

SERVICES FOR THE PUBLIC

SERVICES FOR THE PUBLIC

PUBLISHED BY THE QUEEN'S PRINTER • OTTAWA • CANADA FOR
THE ROYAL COMMISSION ON GOVERNMENT ORGANIZATION

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GENERAL INTRODUCTION

The reports contained in the following series are all concerned with specific services which citizens and residents of Canada (and, sometimes, of other countries) receive as individuals from the federal government. In effect, these reports—and those in Volume 4, “Special Areas of Administration”—represent a distinct break from the approach that characterized the first two volumes, “Management of the Public Service” and “Supporting Services for Government”.

In the thirteen preceding reports, your Commissioners have dealt with the general requirements of administration in the federal government. In this generalized treatment, the essential question has been: what are the needs of efficient, economical and effective administration common to all parts of the public service?

From the outset of the inquiry, however, your Commissioners recognized that an examination of the general aspects or functions of management and its supporting services would leave unanswered many questions of organization and administrative practice. The functional approach had obvious advantages: it permitted the use of fewer, smaller and highly specialized investigating groups, and was likely to be speedier; it also permitted a more unified analysis of government administration and, at the same time, allowed comparisons to be drawn more readily between the different ways in which various departments and agencies met like problems. In view of these advantages, the major research effort was directed into such functional studies, with the results submitted in the first thirteen reports. But it is clearly

necessary to take account of the diversity of government activities and to ask: how do the various operations differ in purpose and character, and what bearing do these differences have on the choice of organizational forms and administrative practices?

The ultimate aim of all government activity is the satisfaction of public wants and the promotion or safeguarding of public interests at home and abroad. Historically, the principal tasks involved have been the maintenance of public order and national security, and the conduct of international relations. Your Commissioners have not investigated the traditional instruments for the preservation of public order—the judiciary and police—except to the extent that general aspects of administration were examined in the Royal Canadian Mounted Police. However, special problems encountered in the administration of national defence and the conduct of external relations—both of which have been profoundly affected by events of recent decades—are considered in the fourth volume of reports.

Since Confederation, the federal government has been increasingly engaged in new tasks: defining goals for the economic, social and, to a lesser extent, the cultural development of the country, and devising means by which those goals can be attained. The result has been the emergence, in Canada as elsewhere, of “the public service state”. The process has been gradual and largely unplanned, with a high degree of experimentation in and improvisation of organizational forms and administrative practices. And because Canada has a federal constitution, designed at a time when most of this growth could not be foreseen, it has been a process in which the federal and provincial governments alike have participated, with indistinct and shifting lines separating their respective interests and activities.

The reports that follow do not pretend to examine exhaustively the many services being provided to the Canadian public by the federal government. The large services operated on commercial lines—Canadian National Railways, Trans-Canada Air Lines, and Canadian Overseas Telecommunications Corporation—are again excluded. The Unemployment Insurance Commission and National Employment Service, being the subject of inquiry by another body, are also ignored in this volume. The minor services identified in the course of the present inquiry are too numerous to permit individual treatment, and are dealt with generally in a single report on *Miscellaneous Services*. But the activities encompassed in the following reports—*Education Services*; *Health Services*; *Lending, Guaranteeing and Insuring Activities*; *The Post Office*; and, as mentioned, *Miscellaneous Services*—are sufficiently representative to disclose the variety of the means by which public wants are met

and the impact which federalism makes on the development of the services rendered by the Government of Canada.

MODES OF SERVICE

The classic form of service to the public is exemplified by the Post Office: enjoying a monopoly (excluding particular services such as parcel post, money orders and the savings bank), directed by a minister of the Crown and operated by civil servants within the general forms and rules governing the departments of government. But many alternative ways of satisfying public wants have been devised in recent decades, and the federal government can choose from a variety of modes of service.

This element of choice is evident in most of the following reports—for example, in the choice to be made between direct lending operations conducted through a country-wide administrative apparatus, or the pursuit of the same ends by offering appropriate guarantees or financial inducements to non-governmental institutions which already possess the necessary administrative machinery and are engaged in activities closely resembling or related to the services contemplated by the government. In some instances, the services in question are already provided by private undertakings, and the interest of the government lies essentially in reducing their cost to users, or facilitating their wider use, by the payment of subsidies to users or suppliers. In other cases again, where the federal and provincial governments have identical or complementary interests, services may be provided by joint action, with a pooling of funds and administrative machinery—and sometimes with the added participation of municipal or even non-governmental bodies, particularly in health and welfare services.

Each mode of service gives rise to different organizational and administrative needs within the federal government. In addition, of course, no two modes produce exactly the same results or give the same degree of satisfaction to the public. Consequently, the choice cannot rest solely—or even primarily, in most cases—on the administrative implications of the various courses of action available. But these administrative implications should not be ignored in the planning of government services.

The record of most advanced countries in recent decades shows a general tendency for the role of central governments in satisfying public wants to become increasingly comprehensive—embracing more and more aspects of the lives of more and more people—and, at the same time, increasingly indirect in its impact. The old and new patterns can be seen at various points in the following reports—within, for example, the operations of the National

Health Branch as described in the report on *Health Services*. On the one hand, this Branch provides direct service to a selected group, under the Indian and Northern Health Services, employing its own hospitals, clinics, medical staff, supply organization and all the accompanying overhead—with capital and current expenditures (in 1960-61) of \$23 million. On the other hand, under the Hospital Insurance and Diagnostic Services programme, the National Health Branch contributed \$189 million in 1960-61 toward the costs of hospital treatment for virtually the entire Canadian population, with an administrative effort that was but a fraction of that required for the Indian and Northern Health Services.

Direct provision of services by the federal government raises general questions concerning costs and the degree to which they should be recovered from the recipients of the services. Under existing methods of accounting, the true cost of operations is frequently obscured by the exclusion of capital and overhead items and supporting services supplied without charge by other agencies. In addition, the general practice of absorbing departmental revenues into the Consolidated Revenue Fund rather than applying them to meet associated costs tends to weaken administrative concern with the relationship between costs and revenues. Recommendations put forward by your Commissioners in the report on *Financial Management* would correct these weaknesses. There remains, however, a further need to establish uniform policies governing the recovery of costs from the recipients of services and defining when and to what extent services should be provided at less than cost. This need is encountered in a number of the following reports, and your Commissioners' general conclusions are set out in the report on *Miscellaneous Services*.

In addition to reducing the burden of administration imposed on the federal government, the less direct means of providing services may often provide a greater measure of flexibility in federal programmes. Programmes involving only the payment of grants and subsidies can be more readily modified or terminated at fairly short notice than can those for which special facilities and organizations have been created by the federal government. Grants and subsidies should not be varied capriciously, and changes must be planned and executed in a manner which permits necessary adjustments in the external machinery which will be affected—a need which appears to be inadequately recognized in some of the programmes examined. But the problem of modification or adaptation is unquestionably greater in federal organizations designed to provide a specific service directly to the public or to a particular group.

Moreover, there is a clear need to review services at frequent intervals in order to determine, in the light of changing conditions, whether the means being employed are the best available. The balance of factors favouring a particular course may change for many reasons. The public need may disappear, or so diminish as to render the original mode of service inappropriate—as, for example, in the treatment of tuberculosis among Indians. The development of more comprehensive services may eliminate or reduce the special needs of a particular group—for example, mariners or veterans. Or, the development of alternative services by other bodies—provincial and municipal governments or private agencies—may place more effective machinery within reach of the federal authorities. If federal programmes are to respond to changes such as these, the periodic review of services must look behind the mode to the intent. Only when this is done can the continuing need for a particular service, or for service rendered by a particular mode, be judged.

Some of the considerations entering into the choice of modes are not unlike those examined in relation to the “Make or Buy” question in Volume 2, “Supporting Services for Government”. And, other things being equal, your Commissioners favour those modes which assign to other agencies the actual provision of a service to the public, leaving to the federal government the definition of goals and standards and the provision of financial support or other incentives. In this way, the day-to-day control of the service can be brought closer to the beneficiaries and made more responsive to their needs. At the same time, the operational burdens of the federal government can be minimized, leaving it free to concentrate on the tasks which only it can discharge. In addition, the growth of the public service can be checked, and the plurality of other institutions—public and private—serving the Canadian people can be strengthened, not only in the resources available to them but also in experience and skill.

Your Commissioners recognize that, in proposing greater devolution of the service function by the federal government, they are pre-supposing the existence of honest, competent and responsive organizations to which the administration of services may safely be entrusted. However, as the federal government becomes increasingly involved in the definition of economic and social goals and standards, no other assumption seems tenable. The alternative is a monolithic society in which services become more and more concentrated in the hands of the central government and all other organizations atrophy for lack of function or resource. Your Commissioners do not believe the latter course to be either desirable or necessary. Nor do they believe that

the tendency toward a more comprehensive role for government in the economic and social life of the country can be arrested; but as this process continues, the importance of the other organizations by which the public is served should be enhanced rather than diminished.

FEDERAL-PROVINCIAL CO-OPERATION IN JOINT AND ALLIED SERVICES

As the federal government has assumed new responsibilities it has become involved in a growing range of services which complement provincial activities or which, because of the constitutional division of powers, require provincial co-operation in their execution. Concurrently, the range of provincial services has shown a comparable growth, with the two-fold effect of, first, multiplying the points of intersecting interest and, second, bringing into existence new administrative resources, provincial and municipal, of increasing size, diversity and skill.

A review of the findings of the Royal Commission on Dominion-Provincial Relations, before World War II, discloses that the number and variety of intergovernmental contacts have grown phenomenally in recent decades. At least sixteen of the principal federal departments and almost as many other agencies now have some close and significant concern with matters in which provincial governments have common or related interests.

The machinery of provincial (and municipal) government lies, of course, wholly outside your Commissioners' terms of reference. However, in examining the organization and operations of the federal government in this growing range of matters in which federal and provincial governments have joint or allied interests, the development of provincial machinery cannot be ignored. The existence today of energetic and competent public services in the provinces enlarges the opportunities for administrative co-operation between the two senior echelons of government and requires a re-examination of many federal services to determine whether adequate account has been taken of provincial developments. In recognition of this, the Commission undertook a general review* of federal-provincial co-operation in joint and allied services. From this review there emerged a number of conclusions of general relevance to a wide range of federal services to the public.

It is important to recognize that the basic relationship between the federal and provincial governments cannot be one of principal and agent. Constitu-

*Under the direction of Eric Hardy, of Eric Hardy Consulting Services, Toronto, and Professor François-Albert Angers, L.SC.COMM., Ecole des Hautes Etudes Commerciales, Montreal, assisted by C. N. Rowse, B.A., B.ED., B.SC. (ECON.) M.A., Director of the Budget, Province of Manitoba, Winnipeg, Thomas J. Plunkett, M.A., Municipal Affairs Consultant, Montreal, and Jacques LaRivière, L.SC., POL., Montreal.

tionally, the two are of equal status, and each is accountable to its own electorate. Consequently, the relationship between them must be one of equality, based on mutual recognition of the authority and responsibility proper to each and mutual respect for each other's administrative competence.

Each fresh discovery of a convergence of federal and provincial interests in recent years has produced, with few exceptions, some degree of co-operation. Among the services of concern to your Commissioners, including a number of those discussed in the following reports, four general kinds or degrees of co-operation were identified:

- Consultation, leading to a concerting of plans and operations.
- Joint programmes in which costs and administrative responsibilities are apportioned.
- Delegation of functions by one government to another, by executive agreement.
- The contracting of services by one government from another.

Arrangements of these kinds, with variations and modifications, will be particularly evident in the ensuing reports on *Education Services* and *Health Services*, but many other programmes are similarly affected—in welfare, labour, services to agriculture, fisheries, forestry, and other resource industries, in housing, transportation and many other areas.

