40 years and the departments have not decided whether applicants should be routinely tested for any infectious diseases other than syphilis and tuberculosis. We are also very concerned about the lack of rigour and consistency in the overall management of medical assessment activities, including the procedures for supervising the designated local physicians who perform medical examinations of prospective immigrants abroad.

3.5 There are serious constraints on establishing criminality and security admissibility of prospective immigrants. Visa officers have little information and support to ensure that applicants are not likely to engage in criminal activities or endanger the safety of Canadians. Some people are thus admitted to Canada without reasonable assurance that they have not committed crimes abroad, engaged in espionage, subversion or terrorism, or been associated with organized crime.

3.6 The Department is particularly vulnerable to fraud and abuse. It has no effective measures in place to discourage people from submitting fraudulent applications, and visa officers often resort to detection methods that are costly. In addition, we found inadequate control over revenues, visa forms and computer systems.

3.7 Employees responsible for processing immigrant applications in offices abroad are deeply concerned about the present state of affairs. They feel they are not only going against their own values but also making decisions that could carry risks that are too high and that could entail significant costs for Canadian society.

3.8 Overall, it is highly questionable whether the Department has the resources and the operational capacity it needs to carry out the tasks required to meet the annual immigration levels set by the government.

Background and other observations

3.9 Citizenship and Immigration Canada is responsible for, among other things, setting immigration policy, selecting immigrants, and evaluating visitors' applications abroad. It also protects Canadians' health and safety by intercepting individuals who are not entitled to enter or remain in Canada, and returning them to their country of origin.

3.10 In 1999, approximately 190,000 immigrants were admitted to Canada. There are four broad components in the Immigration Program: family, economic, refugee, and other. Our audit focussed on the economic component, which accounts for 56 percent of landed immigrants each year. This component is aimed at recruiting skilled workers and business immigrants.

3.11 Immigration services abroad are provided through a complex network of 81 offices in Canadian embassies, high commissions and consulates. About 210 Canadian officers and 980 locally engaged staff work in these offices and process a large volume of immigration visas, visitor visas, and student and temporary employment authorizations each year. Several other federal departments and agencies also have responsibility for results achieved in the Immigration Program, including the Department of Foreign Affairs and International Trade, the Canadian Security Intelligence Service, the Royal Canadian Mounted Police and Health Canada.

3.12 It is disappointing to note that several of the deficiencies discussed in this chapter are similar to those we reported in 1990. Over the years, the government and the Department have undertaken a number of initiatives to remedy the situation, but without much success.

3.13 This situation requires immediate attention by both the Department and the government. On the one hand, the Department must improve its efficiency in processing immigrant applications. Offices abroad are buried in paperwork, and their outdated technology is a serious obstacle to improving performance. The Department needs much better information on the resources required to fulfil its responsibilities in processing applications. On the other hand, a significant investment of resources may be needed to correct the deficiencies we noted and to allow the Department to realize the potential efficiency gains we identified. It is particularly essential that in deciding on annual immigration levels, the government ensure a proper balance between the resources allocated to the Department and its federal partners and the workload required to meet those levels.

3.14 The Department's current review of the *Immigration Act* provides an excellent opportunity to correct some of the deficiencies. However, the challenge for the government and the Department is enormous and complex. Since Parliament has expressed a particular interest in the Program by requiring the tabling of an annual immigration plan, we encourage parliamentarians to follow the situation closely.

The responses of Citizenship and Immigration Canada, Health Canada, the Royal Canadian Mounted Police, the Canadian Security Intelligence Service and the Department of Foreign Affairs and International Trade are included in this chapter. They agree with our recommendations and note that initiatives are under way in several areas.



Indian and Northern Affairs Canada

Elementary and Secondary Education

Chapter 4 – Main Points

4.1 Indian and Northern Affairs Canada cannot demonstrate that it meets its stated objective to assist First Nations students living on reserves in achieving their educational needs and aspirations. For example, the Department does not have the necessary assurance that First Nations students are receiving culturally appropriate education. Moreover, the progress in closing the education gap for Indian students living on reserves has been unacceptably slow. At the current rate of progress, it will take over 20 years for them to reach parity in academic achievement with other Canadians.