Consultation

No complete listing exists of the federal-provincial conferences and committees of more than a temporary nature dealing with intergovernmental relations. The composition of such a list would vary depending on whether particular bodies were classified as committees or sub-committees, but separate listing would be warranted for at least fifty. Most of these are of comparatively recent origin; the older ones, for the most part, have become increasingly active in recent years. In size, breadth of interest and degree of activity, they vary widely, each having evolved in response to a specific need and without the guidance of any general principles or plan. There is, for example, no general co-ordinating body in the welfare field comparable to the Dominion Council of Health, to which reference is made in the report on *Health Services*.

However, the formal machinery of federal-provincial committees and conferences represents only a part of the consultative process. Of equal—perhaps greater—importance is the continual consultation by telephone, correspondence and visits. Moreover, as patterns of intergovernmental co-

operation become established by the formal machinery, the need for frequent conferences should diminish. This was noted, for example, in the case of a federal-provincial conference which has been held annually for a number of years. The federal officer responsible for organizing the 1961 conference found it difficult to prepare an agenda until he hit upon the happy notion of a broad review of the whole field which had been covered intensively, in piece-meal fashion, at previous conferences. While there may be value in such retrospective sessions at rare intervals, regularity of conferences should not become a fetish when co-operative arrangements have been well established.

Consultation, of course, is only of value when it leads to a concerting of action. This may take a number of forms, some of which are noted in the report on *Public Information Services*: the pooling of efforts in the promotion of tourist travel and the distribution of federal public health material through provincial and local channels. Knowledge of each other's programmes and intentions—in research, for example, or the compilation of statistics—can eliminate wasteful duplication or divergence of effort. However, the most distinctive form of co-operation is the joint service in which costs and administrative functions are shared by the federal and provincial governments.

Conditional Grants

The initiative in developing cost-sharing programmes has come predominantly, although not exclusively, from the federal government. And almost invariably, federal participation is dependent upon provincial undertakings to administer the programmes in accordance with agreed conditions. The importance of such arrangements to both levels of government may be gauged from the fact that in 1961-62 the federal government provided over \$500 million in conditional grants, a ten-fold increase from 1945.

Canada is by no means alone in this growing resort to conditional grants; similar arrangements have become increasingly prevalent in many countries. There have been criticisms in Canada and elsewhere that the grants tend to distort the budgets of recipient governments by creating rigidities and causing over-emphasis of grant-supported activities; and that they tend to undermine the federal system by forcing provincial governments to choose between accepting federal direction in matters of provincial jurisdiction or denying to provincial residents any share of federal funds derived, in part, from their own taxes. Defenders of the grants see nothing sinister or objectionable in them on principle; both the federal and provincial governments may have legitimate and reconcilable interests in a wide range of matters, and the

conditional grants provide a means of making common cause.

Your Commissioners do not take sides in this debate. But the prevalence of conditional grant programmes cannot be ignored in any study of federal administration. The kind of conditions attached to federal grants, and the actions taken by federal departments in ensuring that the conditions are met, are of relevance not only to the attitude of provincial recipients but also to the efficiency and economy of the federal government.

Examination of the current grants discloses striking variations in the conditions attaching to them and in the role of the federal authorities in the administration of the joint programmes. Moreover, it is abundantly clear that the differences among conditional grant programmes are the result more of historical accident than of any clear and consistent principles.

In many cases the variations in conditions follow logically from differences in the objects pursued. It is, for example, to be expected that the federal authorities should be more concerned with the quality of work performed on the Trans-Canada Highway than with the construction standards of provincial or municipal works receiving federal aid under the Winter Works programme. The federal object in the first case is to secure the construction of a trans-continental highway of defined standard; in the second it is concerned only with influencing the timing of construction activity.

Other variations in the field of construction, however, are less easily explained. The Department of Public Works, for example, has administrative responsibility for both the Trans-Canada Highway and Roads to Resources programmes. In both cases, it exercises an item-by-item control over payments to provinces within the limits of approved costs. In the Trans-Canada Highway programme, individual items may be overspent by as much as ten per cent without recourse to the Treasury Board for authority, provided the authorized total amount is not exceeded. In the Roads to Resources programme, on the other hand, no leeway is permitted on individual items without reference to the Treasury Board. Even greater contrast is provided by two conditional grant programmes administered by the Department of Northern Affairs and National Resources, for the construction of camp grounds and picnic areas along the Trans-Canada Highway, and as Winter Works. In both cases, control is exercised on a project rather than an item-by-item basis. The costs—and hence the grants—involved in highway construction programmes are, of course, much greater than those associated with camp grounds and picnic sites, but the practice of the Department of Northern Affairs at least raises questions about the degree to which itemized control is exercised by Public Works—over culverts, for example.

The procedures required by the federal government in the administration of grants for the support of blind and disabled persons provide another example of inexplicable variation. Both programmes are administered by the Department of National Health and Welfare, with the federal contribution to the blind persons' programme amounting to seventy-five per cent of the cost compared with fifty per cent under the disabled persons' scheme. Despite the similarity in aims, the two programmes employ totally different techniques for the medical review and approval of applications, the difference being incomprehensible either in terms of the variation in the federal share of costs or on any other basis. The one feature common to the two programmes is that the procedures for review of applications seem unnecessarily cumbersome.

Moreover, the haphazard differences in conditions and procedure are matched by variations in the stringency with which conditions are enforced. At one extreme, a rigid refusal by the federal government to contribute to the purchase of land for highway purposes can produce absurdities. For example, it may refuse to share in the purchase of a \$15,000 farm whose intersection by a highway would cut off the barns and water supply from the pastures, but be willing to split the expense of a \$50,000 underpass to keep the farm intact. A similar situation arises where the federal government refuses to share in the outright purchase of a building but will contribute toward the greater cost of relocating it.

Other examples can be cited of contrasting laxity in the enforcement of conditions. Several may be found in the administration of national health grants. With certain stated exceptions, the agreements provide that costs of administrative personnel employed by a provincial health department to implement the grant programme will not be shared; in fact, it is reported that a significant number of such persons are paid from health grant funds. Under the same programme, the regulations state that no more than eighty per cent of the amount allotted under each grant item can be committed annually for continuing services; but one province proposed, in 1962-63, to devote ninety-three per cent of the mental health grant to continuing services, and to apply federal funds for tuberculosis control on the same basis.

The existence of anomalies such as the foregoing points to a need for a comprehensive and continuing review of conditional grant programmes. This review can serve several objects: the introduction of order and consistency, based on clear and cogent principles, and the elimination of any unnecessary or distasteful burdens imposed on provincial and municipal authorities.

In addition, systematic attention should be given to the avoidance of processes of control and review which pointlessly duplicate provincial activity. In the administration of national health grants, for example, in many cases the use of federal medical consultants in evaluating projects duplicates work already done by provincial consultants. Progress has been made in recent years towards reduction of detailed federal auditing of provincial cost records and greater reliance on the effectiveness of provincial procedures. The federal government cannot, of course, divest itself of responsibility or escape its accountability to Parliament for the manner in which its funds are spent under conditional grant programmes, but greater acceptance of the adequacy of provincial control and review processes seems possible.

Administration Delegation and Contract Services

Executive action on the part of the federal and provincial governments has permitted the administrative machinery of one to be used for the purposes of the other in a variety of ways. These arrangements may take a very simple form—as, for example, in the appointment of certain federal Indian agents to serve additionally as provincial welfare officers. At the other extreme, one of the most highly developed co-operative arrangements can be seen in the regulation of fisheries, where certain federal regulations are not only administered by the provinces but are prepared by the federal government to meet provincial wishes. Or the machinery of one government may be employed, under contract, to serve the purposes of the other, the outstanding example being the employment of the Royal Canadian Mounted Police to provide provincial and local police services in eight provinces and more than sixty municipalities.

Of particular relevance to the present inquiry—and particularly to the reports on *Education Services* and *Health Services*—are those situations in which the federal government has assumed responsibilities towards specific groups for services normally considered to be provincial or local matters. In the view of your Commissioners, a clear distinction must be drawn between the responsibility for ensuring that such special needs are met and the actual rendering of the service. The first may be inescapably federal; the second, however, may more properly be entrusted to provincial and local authorities on mutually acceptable terms.

It is recognized that, in certain circumstances, the actual provision of such services must be undertaken by the federal government—because of the isolation of the group to be served, or because a special need of short or uncertain duration would require facilities and staffs out of all proportion

to the other requirements of the community. But the findings of your Commissioners on education and health services suggest a need for more systematic attention to this question, not merely when federal services are initiated but at regular intervals thereafter, as the further development of provincial and local services may eliminate the justification for direct federal action.

The Need for Systematic Review

The observations in the foregoing pages should not be permitted to obscure the very significant development of federal-provincial co-operation in the past two decades. As the activities of both levels of government have grown in scale and diversity, there has been a general recognition of the need for co-operation and general avoidance of duplication in services. The lack of order and system in the arrangements developed may itself be viewed as reflecting the initiative and freedom to experiment, enjoyed—and exploited—by the federal departments.

There is, nonetheless, a clear need for a more systematic approach to federal-provincial co-operation, to identify areas in which development has lagged and stimulate corrective measures, to remove anomalies and, on the basis of the extensive experience of recent years, to evolve general principles to govern future initiatives by the federal departments. What is required, in the federal government, is a central organization concerned with all aspects of federal-provincial relations and assisting ministers in the development of policy and in the review of administrative arrangements for co-operation.

The nucleus of such a group already exists in the Department of Finance. But the Federal-Provincial Relations Division in this Department has been developed primarily as a permanent conference secretariat concerned in the main with financial aspects of intergovernmental relations. Given enlarged terms of reference and the necessary additional staff, this group could be developed to serve the needs which have been pointed out in the foregoing pages:

- To review federal-provincial consultative and co-operative arrangements generally.
- To stimulate federal initiatives in areas where existing arrangements appear inadequate.
- To formulate general principles for the removal of existing anomalies and to guide future federal initiatives.
- To advise departments and the Treasury Board on the possible use of provincial administrative machinery to meet federal needs.

In putting forward these proposals, your Commissioners make no evaluation of the various administrative relationships established between the federal and provincial governments. Because these arrangements frequently give rise to questions of public policy, any such evaluation clearly lies beyond your Commissioners' terms of reference—as does the question of the boundaries of federal and provincial jurisdiction as defined by constitutional enactments and judicial decisions.

14 EDUCATION SERVICES

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REPORT 14: EDUCATION
SERVICES

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In the course of the inquiry your Commissioners also had occasion to draw on the detailed practical knowledge of school inspectors in British Columbia, Alberta and Manitoba.

Your Commissioners, in acknowledging the assistance and advice received, dissociate all the above-named persons from any findings and conclusions appearing in this report; for these, your Commissioners assume full responsibility.

1

INTRODUCTION

Under the *British North America Act*, general responsibility for education in Canada is assigned to the provinces, yet the federal government has been engaged on a rapidly increasing scale in recent years in providing direct education services to children and adults in schools of its own. These activities result from obligations to particular classes of the population for which the federal government considers it has a special responsibility. Further substantial expenditures are represented by a variety of grants and allowances related to education (including research) which are made to provinces, municipalities and school districts, or to universities and individuals.