4.2 To obtain assurance and effectively discharge its responsibilities, the Department needs to resolve several major issues. These include the need to articulate its role in education, to develop and use appropriate performance measures and to improve operational performance. In addressing these issues, the Department will need to further take into account the cultural and special needs of Indian students as well as socio-economic factors that can affect success in education.

4.3 The situation is complex and urgent, and the urgency will increase as more demands are placed on education as a result of an increasing population on reserves, and changes in technology and in provincial education programs upon which the Department relies. Although the Department has identified or started several projects for education reform, it must still respond with significant action to resolve these issues.

Background and other observations

4.4 The Department is empowered to take an active role in the provision of elementary and secondary education for Indian children living on reserves. Although it has chosen to rely on First Nations and the provinces for the design and delivery of appropriate education, the Department acknowledges that this approach does not diminish its responsibility and accountability.

4.5 For more than 100 years, various statutes, Indian treaties and government policies have shaped the mandate and responsibilities of Indian and Northern Affairs Canada for education.

4.6 Presently, about 117,000 students enrolled in elementary and secondary schools live on reserves. Current budgeted costs, not including school construction and maintenance, are about \$1 billion annually.

Indian and Northern Affairs Canada acknowledges the importance of the issues identified in this chapter. It believes that Gathering Strength — Canada's Aboriginal Action Plan, and other planned education initiatives involving the Department, First Nations and provincial governments, will help close the education gap cited in this chapter.



Canada Customs and Revenue Agency

Travellers to Canada: Managing the Risks at Ports of Entry

Chapter 5 – Main Points

5.1 The Canada Customs and Revenue Agency has many efforts under way to modernize its Customs operations and to make effective use of technology. However, we found that it needs to make some significant improvements.

5.2 A well-articulated and comprehensive compliance strategy is a key element of promoting compliance. Customs does not yet have an overall compliance strategy that clearly describes its plans for encouraging voluntary compliance and that outlines its approach to responsible enforcement.

5.3 We found that risk assessment is incomplete: Customs does not have important information it needs from a variety of departments and agencies to fully assess the risks its inspectors face. It needs to know where the risks are highest so it can determine the best way to control them. We have recommended that Customs work more diligently to obtain information on the risks arising from the responsibilities it carries out at ports of entry on behalf of other departments — Citizenship and Immigration Canada, Health Canada and the Canadian Food Inspection Agency, for example — and include them in its national risk assessment. It also needs to have up-to-date memoranda of understanding with those departments, setting out their respective roles and responsibilities.

5.4 We also found that Customs inspectors at the border and at airports need to be better equipped to do their complex job. They must enforce customs and excise legislation and make a variety of decisions for many other government departments. In processing travellers, Customs inspectors have only a short time to make these decisions. Customs does have information, systems and training to assist its officers but the information is not shared consistently, the systems need improvement and the training is uneven.

Background and other observations

5.5 In 1998–99 the Customs program of the Canada Customs and Revenue Agency processed over 104 million travellers who entered Canada at ports of entry. About half were returning Canadian residents. Most travellers enter Canada by highway from the United States (79 percent) or at airports (17 percent). Since 1991–92 the number of travellers coming by highway has decreased, while the number of air travellers has grown by almost 48 percent, owing partly to the Canada-United States Open Skies Agreement.

5.6 Over the years, Customs' role has evolved from mainly collecting revenue to one of facilitating the entry of travellers and goods, while protecting Canadian society and promoting the competitiveness of Canadian businesses.

5.7 Customs operates in an environment that continues to change. To help it deal with change, it developed discussion papers in 1990 and again in 1998 as blueprints for the direction it would take in the future and the initiatives it would employ. Customs has taken some major steps toward reaching the goals it set for itself in 1990. It recently released a draft five-year action plan to implement the initiatives identified in its 1998 discussion paper.

The Canada Customs and Revenue Agency's responses to our recommendations are included in the chapter. The Agency agrees with the seven recommendations, and its responses describe a number of actions under way to deal with them.



Canada Customs and Revenue Agency and Department of Finance

Handling Tax Credit Claims for Scientific Research and Experimental Development

Chapter 6 – Main Points

6.1 In 1994 the government restricted the period for filing tax credit claims for scientific research and experimental development (SR&ED) to 18 months after the year in which taxpayers incurred them. The Canada Customs and Revenue Agency then received 16,000 additional claims, which represented \$2.8 billion in credits for taxation years as far back as 1985.

6.2 Our audit revealed significant inconsistencies in the handling of these claims. These inconsistencies compromised the fairness of the review process. In addition, serious professional differences of opinion arose within the Agency on how to resolve a dispute with a claimant over a significant claim. The Agency did not demonstrate that it had effective mechanisms to resolve this type of difference among its officers on individual cases.

6.3 The lack of clarity about the eligibility of SR&ED projects has resulted in unresolved claims dating back to 1985. The claimed tax credits amount to hundreds of millions of dollars. Since the creation of the SR&ED program, there have been disagreements between claimants and administrators and among administrators on what constitutes an eligible activity or project, how thoroughly a science officer should review a claim and how much documentation is necessary to support a claim. Clearer rules are urgently needed to deliver and administer the program effectively and efficiently.

6.4 The Agency has recognized the need to improve the administration of the program. To this end, after consulting stakeholders, the Minister of National Revenue released an action plan in November 1998. The Agency created a new Directorate and appointed a new head of the program.

6.5 According to our audit, the Agency needs to improve the assessment of the risk that taxpayers' claims are ineligible so that science and audit staff can focus on claims with the highest risk. The Agency manages the risk of ineligibility by conducting completeness checks, risk assessments, audits and science reviews.

6.6 An evaluation of the SR&ED program, done by the Department of Finance and the Agency, may have overstated the impact of the program in generating additional spending on SR&ED. The evaluation also indicated that the program generated only a net increase in Canada's real income of between \$20 million and \$55 million per year.

Background and other observations

6.7 The federal government encourages research and development in the private sector through tax incentives. Taxpayers receive tax credits once they have incurred expenses on their projects.

6.8 The Agency's information systems show that in 1997 about 11,000 corporations and individual taxpayers claimed over \$10 billion in SR&ED expenses and \$2 billion in tax credits. Large corporations claimed 85 percent of total expenses.

6.9 A staff of 144 science advisors and 268 financial auditors review claims in 37 tax services offices across the country. Advisors determine whether the work is eligible under the program and auditors examine whether the related costs qualify.

6.10 A key objective of the Agency's 1998 action plan was to reduce uncertainty about the eligibility of science projects. As a result, the Agency and industry proposed a definition of an SR&ED project that, in our view, modifies the level of eligible SR&ED work and expenses and that could result in additional costs in tax credits. If any significant changes were made to the definition of an SR&ED project, they would need to be reviewed by the Department of Finance, which is responsible for the program's policy objectives, costs and related legislation.

The responses of the Canada Customs and Revenue Agency and the Department of Finance are included in the chapter. Their responses describe the action they have taken and will continue to take to address our recommendations.



Royal Canadian Mounted Police

Services for Canada's Law Enforcement Community

Chapter 7 – Main Points

7.1 The levels of service that the RCMP provides to the Canadian law enforcement community do not meet the needs of its clients. For example, the Canadian Police Information Centre (CPIC), a backbone system that provides information to police officers, courts, prisons and parole officers, was unavailable regionally or nationally 11 percent of the time last year. DNA analysis takes too long and is limited to only the most important cases. Thus, its full potential for public safety is not being realized. Backlogs of up to two months exist for inputting criminal history records and fingerprints into data banks. As a consequence, the criminal records and fingerprint data available to the police and others are not current. In addition, criminal record checks required by employers or volunteer organizations take too long.

7.2 It is imperative that senior management at the RCMP take action to eliminate backlogs in many of the services and improve efficiency. In particular, the RCMP needs to rationalize the number of laboratories in order to improve their level of service. Significant improvement is also required in performance measurement and the reporting of results. It is important that users, senior RCMP management and Parliament know these results.