The extent of federal involvement, accounting for ten per cent of all public money spent on education in Canada, is shown in Table 1 which is a summary of annual expenditures by main classes, based on the latest information

Table 1—SUMMARY OF FEDERAL EXPENDITURE ON EDUCATION

| | | |
|--|--------------|-----------------------|
| Federal schools and colleges | | \$ 53,955,000 |
| Aid to research in universities | | 15,865,000 |
| Educational information services | | 1,960,000 |
| Total direct costs | | \$ 71,780,000 |
| Grants and allowances to: | | |
| Provinces | \$48,450,000 | |
| Municipal and School authority | 13,280,000 | |
| Universities | 27,360,000 | |
| Individuals | 7,465,000 | 96,555,000 |
| Total | | <u>\$ 168,335,000</u> |

Table 2 — FEDERAL EDUCATION SERVICES AND EXPENDITURES

| Department | Services Provided | Grants and Other Subsidies | | | | Special Services | Dept'l Totals |
|----------------------------------|---|----------------------------|--|--------------------|---------|------------------|---------------|
| | | Federal Schools | Direct | In Aid of Research | | | |
| | | \$ | \$ | \$ | \$ | \$ | \$ |
| Agriculture..... | Aid of Research to Universities..... Two Schools in Isolated Posts..... | 10,000 | | 159,780 | | | 169,780 |
| CBC..... | School Broadcast Department..... | | | | | 1,029,970 | 1,029,970 |
| Citizenship and Immigration..... | Language and Citizenship Classes..... Indian Schools..... | 27,746,819 | 335,273 | | | | 28,082,092 |
| Civil Service Commission..... | 159 on Educational Leave (Service Departments)..... | | 517,000 | | | | 517,000 |
| Defence Research Board..... | Extramural Research by Universities..... | | | 1,690,000 | | | 1,690,000 |
| Dom. Bureau of Statistics..... | Education Division..... | | | | 164,000 | | 164,000 |
| External Affairs..... | External Aid Office..... | | 1,782,400 | | | | 1,782,400 |
| Finance..... | Common School Funds (Ontario-Quebec) Grants to Universities..... Educational Portion of Municipal Grants Educational Allowances for Children— Overseas..... Dependents on Crown Lands..... | | 133,888 27,243,000 11,708,000 104,472 52,919 | | | | 39,242,279 |
| Fisheries..... | Payment for Universities' Work..... | | 115,000 | | | | 115,000 |
| Forestry..... | Grants in Aid of Research..... | | | 11,600 | | | 11,600 |
| Justice..... | Academic-Vocational Training of Inmates..... RCMP University Training..... | 530,108 | 98,490 | | | | 628,598 |
| Labour..... | Tech.-Vocational Training Assistance Act | | 47,108,700 | | | | 47,108,700 |
| Mines and Technical Surveys..... | Grants in aid of research..... | | | 75,000 | | | 75,000 |

| | | | | |
|----------------------------------|---|------------|------------|-------------|
| National Defence..... | Civilian Instructors for Training..... | 859,494 | | |
| | Dental Officers Subsidization Plan..... | 204,033 | | |
| | Medical Officers Subsidization Plan..... | 107,705 | | |
| | Directorate of Naval Education..... | 671,200 | | |
| | ROTP—Services Colleges..... | 7,708,867 | | |
| | —Canadian Universities..... | 1,515,852 | | |
| | Education of Dependents—Overseas..... | 2,448,809 | | |
| | —Canada..... | 7,291,085 | | |
| | Training of Service Personnel in Universities..... | 1,443,143 | | 24,371,680 |
| | National Defence College..... | 603,000 | | 500,000 |
| National Film Board..... | Educational Films and Filmstrips..... | | | 9,000 |
| National Gallery..... | Literature and Lecture Tours..... | | | 50,000 |
| Public Archives..... | Educational Service..... | | | |
| National Health and Welfare..... | Consultant Services in Education..... | 14,000 | | 3,000,000 |
| | Grants in aid of research..... | | | 2,307,467 |
| National Research Council..... | Grants in Aid of research—Medical..... | | | 8,169,564 |
| | —Science..... | | | 10,477,031 |
| | (including NATO, Fisheries and Atomic Energy Board) | | | |
| Northern Affairs..... | Federal Schools in N.W.T..... | 6,944,392 | | 6,944,392 |
| Public Printing..... | Publications Educational Distribution..... | | 208,000 | 208,000 |
| Public Works..... | C.M.H.C. University Assistance..... | | 62,248 | 62,248 |
| Transport..... | Grants and Training..... | 1,012,310 | | 1,012,310 |
| Veterans Affairs..... | Correspondence Courses..... | 32,010 | | |
| | Children of War Dead Education..... | 442,700 | | |
| | University Training of Veterans..... | 206,179 | | |
| | Medical Research & Education..... | 389,000 | | 1,069,889 |
| | TOTAL..... | 53,954,280 | 96,555,060 | 1,960,970 |
| | | | 15,864,659 | 168,334,967 |

Note: Canada Council not included.

available, largely for the fiscal year 1960-61. A more detailed breakdown is given in Table 2 which shows that more than twenty federal departments and agencies are involved in expenditures on education.

In this report your Commissioners examine the management of these programmes, with special emphasis on those providing direct education services to particular groups of children and adults. These include:

- Indians in all parts of Canada.
- Residents of the Yukon Territory and the Northwest Territories, and Eskimos in Quebec and Manitoba.
- Children of Armed Services personnel, both in Canada and abroad.

For these classes, federal programmes provide primary and secondary education, with a limited amount of adult education. In addition, supplementary secondary education, technical training and university-level instruction are provided for members of the Armed Services and civilian employees of the government. Special programmes are designed to assist civil servants posted abroad, children whose fathers died in uniform, immigrants, and inmates of penitentiaries.

Financial support of education in general, and of educational institutions, is provided mainly through the following programmes:

- Research grants to universities and university students made by the National Research Council, the Defence Research Board, and other agencies.
- Grants to provinces to assist vocational training.
- Grants to universities, based proportionately on provincial populations.
- Grants to municipalities and school boards in lieu of local taxes on federal property.

The range and diversity of these activities are broad indeed, and the large number of departments involved has been noted. Because of this fragmentation, the total expenditures of the federal government in this field are not ordinarily calculated. No machinery exists to co-ordinate federal educational activities, and perhaps none is needed. But the rate of increase in the costs of direct programmes since World War II suggests that continuing vigilance may be required to avoid unwarranted extensions of federal responsibility.

Throughout this report, attention is drawn to various features of federal programmes that overlap or duplicate established provincial facilities. Some of these are unavoidable, at least for the present, but your Commissioners take the view that, wherever possible, existing provincial or local facilities should be employed to meet federal educational needs.

2

FEDERAL SCHOOLS FOR CHILDREN

From Inuvik in the northwestern Arctic, across the Canadian provinces, and to Sardinia in the Mediterranean, there are federal government schools manned by Canadian teachers, with a student population which approximated 84,000 children in 1960-61. Three federal departments are engaged:

| | <i>Number of Pupils</i> |
|---|-----------------------------|
| Department of Citizenship and Immigration— | |
| Indian Children | 43,100 |
| Department of National Defence— | |
| Children of Service Personnel | 36,000 |
| Department of Northern Affairs and National Resources— | |
| Children of Northern Residents, excluding those in the Yukon Territory | 4,900 |

In 1960-61 there were 3,469 teachers employed on terms similar to those in the Canadian school system, but extra costs are incurred in paying transportation and living allowances to those posted to isolated areas or abroad. Curricula are similar to those of provincial schools, and secondary education carries through to preparation for Canadian university entrance.

INDIAN SCHOOLS

The *Indian Act* confers on the responsible minister the power, subject to the concurrence of the Governor in Council, to operate schools or, alternatively, to arrange for the education of Indian children in schools of provincial or territorial governments or of religious and charitable organizations. Use is

made of all these facilities in varying degree. Of the 43,100 Indian children whose education is supervised by the Indian Affairs Branch of the Department of Citizenship and Immigration, approximately 32,000 are being taught in 1,200 elementary and 22 secondary classrooms operated by the Education Division of the Branch. Approximately 11,000 other Indian children attend provincial, territorial, or private schools at federal expense.

It is not generally appreciated that over ninety per cent of the Indian school population lives south of the 55th Parallel—a line running slightly north of Prince Rupert and Edmonton, passing through Flin Flon on the Saskatchewan-Manitoba border, separating James Bay from Hudson Bay, and approaching Schefferville on the Quebec-Labrador border. Most of these children live on the 2,226 Indian reserves within the provinces and, were they not wards of the federal government, their education would be the responsibility of the provinces. With the single exception of a school at Carcross in the Yukon, the school system of the Indian Affairs Branch is located entirely within the provinces. Throughout the northern territories, extensive use is made of the schools of the Department of Northern Affairs and National Resources and private institutions, but the Indian Affairs Branch provides living accommodation for Indian children in two hostels at Whitehorse and one in connection with the school at Carcross.

Within the provinces, as a result of a broad dispersal of the Indian school population and limited transportation facilities, about one-third of all children attending Indian schools are provided with board and lodging. The operation of residential facilities and the provision of transportation, often by air, between the hostels and the children's homes call for a substantial outlay, and the cost of the residential pupil is more than double that of a day-school child. A distribution, by grades, of Indian pupils attending the various classes of educational institutions is given in Table 3.

Educational Policy

Half a century ago there were fewer than 90,000 Indians in Canada, and their numbers were declining. Largely as a result of a dramatic improvement in health, the decline was arrested; already the Indian population has doubled in less than fifty years and is continuing to grow. This fact underlies the current educational policy of the Indian Affairs Branch. The doubling of Branch expenditure on education between 1956 and 1961 reflects the serious effort which is being made to equip Indian children for a fuller part in Canadian life. Looking to the integration of Indian pupils in non-Indian schools, wherever possible, educational programmes have been modelled on the curricula of the provinces. At present, the majority of Indian children

Table 3—ANALYSIS OF ENROLMENT OF INDIAN PUPILS 1960-61

| Classification of Pupils | Distribution by Grades | | | | | | | | | | | | | Technical | Professional | Not Graded | Total |
|--|------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-----|-----|-----|-----------|--------------|------------|-----------|
| | K | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | | | |
| At Day Schools... | 2,234 | 3,804 | 3,218 | 2,962 | 2,431 | 2,096 | 1,693 | 1,115 | 583 | 79 | 7 | — | — | — | — | — | 20,222* |
| Resident Boarders Attending Classes at Residential Schools | 480 | 1,206 | 1,252 | 1,243 | 1,169 | 1,013 | 865 | 620 | 492 | 304 | 134 | 70 | 59 | — | — | — | 8,907 |
| Day Pupils Attending Classes at Residential Schools | 197 | 424 | 322 | 297 | 255 | 249 | 204 | 118 | 96 | 7 | — | 4 | — | — | — | — | 2,173 |
| Attending Seasonal Schools | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — | 698 | 698 |
| Attending Hospital Schools | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — | 293 | 293 |
| Attending Provincial, Territorial and Private Schools | — | 1,540 | 1,019 | 1,064 | 1,008 | 967 | 924 | 931 | 796 | 904 | 550 | 343 | 202 | 22 | 438 | 114 | 10,822** |
| Total..... | 2,911 | 6,974 | 5,811 | 5,566 | 4,863 | 4,325 | 3,686 | 2,784 | 1,967 | 1,294 | 691 | 417 | 261 | 22 | 438 | 114 | 43,115*** |

* Includes 393 resident boarders attending Indian day schools

** Does not include 2,363 students for whom grading is not known

*** Does not include 1,263 non-Indians attending Indian schools

receive their high school education in non-Indian schools, and it is estimated that almost half those now enrolled in Indian schools will later attend non-Indian schools at some stage.

For these reasons, there is close co-operation between the Indian Affairs Branch and the educational authorities of the provinces. Teachers are recruited from the same sources as for provincial schools, common texts are used, school inspections are frequently carried out by provincial officers, and examinations are often a joint activity. Indian schools with sufficiently large enrolment offer practical arts courses, including home economics and industrial arts, which are essentially those offered in junior and senior grades of provincial high schools, adjusted to meet individual and community needs. The Indian Affairs Branch relies on provincial and private facilities for technical training and the education of handicapped children. In 1960-61 there were 31 Indian children in institutions for the deaf or blind.

Normally the language of instruction, either French or English, is that of the non-Indian communities surrounding the reserves. However, each Indian band and, in turn, each group within the band enjoy statutory discretions with respect to education. Thus, some Indian groups in French-speaking areas of Quebec have selected English as the language of instruction because, it is said, the children expect to seek work in due course in the United States! Provision is also made for segregation on religious grounds, and for the employment of teachers of the same faith as the pupils under their care.

Academic, professional or technical training beyond the secondary grades is financed by the Branch in individual cases. In 1960 there were 82 Indian students taking work beyond junior matriculation level, as well as 13 in teacher-training institutions.

The analysis of enrolment by grades in Table 3 shows, as might be expected with an increasing population, a heavy concentration in the lower grades which reflects the increasing momentum of the programme. But this concentration is, in part, a symptom of the problems of transportation and the economic stringency of Indian life. Table 4 analyzes school withdrawals according to age and grade. The drop-out rate below grade VIII and below sixteen years of age is very much heavier than in provincial schools. A major effort to reduce early drop-outs is needed if optimum use is to be made of federal expenditures on Indian education.

Teaching Staff

The teaching staff of the Indian Affairs Branch, as of March 1961, consisted of 1,342 full-time and 36 part-time teachers. Remuneration is related to

Table 4 — AGE-GRADE WITHDRAWALS FROM INDIAN SCHOOLS 1959-60

| AGE (At date of withdrawal) | Girls & Boys by Grade | | | | | | | | | | | | | |
|--------------------------------|-----------------------|----|----|-----|-----|-----|-----|-----|-----|----|----|----|----|-------|
| | Below 2 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | Total |
| 10 Years and under..... | 42 | 13 | 5 | 2 | — | — | — | — | — | — | — | — | — | 62 |
| 11 Years..... | 3 | 4 | 5 | 2 | 2 | — | — | — | — | — | — | — | — | 16 |
| 12 Years..... | 1 | 4 | 3 | 6 | 4 | 3 | — | — | — | — | — | — | — | 21 |
| 13 Years..... | 4 | 7 | 9 | 5 | 5 | 5 | 6 | — | 1 | — | — | — | — | 42 |
| 14 Years..... | 1 | 4 | 16 | 25 | 45 | 34 | 24 | 5 | 1 | — | — | — | — | 155 |
| 15 Years..... | 4 | 6 | 18 | 41 | 90 | 101 | 86 | 68 | 8 | 1 | 2 | — | — | 425 |
| 16 Years..... | 3 | 7 | 24 | 58 | 94 | 139 | 187 | 152 | 34 | 6 | 2 | — | — | 706 |
| 17 Years..... | 1 | 3 | 2 | 2 | 9 | 26 | 32 | 51 | 35 | 8 | 9 | — | — | 178 |
| 18 Years..... | — | — | — | 3 | 2 | 2 | 6 | 12 | 17 | 21 | 12 | 1 | — | 76 |
| 19 Years..... | — | — | 2 | — | — | — | 1 | 3 | 5 | 5 | 11 | — | 1 | 28 |
| 20 Years..... | — | — | — | — | — | — | — | — | 2 | 2 | 6 | 1 | — | 11 |
| 21 Years and Over..... | 2 | — | 1 | 2 | 1 | 1 | — | 1 | — | — | 1 | 2 | — | 11 |
| Total..... | 61 | 48 | 85 | 146 | 252 | 311 | 342 | 292 | 103 | 43 | 4 | 1 | 1 | 1,731 |

professional qualifications and length of experience. The scale starts at \$2,700, rising to \$7,750 for a teacher with six years' training beyond senior matriculation and having eleven years' experience. The current average salary of trained teachers is \$4,640 per annum, which is above the average salary of all the provinces save one. Teachers lacking professional training are paid in a range from \$2,000 to \$3,700 per annum.

Teachers contribute towards the general superannuation plan of the government and have the protection of the *Government Employees Compensation Act* against injuries suffered while on duty. They also qualify for civil service isolation allowances, ranging from \$200 for a single person to \$2,100 for a teacher with dependents. Transportation costs to isolated locations are also paid by the Branch, and air travel is necessary to reach areas having approximately ten per cent of the classrooms.

The recruitment of teachers occasions no greater difficulty than in rural school districts, although the schools in the south are more readily staffed than those that are more isolated. The annual turnover of teaching staff is approximately twenty-five per cent. Teachers may be recruited in one province and assigned to duties in another, a practice which facilitates matching the religion of teachers and pupils. All teaching appointments are made by the Minister of Citizenship and Immigration on the recommendation of departmental officers and, in recruiting, the Indian Affairs Branch receives active assistance from local church authorities with special interests in the Indian people.

The training and employment of Indians in the teaching profession is a significant and commendable development in Indian education. One hundred and twenty-one teachers, almost ten per cent of the present teaching staff, enjoy Indian status. In recent years, the number of Indians undergoing professional training has been approximately thirty, and the expectation is that the proportion of Indian teachers will continue to increase.

Education Costs

The policy of the Education Division of the Indian Affairs Branch is to provide for all elements of cost incurred in the operation of Indian schools. Thus, in addition to the usual expense represented by teachers' salaries, school-room accommodation, and hostel operation, there are supplementary expenses borne by the Branch Vote. Textbooks, stationery and supplies of all kinds cost \$400,000, sports equipment \$75,000, and nutritional supplements (biscuits and milk) approximately \$95,000, annually. The expenditures on Indian education, which have doubled during the past six years, are set out in Table 5.

Table 5—ANNUAL EXPENDITURES ON INDIAN EDUCATION BY THE FEDERAL GOVERNMENT

| Year | General Admini- stration | Day Schools | | Residential Schools | | Payments to Other Authorities | Total |
|---------------------------|--------------------------------|-------------|---------|---------------------|---------|--|--------|
| | | Operating | Capital | Operating | Capital | | |
| (in thousands of dollars) | | | | | | | |
| 1955-56..... | 144 | 2,946 | 1,851 | 5,423 | 2,224 | 832 | 13,420 |
| 1956-57..... | 177 | 3,800 | 1,901 | 5,739 | 2,086 | 1,060 | 14,763 |
| 1957-58..... | 229 | 4,081 | 2,884 | 6,090 | 2,654 | 1,519 | 17,457 |
| 1958-59..... | 279 | 5,159 | 3,427 | 8,536 | 2,869 | 1,982 | 22,252 |
| 1959-60..... | 314 | 5,645 | 3,113 | 9,342 | 4,241 | 2,252 | 24,907 |
| 1960-61..... | 359 | 6,138 | 4,500 | 10,600 | 3,308 | 2,834 | 27,739 |

The progressive increase in already large capital expenditures reflects the steady extension of operations, but there are grounds for fear that school construction by the Branch may, in fact, be hindering the process of integration. More rapid progress in the integration of Indian children into the public and high schools of the provinces should arrest the construction of new Indian classrooms.

Payments to other authorities for the tuition of Indian children attending non-Indian schools have risen from \$832,000 in 1955-56 to \$2,834,000 six years later, when they covered 10,800 pupils—an average of \$262.41 per pupil. In the Indian schools operated by the Branch, taking into account current capital outlays, the costs to the federal government in 1960-61 were \$512.63 per pupil in day schools and \$1,267 per pupil in residential schools.

Adult Education

A modest programme of adult education for Indians was instituted about five years ago and is now beginning to gain momentum. The programme, which is introduced on an Indian reserve only on request, covers four basic areas:

- Literacy training in English or French.
- Continuation or upgrading courses for young adults.
- Trade, vocational and apprenticeship training.
- Community improvement for those wishing to improve home conditions, village facilities or community life.

Courses are organized in the local school on the reserve or, alternatively, the participants are transported to outside schools for night classes. Classes are

established when a minimum of five persons enrol. In some cases, finances are provided for younger Indians attending regular or special courses in a nearby centre to prepare them for employment. In the most recent year for which statistics are available, 1,590 adults were taking advantage of these programmes, distributed as follows:

| | |
|---|-----|
| Literacy training | 421 |
| Continuation courses | 180 |
| Trade, vocational and apprenticeship training | 469 |
| Home and community improvement | 520 |

Conclusions

The administrative organization of the Education Division of the Indian Affairs Branch appears to be efficient, and current results are impressive. The policy of the Branch to improve the status of the Indian is amply reflected in the educational programmes.

Despite a heavy concentration of pupils in the lower grades and an unsatisfactory record of early drop-outs, evidence of real progress is afforded by:

- The increasing number of Indian children attending school.
- Longer attendance by Indians at non-Indian schools.
- The increasing proportion of Indian teachers, which is now ten per cent.
- The interest already developed in adult education programmes, which would have appeared impossible of achievement a generation ago.

Much remains to be done, however, before the general educational level of Indians can approach that of other Canadians. In education, as in health and hospital services which are dealt with in the report on *Health Services*, the great opportunity to effect improvement without enormous cost lies in making available to Indians the services regularly available to the rest of the population. For this reason, your Commissioners regard the more rapid development of school integration as worthy of top priority. The resultant economies are so great that the federal government cannot afford to suffer delay through protracted haggling over price with provincial authorities. In addition to arranging for the enrolment of increased numbers of Indian children in provincial schools, the transfer of existing Indian school premises for operation as integrated schools by provincial authority holds promise of substantial economies. Your Commissioners accordingly view with some concern the dimensions of current capital construction programmes, which—while

ameliorating current conditions—may create obstacles to the implementation of a long-term integration policy.

- We therefore recommend that:*
- 1 Efforts to integrate Indian school populations with provincial school systems be intensified and prosecuted on a continuing basis.
 - 2 In planning capital construction, present and projected long-term rates of integration be taken into account.
 - 3 New construction of Indian schools be limited to cases of long-term need.
 - 4 Special effort be directed to reducing the number of pupils withdrawing from Indian schools at early grades and ages.

NATIONAL DEFENCE SCHOOLS

The education of children of Service personnel is not a statutory federal obligation, but since World War II the Department of National Defence has assumed responsibility for dependents of Service personnel resident on Crown property or abroad. Approximately 70,000 servicemen are married, of whom some 27,000 live in quarters provided by the Department of National Defence in Canada which are not subject to municipal taxation. Military establishments are generally located in rural areas adjacent to towns or cities and as these establishments have grown, the educational needs of servicemen have generally exceeded the capacity of local facilities by a wide margin. To meet these needs, departmental schools have been constructed of standard design containing from six to nineteen classrooms. Canadian troops posted overseas have included many married men and provision has accordingly been made at several places in Europe for the education of their dependents, including the acquisition and staffing of both elementary and secondary schools.

In 1960, over 40,000 children of uniformed personnel (and of some civilian employees of the Department of National Defence) were receiving primary and secondary education at federal expense. In Canada, approximately 27,300 were being taught in about 100 schools operated by the department, and a further 5,700 were attending provincial schools at federal expense. In Europe, another 7,200 children of servicemen were enrolled in

departmental schools, with Canadian teachers and curricula. The annual cost of these programmes exceeds \$11 million, and the "fringe benefit" in the form of free education so provided is of substantial importance to the parents of these children.

Schools in Canada

Schools administered by the Department of National Defence which are located in Quebec and Newfoundland operate as private schools, but elsewhere the usual pattern of organization involves the formation of a public school or high school district under provincial laws, with a school board or official trustee registered with the provincial department of education. This entitles the boards to provincial grants and the schools to regular professional inspection, and permits the teachers to receive all the benefits of provincial employment. In some instances, the administration of a school on a particular station is assumed by a nearby civilian authority. The schools in British Columbia are operated by the province at provincial expense, and the Department contributes \$15 per pupil per month.

The administration of the Departmental school system is efficiently conducted by a Director of Educational Services attached to the Associate Deputy Minister's office in Ottawa. The operation is decentralized to a degree that is unusual in government departments. School principals have broader responsibilities than they would normally carry in most school systems, including the custody of substantial inventories of supplies. Arrangements with the provinces dispose of curriculum problems and provide for school inspection.

SCHOOL ATTENDANCE. Enrolment in any class from kindergarten to grade 13, provided the child is under 19 years of age, is open to:

- Children of Service personnel, and of civilians employed by the Department of National Defence in the district.
- Children of personnel of the Armed Services of allied countries, and of personnel employed by other government departments, if resident at the camp or station, provided that accommodation is available.

No charge is made for tuition of these classes. However, if there is surplus capacity, other children are sometimes admitted at the request of provincial authorities and are charged tuition fees comparable to those at other schools in the locality.

In the calendar year 1960, there were 27,341 elementary and secondary pupils in the Service schools in Canada. The 1,049 classrooms in operation

were staffed by 1,182 teachers. The teacher-student ratio of 1:23.13 is slightly more favourable than that prevailing in most provinces. In the same period, 3,720 elementary and 2,019 secondary pupils were attending civilian schools at federal expense.