7.3 The arrangement between the federal government and the provinces set in 1966 for these services needs to be rethought. It is time for a clear agreement among all the players in the law enforcement community — in the federal, provincial and municipal governments — on level of service, funding arrangements, user input, management and accountability. A new agreement will require the collaboration of all parties.

Background and other observations

7.4 The RCMP provides a range of services that are essential to the Canadian law enforcement community: police, courts, prisons and parole boards. These services include fingerprint identification, criminal history records, forensic laboratories, criminal intelligence and on-line access to data banks such as vehicle registration, drivers' licences, wanted persons and stolen property. In 1998–99, the RCMP spent approximately \$122 million on these services.

7.5 There are a number of areas where the RCMP deserves credit for the way it has operated these services: it has kept the old CPIC information system operational while awaiting a new system; it has implemented new forensic techniques such as DNA analysis; it is developing a data bank for DNA; and it has made major upgrades to fingerprint identification and criminal history records systems.

7.6 Our last audit of services to the law enforcement community was in 1990. We made a number of recommendations to improve operational economy and efficiency. Attention has only recently been paid to many of our recommendations and others have not been addressed. These national services have also been reviewed several times over the past decade by the Solicitor General Canada, the Treasury Board Secretariat and the RCMP itself.

The RCMP agrees with the findings and indicates that it will be taking action.



Department of Finance

Managing Canada's Debt: Facing New Challenges

Chapter 8 – Main Points

8.1 Canada's debt management program is a well-run operation overall. But like any program that faces a changing environment, it needs to adjust. We have noted three areas where the Department of Finance needs to review its practices. These include:

- establishing a more complete range of performance measures to ensure that it has a sound basis for assessing how well the program is doing at meeting its objectives. Currently, the Department uses a variety of information internally but reports its performance for only one target — the ratio of fixed-rate debt to the total debt, now at two thirds;
- improving transparency to ensure that there is a public accounting of not only the benefits of decisions on all aspects of debt management but also the costs. In recent years, the government significantly increased the proportion of fixed-rate debt and the level of foreign exchange reserves, and established targets for retail debt — all without disclosing the expected costs of these decisions; and
- modifying the management of strategic planning by consulting a range of outside experts to ensure that the Department obtains complete and independent advice.

Background and other observations

8.2 At the end of 1998–99, Canada's interest-bearing debt stood at \$595 billion and the annual interest charges on that debt amounted to \$41.4 billion. Managing the debt is the responsibility of the Department of Finance, working in conjunction with the Bank of Canada and the Canada Investment and Savings agency.

8.3 The principal objective of the debt management program is to provide stable, low-cost funding for government operations while keeping liquid the domestic markets for that debt. Another objective is to ensure that there are adequate reserves in the Exchange Fund Account to moderate volatility in the exchange rate on the Canadian dollar.

8.4 We found that the people who manage this program are a highly committed group. They closely monitor fiscal and economic developments that could affect debt management operations, and they consult regularly with financial market participants. They use sophisticated modelling techniques to identify debt management risks and to choose appropriate debt strategies.

8.5 Our audit dealt not so much with the choices debt managers make or the analysis underlying those choices as with the way they measure performance, the information they report, and the governance of the program.

8.6 Over the last few years, the government has made some major decisions in managing the federal debt. It has increased the proportion of longer-term, fixed-rate debt to two thirds of the total, some 18 percent higher than three years ago. While fixed-rate, longer-term debt makes the government's interest costs more predictable and reduces rollover risk, it generally costs more because long-term interest rates are normally higher than short-term rates.

8.7 Over the same three-year period, Canada's foreign exchange reserves have more than doubled, to US\$25 billion. A higher level of foreign reserves improves the government's ability to promote stability in the value of the Canadian dollar, and also provides a larger pool of funds that can be used to finance unanticipated needs. But this comes at a cost, because the interest paid on foreign currency borrowing is normally higher than the interest earned on foreign reserve assets.