OPERATING COSTS. The cost of operating Service schools in Canada is shown in Table 6, in which costs are analyzed by standard objects of expenditure and by Services, including the Defence Research Board.

Table 6—COST OF OPERATING SERVICE SCHOOLS IN CANADA
Calendar Year 1960

| | <i>Navy</i> | <i>Army</i> | <i>RCAF</i> | <i>Defence Research Board</i> | <i>Total</i> |
|----------------------------|----------------|------------------|------------------|---------------------------------------|------------------|
| | \$ | \$ | \$ | \$ | \$ |
| Salaries: | | | | | |
| Teachers..... | 240,000 | 2,227,270 | 2,312,380 | 48,286 | 4,827,936 |
| Others..... | — | 61,200 | 298,057 | — | 359,257 |
| School Supplies and | | | | | |
| Textbooks..... | 6,500 | 193,981 | 265,864 | 3,067 | 469,412 |
| Transportation..... | — | 47,842 | 40,534 | — | 88,376 |
| Construction..... | — | 1,490,839 | 1,434,604 | — | 2,925,443 |
| Heating..... | — | 171,863 | 131,810 | — | 303,673 |
| Maintenance and Repairs. | — | 162,727 | 100,443 | 8,173 | 271,343 |
| Electricity and Water..... | — | 69,867 | 21,505 | — | 91,372 |
| Sports Grants..... | 3,025 | 9,300 | 11,087 | 250 | 23,662 |
| Liability Insurance..... | 300 | 1,070 | 1,338 | — | 2,708 |
| Other..... | 2,100 | 11,446 | 17,112 | 500 | 31,158 |
| Total..... | 251,925 | 4,447,405 | 4,634,734 | 60,276 | 9,394,340 |
| Less— | | | | | |
| Provincial Grants..... | 42,500 | 1,038,013 | 1,006,694 | 15,948 | 2,103,155 |
| Net cost..... | 209,425 | 3,409,392 | 3,628,040 | 44,328 | 7,291,185 |

It will be seen that the gross operating costs are reduced by the amount of grants received from all provinces, except Quebec, Newfoundland and British Columbia. The basis on which these grants are paid varies widely from province to province, as do the operating costs of the schools. The receipt of over \$2 million annually is a unique instance of a provincial subsidy for a federal activity.

Teachers are employed on conventional contracts, and their remuneration, based on qualifications and experience, corresponds to that paid by the province in which the school is located; consequently there is considerable

variation in the salary structure across Canada. Certain perquisites—messing and accommodation—are granted to teachers in Service schools. No difficulty is experienced in securing the number of teachers required.

The gross operating costs shown in Table 6 total \$9,394,340, giving a cost per pupil of \$343 per annum. However, as the table indicates, the Departmental distribution of costs does not take into account certain elements of cost directly incurred by military establishments as part of their normal activities—Service pay and allowances, for example. Moreover, the practice of charging the total cost of construction during the year, while ignoring capital outlays in previous years, serves to distort cost information.

Payments to civilian schools for the tuition of Service children are not included in the costs shown in Table 6. In 1960, there were 3,720 elementary and 2,019 secondary school children attending local schools, and fees paid for their tuition exceeded \$1.5 million. These fees vary widely from province to province, ranging from \$2 to \$70 per pupil per month. An exception to the general rule for payment of such fees by the Department was noted in St. John's, Newfoundland, where the children of servicemen living in married quarters associated with Buckmasters' Field attend local schools at the expense of their parents.

The fees paid on behalf of each of the Services are as follows:

| | |
|--------------------------------|------------------|
| Royal Canadian Navy | \$ 144,000 |
| Canadian Army | 760,598 |
| Royal Canadian Air Force | 609,172 |
| Defence Research Board | 4,722 |
| Total | \$ 1,518,492 |

Schools Overseas

The overseas educational establishment of the Department of National Defence comprises thirteen schools in rented premises and three Canadian sections in other schools, which are located in England (1), France (6), Germany (7), Belgium (1), and Italy (1). A Superintendent of Schools with headquarters at Metz, France, is responsible for the supervision and inspection of these units and reports to the Director of Education Services in Ottawa. Annual costs approximate \$2.4 million.

SCHOOL ATTENDANCE. All children of Service personnel stationed overseas are eligible to attend these schools without charge. Free transportation is provided for those living off-station but, where distances are too great, educational allowances are paid to parents. A small number of other Canadian

children attend on payment of monthly fees of \$15 for elementary or \$20 for secondary school pupils. Textbooks, stationery and other supplies, including food supplements, are provided at federal expense.

At the time of the survey, 7,200 pupils were enrolled; about fifteen per cent were in secondary grades. There were 225 elementary and 67 secondary classrooms in use, with a total teaching staff of 380, mostly women. The over-all teacher-student ratio was 1:19.14. The ratio of 1:24.5 in elementary grades is just slightly more favourable than for most Canadian provinces. The ratio of 1:9.4 in secondary grades, which is less than half the normal provincial figure, results from relatively low enrolment and the demand for options in secondary programmes.

TEACHERS AND CURRICULA. Teachers are recruited by arrangement with local school authorities in Canada, and are generally seconded for two-year periods. The government reimburses the school boards for the remuneration of seconded teachers, who thus retain their status and superannuation benefits in their home provinces. Principals are paid \$9,000 per annum, and the ceiling for teachers is \$7,500. Transportation overseas of teachers and their dependents is provided free, and living quarters are supplied or an allowance paid in lieu thereof. As regards entitlement to privileges attaching to Service rank, teachers are treated as the equivalent of army captains, while principals rank as majors.

The curricula for grades 1 to 10 are composites of those of the several provincial departments of education. Grades 11 to 13 follow the Ontario curriculum. When there are at least 25 children of French-speaking parents in grades 1 to 3 (as a group), or in grades 4 to 8, instruction is given in French, if requested, following the Quebec curriculum. No vocational courses are offered, nor is any provision made for handicapped children. Examinations for grade 12 are approved by the Ontario Department of Education, and grade 13 students write papers set by that Department. Standings attained in overseas schools are normally accepted by local Canadian authorities.

OPERATING COSTS. The direct operating cost approximates \$2,450,000 annually, which is broken down into the more significant items of cost in Table 7.

The cost per overseas classroom was \$8,386, and the average cost per pupil was \$336, as compared with the cost of \$343 per pupil in the Service schools in Canada. However, the latter includes capital costs for construction during the year, and a more informative comparison is obtained by omitting the cost of accommodation; on this basis, the average cost per pupil was \$285 overseas as against \$212 in Canada.

Table 7—COST OF OPERATING NATIONAL DEFENCE SCHOOLS OVERSEAS
Calendar Year 1960

| | <i>Army</i> | <i>RCAF</i> | <i>Total</i> |
|---|----------------|------------------|------------------|
| | \$ | \$ | \$ |
| Teachers: | | | |
| Salaries | 601,580 | 1,018,251 | 1,619,831 |
| Transportation | 34,457 | 80,000 | 114,457 |
| Superannuation | 46,000 | 40,000 | 86,000 |
| Local Transportation for Pupils | 15,878 | 72,983 | 88,861 |
| Textbooks, Supplies and Equipment | 44,106 | 59,552 | 103,658 |
| Sports Equipment | 2,775 | 6,955 | 9,730 |
| Miscellaneous Grants | 2,500 | 2,896 | 5,396 |
| School Rentals | 193,727 | 200,465 | 394,192 |
| Dependent's Education Allowances | 800 | 25,884 | 26,684 |
| | <u>941,823</u> | <u>1,506,986</u> | <u>2,448,809</u> |

The most unfavourable aspect of this overseas educational programme is the low density of pupils in the secondary grades. If means could be found, without detriment to military effectiveness, to discontinue the overseas posting of personnel with children of high school age, educational needs could be limited to elementary instruction, and a substantial simplification of the operation would result in material savings.

General Observations

The Department of National Defence has become committed to the maintenance of an educational system accommodating some 40,000 children of Service personnel. There is no legislation on the subject, and practice is governed by Order in Council. Parliament votes the money required, now over \$11 million annually, without identification of the object of the expenditure, because the educational programme is part of the omnibus total required for the operation of the several Services. Having regard to the provisions of the *British North America Act* and other pertinent considerations, the efforts of the Department to secure provincial co-operation appear logical and necessary. Of the various arrangements in force, that with British Columbia seems the most desirable. In spite of the economical nature of the present departmental administration, your Commissioners would regard the wholesale adoption of such arrangements as an improvement.

Total annual expenditures on education by the Department of National Defence are so substantial that it is pertinent to question whether free educa-

tion should be provided to Service personnel merely because they are neither property owners nor tenants. The "shilling a day" soldier no longer exists, and free education is a fringe benefit which many Canadians may envy. While some circumstances create a special need, as in the case of Canadian children in Europe, the general question of entitlement to free education would be better dealt with by legislation than by Service regulations and Orders in Council.

NORTHERN SCHOOLS

Under the *Yukon Act* and the *Northwest Territories Act*, education is a territorial responsibility. The school system in the Yukon Territory is based on the British Columbia curriculum and administered by the resident Commissioner, who is the chief executive officer of the wholly elected territorial council, with little or no interference or advice from Ottawa. The Council of the Northwest Territories, comprising five members appointed by the federal government and four elected members, has similar power to make ordinances with respect to education, subject to the assent of the Commissioner. At present, the office of Commissioner is held by the Deputy Minister of Northern Affairs and National Resources, and the territorial school system is administered directly from Ottawa. The federal government has also assumed responsibility for all Eskimos, including those living in the provinces other than Newfoundland; the Eskimos and Indians of Labrador are a provincial responsibility. The population of the Northwest Territories proper, which approximates 23,000, includes some 9,000 children under fifteen years of age.

Your Commissioners are here concerned with the school system operated by the Department of Northern Affairs and National Resources, which covers the whole of the Northwest Territories and schools at Churchill, Manitoba, and in northern Quebec. The school at Old Crow in the Yukon Territory is included for geographical convenience. In September 1960, almost 4,900 children were attending these schools and were being taught in 184 classrooms, including 24 assigned to secondary grades. Currently, over fifty per cent of the pupils are in classes below grade 4, with a heavy concentration in grade 1. About twenty-four per cent of the school population are Indian and thirty-six per cent Eskimo.

Pupils

Since the end of World War II, the federal government has made a determined effort to attract children to northern schools. In 1950, approximately 1,100 were attending, and within five years the number had doubled; by

1959, there were 3,650 in the schools, and as of September 30, 1960, the enrolment was 4,870.

The Northwest Territories approximate 1,300,000 square miles in area, and consequently most of the children are either attending residential schools or living in hostels adjacent to schools. It costs approximately \$100,000 annually to bring the children from their homes and to return them at the end of school terms. Where a child cannot attend school, a correspondence course is offered. No fees are charged in the schools, and all textbooks, stationery and working materials are provided without charge.

Teachers

The salary range for teachers is from \$3,340 to \$9,300, depending on qualifications and experience, and the average salary paid is about \$4,450. In addition, the teachers qualify for civil service isolation allowances and are provided with living accommodation, and their transportation costs are borne by the federal government. At the time of the survey, 217 teachers were employed, and the average tenure of appointment was 2.2 years.

Curriculum

The school curricula of the provinces immediately to the south—Alberta, Manitoba, Ontario and Quebec (Protestant Committee on Education)—form the basis of the programmes in the Districts of Mackenzie, Keewatin and Franklin, and in Arctic Quebec, respectively. Nonetheless, the Department of Northern Affairs and National Resources has a curriculum staff of eleven, larger than that maintained by most provinces. The Department is concerned with developing deviations from provincial curricula in a manner which, to your Commissioners, appears unnecessarily elaborate and of doubtful utility. These activities are described by the Department in the following terms:

The Curriculum Section is working on programs of studies and appropriate instructional materials to meet particular needs of northern communities in both the Mackenzie and Arctic Districts. These programs and materials are designed to highlight and preserve as far as it is practicable, desirable features of northern native cultures, including that of the Eskimo. After a short period of experimental use, these programmes will replace the provincial curriculum now in use at the elementary levels in all northern schools.

The wisdom of abandoning links with provincial and Indian education seems questionable, and the projected development of an independent curriculum for the Northwest Territories will perpetuate what today appears to be an excessive concern with this subject. Present deviations from provincial curricula are already considerably more extensive than those developed within the Indian school system.

Vocational Training and Adult Education

In addition to regular academic courses, some northern schools offer vocational and technical instruction, including courses in building construction, mechanics, heavy equipment operation, home economics and commercial subjects. Over 100 pupils are taking these courses. Handicapped children are sent to provincial or private institutions.

A programme of adult education is under development within the Department, but is still in its infancy. By contrast with the adult education programme of the Indian Affairs Branch, which is modest and realistic, the Northern Affairs programme, as described by the Department itself, is elaborate, vague and confused. So far, there is little evidence that very much is being achieved, and your Commissioners are of opinion that a less pretentious and more practical approach is needed.

Administration

The school system is administered and, in general, directly operated by the Education Division of the Northern Administration Branch of the Department of Northern Affairs and National Resources. However, under a provision of the *Northwest Territories Act*, there are organized school districts in Yellowknife and Hay River which exercise a degree of local autonomy. The Indian Affairs Branch of the Department of Citizenship and Immigration has a continuing interest in over 1,100 Indian children attending school in the north. Thus, with the responsibility for some 1,800 Eskimo school children, the federal government is directly involved in the education of approximately sixty per cent of the school population, and has retained responsibility for the remainder. There is no deliberate racial segregation in northern schools, but there are communities where virtually the whole of the population is either Indian or Eskimo.

In contrast to the Indian and National Defence school systems, both of which are operated on a decentralized basis, the northern school system is weighed down by a heavy administrative superstructure in the Education Division of the Department of Northern Affairs and National Resources in Ottawa. The headquarters staff numbers 43, or one person for every 4.5 classrooms. The comparable ratio in the Indian Affairs Branch is one for every 23.5 classrooms, and a very much more favourable ratio is sustained in the Department of National Defence.

Costs

Federal expenditures on northern education are summarized in Table 8. Leaving aside construction costs, which are abnormally high because of the

remote locations of many schools, the operating cost per pupil in 1960-61 was approximately \$1,100. It must be remembered, however, that most of the pupils are housed and fed, and transportation costs are understandably large.

Table 8—DEPARTMENT OF NORTHERN AFFAIRS AND NATIONAL RESOURCES EXPENDITURE ON EDUCATION

| Year | Administration and Operating Costs | Construction | Total |
|---------------------------|--|--------------|--------|
| | (in thousands of dollars) | | |
| 1960-61 | 5,340 | 2,250 | 7,590 |
| 1961-62 | 6,100 | 2,000 | 8,100 |
| 1962-63 (Estimates) | 6,900 | 4,475 | 11,375 |

Conclusions

In developing educational facilities for children in the far north, it is necessary to maintain a proper perspective and sense of proportion. The territories are so geographically enormous and the population so widely dispersed that there is virtually no limit to the sums that could be spent on improving educational opportunities for the people. The Estimates for the fiscal year 1962-63 call for the spending of more than \$1,250 for each child in the north, although a significant proportion have no access to schools. Your Commissioners believe that, with the money now being spent, a much more effective job could be done if northern schools were administered in the north instead of from Ottawa. The practical touch is badly needed. Apart from the delays and frustrations occasioned by difficult and slow communications, effective delegation of authority to the territorial administration should rid programmes of unrealistic and sometimes pretentious adornments.

This change should be facilitated by the planned division of the Northwest Territories into two separate small territories. Virtually all the Indian and most of the white children attending northern schools are resident in the proposed Mackenzie Territory. Moreover, a large proportion of the white children are, in fact, of mixed blood and indistinguishable from their Indian neighbours except by the technicalities of the *Indian Act*. In the provinces, the policy of the Indian Affairs Branch is to integrate Indian education as rapidly as possible with the facilities available to the general population. Many Indians from primary schools go on to non-Indian secondary schools—a transition that is made possible by the use of common curricula. The policy of the Department of Northern Affairs and National Resources appears to take no

account of these advantages. Few Eskimos are indigenous to the Mackenzie Valley, and the development of independent curricula for elementary grades, with over-emphasis on the special needs of Eskimos, may well prove gravely disadvantageous to non-Eskimo children in later life.

- We therefore recommend that:*
- 1 The operation of the northern school system be transferred as rapidly as possible from the Department of Northern Affairs and National Resources in Ottawa to the several territorial administrations.
 - 2 The curricula used in northern schools be co-ordinated, as closely as possible, with those of the provinces immediately to the south of the several administrative districts.
 - 3 The northern adult education programme be revised on more practical lines and administered within the several northern districts.

3

MILITARY EDUCATION

A relatively high turnover of officers in the Armed Forces, coupled with early-retirement policies, results in a requirement by the Services for nearly 500 newly commissioned officers each year. To meet this need, under the Regular Officers Training Plan, the Department of National Defence operates three residential military colleges and finances the university education of other selected candidates for commissions in return for an agreed period of service (generally three years) in the Armed Forces after graduation. The Department also operates the National Defence College and, through the Directorate of Naval Education, provides academic education for some naval personnel.

MILITARY COLLEGES FOR OFFICER CADETS

The calendar of the Canadian Service Colleges for training officer cadets declares that the aim is:

To impart the knowledge, to teach the skills, and to develop the qualities of character, loyalty, and leadership essential to well educated and efficient young officers in preparation for a lifetime of service to Canada as officers of the Armed Forces. The educational and training programme seeks to develop in the officer cadets a true sense of values, to teach them to think effectively, to communicate their thoughts clearly and precisely, and to help them to develop their judgment.

Each year, between 135 and 140 officer cadets graduate from the Royal Military College at Kingston, Ontario, after completing a recognized university course in either arts, science or engineering. Not all the officer cadets take the whole four-year course at Kingston. Some attend the Canadian Service

College at Royal Roads, Victoria, B.C., for the first two years of the course. Others take the first two years at the Collège Militaire Royal, St-Jean, Quebec, after a one-year preparatory course. For all, the two final years of the course are taken at the Royal Military College at Kingston. Collectively, the colleges can accommodate 1,078 students and had an enrolment of 999 at September 1960. Table 9 shows the student distribution.

Table 9—CANADIAN SERVICE COLLEGES ENROLMENTS

September 1960

| College | Class Year | Courses | | | | | Total |
|--|------------|---------|------|-----------------|-----------------|-------------|-------|
| | | General | Arts | General Science | Honours Science | Engineering | |
| Royal Military College, Kingston..... | 1 | 70 | — | — | — | — | 70 |
| | 2 | — | 13 | 9 | 2 | 27 | 51 |
| | 3 | — | 34 | 37 | 9 | 94 | 174 |
| | 4 | — | 36 | 16 | 8 | 77 | 137 |
| | | | | | | | — 432 |
| Royal Roads, Victoria..... | 1 | 112 | — | — | — | — | 112 |
| | 2 | — | 10 | 14 | 1 | 40 | 65 |
| | | | | | | | — 177 |
| Collège Militaire Royal, St-Jean..... | Prep.* | 177 | — | — | — | — | 177 |
| | 1 | 133 | — | — | — | — | 133 |
| | 2 | — | 14 | 4 | — | 62 | 80 |
| | | | | | | | — 390 |
| | | | | | | | 999 |

* Senior matriculation is required at R.M.C. and Royal Roads for entrance, but candidates with junior matriculation are accepted at St-Jean; therefore the first year is preparatory.

Each of the colleges has a larger faculty in relation to the number of students than is customary in Canadian universities. At September 1960, the three military colleges had 183 instructors for 999 students, a ratio of one instructor for each 5.46 students. A ratio of one instructor for each 10 students is considered satisfactory in most Canadian universities, and in many the ratio runs as high as one to 14 or 15 students. Table 10 is an analysis of the status of the instructional staff at each of the colleges.

In addition to a greater density of teachers, the military colleges have instructional staffs of higher academic rank than those of Canadian universities in general, as shown in Table 11.

Table 10—CANADIAN SERVICE COLLEGES—INSTRUCTIONAL STAFF

| | <i>R.M.C. Kingston</i> (432 students) | <i>R.R. Victoria</i> (177 students) | <i>C.M.R. St-Jean</i> (390 students) | <i>Total</i> |
|----------------------------------|--|--|---|--------------|
| Civilians: | | | | |
| Professors..... | 23 | 11 | 19 | 53 |
| Associate Professors..... | 20 | 8 | 16 | 44 |
| Assistant Professors..... | 31 | 11 | 27 | 69 |
| Service: | | | | |
| Major (or equivalent rank)..... | 1 | 1 | 2 | 4 |
| Lieut. (or equivalent rank)..... | 12 | — | 1 | 13 |
| | 87 | 31 | 65 | 183 |

Table 11—CANADIAN SERVICE COLLEGES AND UNIVERSITIES, RELATIVE RANK OF INSTRUCTIONAL STAFF

| <i>Rank</i> | <i>Proportion of Faculty in Each Rank</i> | |
|---------------------------|---|-------------------------|
| | <i>Military Colleges</i> | <i>Canadian Average</i> |
| Professor | 31.9 per cent | 23.2 per cent |
| Associate Professor | 26.5 " " | 24.0 " " |
| Assistant Professor | 41.5 " " | 30.1 " " |
| Lecturer | | 19.0 " " |

The establishment for instructional staff is thus considerably more generous than in most Canadian universities. This is largely due to the small size of classes. The number of educational options available necessitates a large academic staff and, to achieve a generally acceptable level of academic costs, classes would have to be much larger than present enrolment permits. To correct this condition, the alternatives—neither of which may be practicable—are substantially to increase enrolment or to reduce the number of optional courses.

Apart from the relatively high density of instructors, the administrative and supporting staffs are widely out of line with general Canadian university practice. The total instructional and supporting staffs of the three colleges number 900—a staff-student ratio of 1 to 1.1, which is exceedingly high in relation to other Canadian universities. There are some special reasons for this; the colleges are residential institutions, where military discipline and practices apply, and governmental accounting and stores control procedures are more rigorous than those of universities in general. Nevertheless, a staff of 110 seems excessive to handle the food services at the Royal Military College for 432 cadets with their instructors and supporting staff.

It has been calculated from available accounts that the average cost per student at the Canadian Service Colleges is \$5,500 a year, but your Commissioners believe that the true amount would be shown to be much greater if all-inclusive cost calculations were practicable. Only forty-one per cent of the students who enrol in these colleges remain to graduate. Almost ninety per cent of those who do graduate and enter the Services make a military career their lifework. Taking the system as a whole, present expenditures appear to be out of all proportion to the results achieved. Only about 140 graduates a year are produced for an annual expenditure of more than \$6 million and, taking later losses into account, the cost of training each career officer who enters the Services through the colleges is approximately \$47,000.

Some considerable amelioration would be possible if these training activities could be concentrated within a single institution. However, the Collège Militaire Royal fulfils an essential function in a bilingual country, and its abandonment is impracticable. There is no equally valid reason for the continued operation of the college at Royal Roads, which has fewer than 200 students and offers only the first two years of the course.

- We therefore recommend that:*
- 1 The Canadian Service College at Royal Roads, Victoria, B.C., be closed.
 - 2 The government institute a critical review, preferably with outside assistance, of the size of the instructing, administrative and supporting staffs at the Canadian Service Colleges.

REGULAR OFFICERS TRAINING PLAN—UNIVERSITY STUDENTS

Of the five hundred newly commissioned officers needed annually by the Armed Forces, approximately one hundred are doctors and dentists; recruitment and military training in these professions are the subject of observations in the report on *Medical Services*. Of the remaining four hundred needed, the residential military Colleges are producing about one hundred and forty. Experience since World War II indicates that strong inducements are required to attract university graduates to a military career. Nevertheless, the Services look to the universities to supply about two hundred and fifty officers a year, other than medical and dental officers.