8.8 We also looked at retail debt — the sale of Canada Savings Bonds and Canada Premium Bonds. We noted that despite renewed attention to the sale of these bonds and the creation of a special operating agency to market them aggressively, we have seen no conclusive evidence that retail debt is cost-effective. We encourage the government to review the role of the retail debt program and its cost implications. We also encourage the government to disclose the results of this review when it completes it.

The Department's response to our recommendations are included in this chapter. For the most part, the Department accepts the thrust of our recommendations and indicates how it is responding to them.



Streamlining the Human Resource Management Regime

A Study of Changing Roles and Responsibilities

Chapter 9 – Main Points

9.1 We undertook this study to draw to Parliament’s attention the urgent need to deal with long-standing issues and emerging challenges for human resource management in the public service.

9.2 The current framework governing human resource management in the “core” public service is unduly complex and outdated. Administrative systems are cumbersome, costly and outmoded. The framework is ill suited to an environment that demands flexibility and adaptability — an environment that faces significant challenges in human resource management and an increasingly competitive labour market.

9.3 Public service staffing is a major source of frustration both to managers and to employees. The system is rule-bound and inefficient. Managers need to have more authority in staffing, but they also must be more clearly accountable for their decisions. The interests of employees must be respected, but there is a pressing need to modernize and streamline the processes for staffing and related recourse.

9.4 Concerns about “fractured responsibility” for human resource management are long-standing. Responsibility and accountability for the changes needed to simplify, streamline and strengthen the current human resource management regime need to be clearly assigned and appropriately supported. This is particularly important in areas of divided responsibility.

- In human resource management, deputy ministers — leaders of the major organizations of government — have been seen as primarily responsible for administering a centrally prescribed framework. A significant step in their role is needed. Deputies should have pivotal responsibility for developing and maintaining a healthy work environment in their departments, and their responsibilities for human resource management need to be set out formally. Deputy ministers should be clearly accountable for the way their departments perform these responsibilities.
- The Public Service Commission needs to engage in an active dialogue with Parliament about changes in its activities and in the way it carries out its responsibilities for merit protection. This dialogue should encompass legislative reform of staffing. The Commission also needs to improve its reporting on departmental performance in adhering to the provisions and principles of the *Public Service Employment Act*.
- There is a need for the Treasury Board to strengthen its reporting to Parliament on the aspects of human resource management for which it is responsible. As well, there is a need to clarify the responsibility of deputies for reporting on the quality and effectiveness of human resource management in their departments.

Background and other observations

9.5 The core public service is now substantially smaller than at any time since the early 1970s. It has diminished by almost 100,000 employees in the last 10 years, to about 143,000 employees by the end of 1999. Government downsizing, devolution, privatization, limited recruitment and other measures were factors in this reduction. More than 50,000 public servants have moved from the “core” public service (for which Treasury Board acts as the employer) to “separate employers” like the Canada Customs and Revenue Agency.

9.6 Knowledge workers now constitute 55 percent of public servants (up from about 33 percent 15 years ago). They are bringing new expectations to the workplace, heightening the need for change.

9.7 The percentage of public service employees aged 45 to 54 has almost doubled over the last 14 years, and 70 percent of executives could retire within 10 years. This is generating concern about a potential leadership crisis. Moreover, youth are underrepresented: the percentage of public servants under 35 years of age is roughly half that in the Canadian work force.

9.8 In 1996, the Treasury Board Secretariat estimated that there were 840 separate pay rates and 70,000 rules governing pay and benefits. In 1997, there were more than 12,000 pages of instructions in the Treasury Board's personnel and pay administration manuals. It takes 119 calendar days on average to complete a closed competition in the core public service, not including added time to deal with any appeals. This is about twice as long as reported by selected quasi-public organizations. For a new position that needs to be classified, staffing takes 230 calendar days on average — almost eight months.

In its corporate response, the government agrees on the need for a strong human resource management framework and on the importance of the health of the public service. It is more optimistic than the Auditor General on some matters, and notes recent initiatives to address some issues. In a supplementary response, the Public Service Commission indicated its continuing efforts to improve staffing systems and to engage in a dialogue with Parliament.