The Department of National Defence therefore advertises extensively for boys between the ages of 16 and 21, physically fit and single; in a recent year about \$200,000 was spent, or about \$235.00 for each applicant. Under the

plan for university entrance, the government pays tuition fees at a university of the candidate's choice, with an annual book allowance of \$75, and the candidate receives a living allowance of \$65 a month during the academic year and an annual stipend of \$756. In return, the candidate undertakes to engage in military training one evening a week during the university term and for ten weeks during the summer. Upon graduation, he is obligated to serve three years as a commissioned officer; should he resign earlier, he is expected to make a refund based on his length of service. Having completed three years' service, he is free to return to civilian life or to re-enlist. Relatively high losses are experienced at the end of the three-year period, but those who re-enlist generally make Service life a career. On this ground alone, therefore, consideration might well be given to a longer period of first enlistment.

As of March 31, 1961, there were 948 young men in university under the Regular Officers Training Plan, of whom 175 were destined for the Navy, 335 for the Army, and 438 for the Royal Canadian Air Force. As in the military colleges, the majority were taking engineering courses; the distribution by faculty was:

| | |
|------------------------|-----|
| Engineering | 567 |
| Science | 206 |
| Arts | 104 |
| Arts and Science | 54 |
| Commercial | 17 |

The average annual cost for each student exceeds \$2,000. The Services experience little difficulty in securing applications, but four out of five of those interviewed are rejected for one reason or another. Of those accepted, only fifty-three per cent ultimately become officers; the others fall out because of academic failure or for other reasons. The Department of National Defence spends more than \$2 million a year on this university programme, but it is not producing the desired number of university-trained men who are prepared to make a lifetime career in the Services. To many who participate, the plan is simply a means to finance their university education.

Nevertheless, it should be noted that, taking into account the rate of loss before and after graduation, the cost of training each career officer acquired by the Services through the university plan is about \$14,300—less than one-third of the cost of training an entrant through the military colleges. To point the comparison in another way, each \$1 million spent on the Canadian Service Colleges produces about twenty-one career officers and three other university graduates, while each \$1 million spent on the university scheme produces more than seventy career officers and thirty-five other university graduates for the general benefit of the Canadian economy.

Your Commissioners do not attempt to determine whether the Services actually need as many university graduates as they seek, or whether it is sound policy to require commissioned service for a minimum of only three years. However, it is obvious that the \$200,000 spent in advertising addressed to the public at large would be more effective if it were directly beamed at the potential market, at best a limited one; and it is clear that the government is reaping only a minimal return on its investment.

We therefore recommend that: An expert civilian-military committee be constituted to assess:

- a. the real needs of the Services for commissioned officers with university degrees; and
- b. ways and means of filling these needs at reasonable cost.

THE NATIONAL DEFENCE COLLEGE

The National Defence College at Kingston, Ontario, was established in 1947, and the first course was completed in 1948. The purpose is to provide training and education to selected officers and others to enhance their fitness for senior appointments. To this end, the course is designed to broaden and increase their knowledge and understanding of military, economic, political and organizational factors and relationships that contribute to modern defence policies. Twenty-nine senior executives attended the one-year course in 1960-61; they were nominated by:

| | |
|--|---|
| Royal Canadian Navy | 4 |
| Canadian Army | 4 |
| Royal Canadian Air Force | 4 |
| Defence Research Board | 2 |
| Royal Canadian Mounted Police | 1 |
| Department of External Affairs | 2 |
| Department of Finance | 1 |
| Department of Defence Production | 1 |
| Department of Labour | 1 |
| Civil Service Commission | 1 |
| United Kingdom and United States | 8 |

There were four full-time lecturers at the college, but the bulk of instruction was by eighty-nine visiting lecturers who participated in the 1960-61 course. Instructional costs approximated \$150,000. During the term, visits were made to North American and European points of military significance. The total

cost of the National Defence College is estimated at approximately \$600,000; of this amount, \$250,000 represented the pay and allowances of officers of the Services and official salaries of the Canadian civil servants who attended the course.

A college organized on these lines is considered essential in most countries where the defence effort requires co-operation between the Armed Forces, civilian administrators and industry. While no representatives from industry attended the 1960-61 course, two or more have participated in other years. Only senior officers are nominated by the Services and the average age of military participants at recent courses was 42; this means that the government frequently invests an additional \$12,000 in an officer during the last decade of his military career. Consideration should therefore be given to the selection of officers for the college as soon as possible after they are marked out for eventual promotion to senior appointments.

DIRECTORATE OF NAVAL EDUCATION

In a preparatory school at Esquimalt, B.C., operated by the Directorate of Naval Education, courses leading to junior and senior matriculation are offered to naval personnel seeking admission to a Canadian Service College, to a university, or to the development course at HMCS *Venture*, which is described below. At the preparatory school, an instructional staff of nine—three lieutenant-commanders and six lieutenants—is maintained, and the average annual operating cost is approximately \$1,900 per student.

The development programme at HMCS *Venture*, also at Esquimalt, is designed primarily to foster the education of potential naval aviators. Students are enrolled with junior matriculation as a minimum qualification, and the instruction covers a five-subject senior matriculation course prescribed by the British Columbia Department of Education, which leads to provincial examinations. The average number of students in attendance is 70, and the school staff comprises 22 officers, 42 enlisted men and 30 civilians—96 in all. With a staff-student ratio of 1:0.73, it is not surprising that the resultant operating cost of \$7,500 per student per year is fifty per cent higher than that for the university level education provided by the Canadian Service Colleges.

The Directorate of Naval Education also makes correspondence courses available to personnel of the regular and reserve naval forces, which lead to junior matriculation examinations in mathematics, English, French, physics and chemistry. In addition, the correspondence courses of the Department of Veterans Affairs are made available. Over 5,000 lesson exercises are marked annually, and the cost of this service is estimated at around \$10,000 a year.

The regular courses offered by the Directorate are available in the provincial school system of British Columbia. Moreover, various provincial departments of education provide adequate correspondence courses. The total cost is not readily established, because pay and allowances of both students and instructors are involved, but it is clearly excessive and, in the opinion of your Commissioners, the conduct of these educational programmes as a Service activity is unnecessary.

We therefore recommend that: The Directorate of Naval Education be abolished and provincial educational facilities be employed to the extent necessary.

15 HEALTH SERVICES

SERVICES FOR THE PUBLIC

REPORT 15: HEALTH SERVICES

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1

INTRODUCTION

The operation of hospitals and health services is basically a provincial responsibility, and the scale of provincial efforts in this field has been steadily expanding. The federal government has contributed support on an increasing scale, the total so expended in 1961-62 amounting to \$317 million. Notwithstanding the quickening tempo of provincial activity, the federal government has for various reasons developed its own programmes, costing about \$139 million in 1961-62.

While much activity is devoted to the health needs of particular classes of the population—veterans, Indians, Eskimos and servicemen—a significant proportion of these beneficiaries are now entitled as ordinary citizens to facilities under provincial jurisdiction. In the judgment of your Commissioners, the maintenance by the federal government of continually expanding machinery for health services, located almost entirely within the provinces, represents an example of duplication and waste from the national point of view. Continuation of present policies will necessitate very substantial federal expenditures for new facilities, and will compound the problems arising from unnecessary duplication.

Apart from treatment and hospitalization, some of the advisory and technical services now duplicate the efforts of the provinces. In health services, as in other areas noted in the reports of the Commission, many of the federal government's activities originated before the provinces had developed significant programmes of their own. As the level of provincial activity has mounted and direct responsibility has been assumed in provincial pro-

grammes, the federal government has shown a marked reluctance to withdraw from the field, and has tended to justify its continued participation by turning to research and relatively minor subsidiary operations.

In their very nature, parallel health and hospitalization programmes of the provinces and the federal government not only entail duplication and added costs, but serve to impede the development of a proper balance of facilities on a community basis. Your Commissioners believe that, in principle, these unfortunate results may be avoided only through the assumption by the provinces of the prime responsibility and the relegation of the federal government to the provision of necessary residual services.

THE HEALTH PROGRAMMES

This report deals with three major areas of federal activity: medical care and hospitalization of special groups, the promotion of public health, and programmes of a preventive nature. All three involve, to some degree, medical and allied research and investigation, and the compilation and analysis of health statistics.

Each of these is described briefly hereunder. The principal departments of the government engaged in providing health services are the Departments of National Health and Welfare, Veterans Affairs, and National Defence.

Medical Care and Hospitalization of Special Groups

The federal government is heavily involved in providing medical care to Indians, Eskimos, veterans, servicemen, members of the Royal Canadian Mounted Police, inmates of federal penitentiaries, seamen, lepers, and the white population of the Territories. Services to the Armed Forces personnel, veterans and native peoples account for all but a very small proportion of the total expenditures. All servicemen, veterans with service-incurred disabilities, veterans receiving War Veterans Allowances, and native people without means, receive medical care at the expense of the federal government. The majority receive hospital care in federal hospitals, but a significant number of each of these groups is treated in regular community facilities. To provide this care, the federal government employs over 19,000 persons, including 784 doctors and 2,800 nurses. Federal hospitals, with accommodation totalling approximately 12,300 beds, are operated in all provinces and territories except Prince Edward Island, and two facilities are maintained in West Germany. The estimated net total operating costs come to \$115.5 million. The clientele for these services includes over 200,000 Indians, Eskimos and residents of the Territories; 130,000 servicemen and Royal Canadian Mounted Police personnel; and about 200,000 veterans. All told, over half a million

Canadians look to the federal government to provide or finance their medical care. Federal hospital facilities are roughly equivalent to those of the province of Alberta, which serve a population almost two and one-half times as large.

Promotion of Public Health

Two means are employed by the federal government to aid the provinces in discharging public health responsibilities: financial aid and advisory or technical services. These programmes are conducted by a relatively small but expert group of about 500 persons, all employed in the Department of National Health and Welfare.

The largest component of financial aid is the assistance rendered to all provinces under the *Hospital Insurance and Diagnostic Services Act* of 1957, which provides for the sharing of the costs of provincially operated hospital insurance programmes. Federal contributions now total \$270 million annually and are fixed by formula.

The National Health Grant programme, initiated in 1948 and now providing about \$50 million annually, is to assist the provinces to develop and extend health facilities. These grants help finance hospital construction, tuberculosis control, mental health, professional training, cancer control, public health research, medical rehabilitation, crippled children, and child and maternal health. In the main, the grants are made to hospitals and individuals on a shared-cost basis with the province.

In addition to these programmes, advisory and technical services are provided to the provinces and to federal agencies. The services include advice on the assessment of hospital facilities, the initiation of new programmes, and the raising of existing programmes to adequate standards. The units engaged in these services undertake, as well, specific research programmes.

Preventive Measures

There are three programmes which have as their purpose the prevention of disease, all carried out by various units of the Department of National Health and Welfare. The first is concerned with examining people, ships and aeroplanes to ensure that communicable diseases are not brought into the country; that immigrants meet proper health standards; and that civilian air personnel are in good physical condition. Some 350 medical staff are employed across Canada and in certain countries abroad.

The second programme, administered by the Food and Drug Directorate, is designed to control the safety, purity and quality of foods, drugs, cosmetics and therapeutic devices sold or manufactured in Canada. A staff of about 400 are engaged in this work throughout Canada.

Table 1—COSTS OF HEALTH PROGRAMMES¹—1961-62—(Estimates—\$ millions)

| | <i>Expenses</i> | | <i>Revenue</i> | <i>Net Cost \$ millions</i> |
|--|------------------|---------------------|----------------|---------------------------------|
| | <i>Operating</i> | <i>Construction</i> | | |
| <i>Medical Care and Hospitalization to Specific Groups</i> | | | | |
| Veterans ² | 68.4 | 5.3 | 16.8 | 56.90 |
| Indians, Eskimos and population of Territories..... | 22.9 | 2.1 | 2.5 | 22.50 |
| Servicemen ³ | 37.0 | — | 1.2 | 35.80 |
| Lepers, Seamen, Inmates of federal penitentiaries ⁴ .. | .8 | — | .5 | .30 |
| SUB-TOTAL..... | 129.1 | 7.4 | 21.0 | 115.50 |
| <i>Preventive Programmes</i> | | | | |
| Food and Drugs..... | 2.6 | — | — | 2.60 |
| Emergency Health..... | 6.7 | — | — | 6.70 |
| Quarantine and Immigration ⁵ | 3.0 | — | — | 3.00 |
| Civil Aviation Medicine..... | .2 | — | — | .20 |
| SUB-TOTAL..... | 12.5 | — | — | 12.50 |
| <i>Promotion of Public Health</i> | | | | |
| Consultant and Advisory Services..... | 3.7 | — | — | 3.70 |
| Civil Service Health..... | .5 | — | — | .50 |
| SUB-TOTAL..... | 4.2 | — | — | 4.20 |
| <i>Research</i> | | | | |
| Department of Veterans Affairs..... | — | — | — | .40 |
| National Health Grants (National Health and Welfare)..... | — | — | — | 5.70 |
| Defence Research Board..... | — | — | — | 1.60 |
| Medical Research Council..... | — | — | — | 3.30 |
| The Queen Elizabeth Fund for research into diseases of children..... | — | — | — | .05 |
| SUB-TOTAL..... | — | — | — | 11.05 |
| <i>Other Health Costs</i> | | | | |
| Administration — Dept. National Health and Welfare (one-half of total)..... | — | — | — | .90 |
| National Health Grants (Dept. National Health and Welfare) (less research grants)..... | — | — | — | 24.30 |
| Hospital Construction Grants (Dept. National Health and Welfare)..... | — | — | — | 17.00 |
| Contributions to provinces under Hospital Insurance and Diagnostic Services Act..... | — | — | — | 270.00 |
| Grants to Health Organizations (Dept. National Health and Welfare)..... | — | — | — | .20 |
| SUB-TOTAL..... | — | — | — | 312.40 |
| GRAND TOTAL COST..... | | | | 455.65 |

¹These figures are estimates, compiled from various sources by Commission staff. Precise figures, particularly in the case of the Armed Forces, are not available.

²Includes Prosthetics Services, salaries of medical personnel only for Canadian Pension Commission, and three-quarters of cost of D.V.A. Administration Branches.

³Dental Corps not included.

⁴Costs for services to lepers included with Quarantine and Immigration (costs very small).

Costs for staff salaries Sick Mariners' services included with Quarantine and Immigration. Salary costs only shown for services to inmates of federal penitentiaries.

⁵Includes also expenses for lepers and salary costs of Sick Mariners' services.

Table 2—FEDERAL PERSONNEL ENGAGED ON HEALTH PROGRAMMES¹—1961-62

| | <i>Doctors</i> | <i>Nurses</i> | <i>Others</i> | <i>Total</i> |
|--|----------------|---------------|---------------|--------------|
| <i>Medical Care and Hospitalization to Specific Services²</i> | | | | |
| Veterans ³ | 210 | 1,670 | 9,940 | 11,820 |
| Indians, Eskimos plus population of Territories..... | 110 | 630 | 1,830 | 2,570 |
| Servicemen ⁴ | 460 | 500 | 3,780 | 4,740 |
| Inmates of federal penitentiaries..... | 4 | — | — | 4 |
| SUB-TOTAL..... | 784 | 2,800 | 15,550 | 19,134 |
| <i>Promotion of Public Health</i> | | | | |
| Consultant and Advisory Services..... | 30 | — | 406 | 436 |
| Civil Service Health..... | 6 | 50 | 26 | 82 |
| SUB-TOTAL..... | 36 | 50 | 432 | 518 |
| <i>Preventive Programme</i> | | | | |
| Food and Drugs..... | 1 | — | 372 | 373 |
| Emergency Health..... | 4 | — | 38 | 42 |
| Quarantine and Immigration ⁵ | 107 | 60 | 169 | 336 |
| Civil Aviation Medicine..... | 5 | — | 12 | 17 |
| SUB-TOTAL..... | 117 | 60 | 591 | 768 |
| Other ⁶ | — | — | 175 | 175 |
| TOTALS..... | 937 | 2,910 | 16,748 | 20,595 |

¹These figures represent authorized establishment, not actual strength—strengths are in most cases lower, particularly in the Canadian Forces Medical Services.

²Figures rounded.

³Includes doctors attached to Canadian Pension Commission (58), and three-quarters staff of Departmental and District Services Administration units.

⁴Dental Corps not included.

⁵Includes staff for services to lepers and seamen.

⁶One-half of Administration Branch staff, Department of National Health and Welfare.

The third programme is one of assisting provincial and municipal governments to organize, prepare and operate health facilities for use in national emergencies. This function is carried out by 42 members of the Emergency Health Services Division.

COSTS AND PERSONNEL

In Table 1 the costs of the various health programmes are shown, with a subdivision into operation and construction costs, grants and research funds. The number and salary costs of staff are listed in Table 2.

2

MEDICAL CARE AND HOSPITALIZATION OF SPECIAL GROUPS

The special groups for whom the federal government assumes responsibility in health matters number more than half a million people. Their medical care is provided by the Departments of National Health and Welfare, Veterans Affairs, National Defence, and the Office of the Commissioner of Penitentiaries.

These health services must be viewed against the background of the recent substantial development of community health services. Until the post-war period, medical and hospital care in Canada was not well organized. Government controls and support were minimal and standards of medical care varied widely. Hospitals were hard put to balance their budgets; stability in operating income was not to come until the late 1950's, with the advent of the Hospital Insurance and Diagnostic Services Act, which provided for federal-provincial support for hospitalization.

In the face of a general shortage of hospital facilities in Canada in the post-war period, the federal government, enlarging from year to year its area of accepted responsibility, had no alternative but to undertake construction of hospitals on a large scale. Having built the necessary facilities, it has proceeded to operate them as federal institutions (*see* Table 3).

Most of the accommodation consists of active treatment beds, with all the diagnostic and ancillary services required for acute cases. The cost of this programme is not readily ascertainable, but the present replacement value of the federal hospitals is upward of \$250 million.

Developments in the past ten years have substantially altered the picture. Under the stimulus of generous construction grants, community facilities have

Table 3—FEDERAL HOSPITALS—RATED BED CAPACITY, DECEMBER, 1961¹

| <i>Hospital</i> | <i>Location</i> | <i>December 1961 Rated Bed Capacity</i> |
|---|---------------------------------|---|
| <i>Department of Veterans Affairs</i> | | |
| Camp Hill..... | Halifax, N.S..... | 410 |
| Lancaster..... | Saint John, N.B..... | 400 |
| Ste. Foy..... | Quebec City, P.Q..... | 325 |
| Queen Mary..... | Montreal, P.Q..... | 700 |
| Ste. Anne's..... | Ste. Anne de Bellevue, P.Q..... | 1,200 |
| Sunnybrook..... | Toronto, Ont..... | 1,563 |
| Westminster..... | London, Ont..... | 1,520 |
| Deer Lodge..... | Winnipeg, Man..... | 640 |
| Col. Belcher..... | Calgary, Alta..... | 400 |
| Shaughnessy..... | Vancouver, B.C..... | 950 |
| Veterans Hospital..... | Victoria, B.C..... | 300 |
| Regina General ² | Regina, Sask..... | 186 |
| University of Alberta Hospital ² | Edmonton, Alta..... | 318 |
| TOTAL D.V.A. BEDS..... | | 8,912 |
| <i>Department of National Health and Welfare, Indian and Northern Health Services</i> | | |
| Frobisher Bay..... | Frobisher, N.W.T..... | 13 |
| Lady Willingdon..... | Oshweken, Ont..... | 36 |
| Moose Factory..... | Moose Factory, Ont..... | 168 |
| Sioux Lookout..... | Sioux Lookout, Ont..... | 72 |
| Assiniboine ³ | Brandon, Man..... | 227 |
| Clearwater Lake ³ | The Pas, Man..... | 155 |
| Fisher River..... | Hodgson, Man..... | 15 |
| Fort Alexander..... | Pine Falls, Man..... | 16 |
| Norway House..... | Norway House, Man..... | 39 |
| Fort Qu'Appelle..... | Ft. Qu'Appelle, Sask..... | 104 |
| North Battleford..... | N. Battleford, Sask..... | 50 |
| Blackfoot..... | Sleichen, Alberta..... | 27 |
| Blood..... | Cardston, Alberta..... | 39 |
| Charles Camsell..... | Edmonton, Alta..... | 480 |
| Hobbema..... | Hobbema, Alta..... | 16 |
| Inuvik..... | Inuvik, N.W.T..... | 100 |
| Whitehorse..... | Whitehorse, Yukon Terr..... | 120 |
| Coqualeetza..... | Sardis, B.C..... | 187 |
| Miller Bay..... | Prince Rupert, B.C..... | 175 |
| Nanaimo..... | Nanaimo, B.C..... | 200 |
| TOTAL I.N.H.S. BEDS..... | | 2,234 |

| <i>Hospital</i> | <i>Location</i> | <i>December</i> |
|---|-------------------------------|---------------------------|
| | | <i>1961</i> |
| | | <i>Rated Bed Capacity</i> |
| <i>Department of National Defence⁴</i> | | |
| R.C.A.F. Station..... | Goose Bay, Labrador..... | 35 |
| Can. Forces Hospital..... | Halifax, N.S..... | 150 |
| R.C.N. Hospital..... | H.M.C.S. Cornwallis, N.S..... | 35 |
| Can. Forces Hospital..... | Rockcliffe, Ont..... | 125 |
| Can. Forces Hospital..... | Ottawa, Ont..... | 320 |
| Can. Forces Hospital..... | Kingston, Ont..... | 125 |
| Ft. Churchill Hospital..... | Ft. Churchill, Man..... | 70 |
| R.C.A.F. Station..... | Cold Lake, Alta..... | 50 |
| R.C.N. Hospital Naden..... | Esquimalt, B.C..... | 100 |
| Canadian Section, B.M.H. Iserloka..... | West Germany..... | 125 |
| R.C.A.F. Hospital 3 Fighter Wing..... | West Germany..... | 70 |
| TOTAL D.N.D. BEDS..... | | 1,205 |
| TOTAL ALL DEPARTMENTS..... | | 12,351 |

¹Infirmaries on military bases and in penitentiaries are excluded. Table completed by Commission staff, and based on departmental returns.

²The beds specified are in veterans pavilions which, although attached to and dependent upon public hospitals for certain services and facilities, are owned and largely staffed by the Department of Veterans Affairs.

³These institutions are operated by the Sanitarium Board of Manitoba for the Indian and Northern Health Service. The Assiniboine Hospital is soon to be transferred to Manitoba.

⁴In addition to the hospitals specified under the Department of National Defence, it operates and staffs wards for military personnel in three D.V.A. hospitals. The number of D.N.D. beds (which are included in the total shown for each hospital) are 77 in Ste. Foy, 83 in Sunnybrook, and 43 in Westminster Hospital.

been greatly enlarged through the provision of additional hospital beds. The jointly financed hospital insurance plans have all but cured the deficit operations of community hospitals, and the standard of care has risen appreciably and become more consistent across the land. Most significantly, the great bulk of the population has gained access to hospital service as a matter of right and at a very modest personal cost.

WAR VETERANS

The Canadian Expeditionary Force in the first World War suffered heavy casualties. It became apparent that existing hospital accommodation in Canada was insufficient to care for the seriously wounded through their period of recovery. To meet this need, federal hospitals were established in various parts

of Canada. The expectation that they would be needed for a limited period was reflected in the conversion of some old buildings to hospital purposes and the building of new semi-permanent structures. This hope proved illusory, and at the outbreak of World War II many of these facilities, by then seriously inadequate, were still in active use.

It was expected that the casualties of World War II would be substantially more than in the earlier conflict. Fortunately, in spite of a heavier enlistment, this assumption proved false. However, a programme of new hospital construction was undertaken on a large scale, and since the end of the war the older hospitals have been either replaced or largely rebuilt. Currently there are eleven veterans' hospitals, with a total capacity of 8,408 beds. There are, in addition, veterans' pavilions attached to two general hospitals, two health and occupational centres with 385 beds, and two homes accommodating 135 veterans.

The standards of medical care in these hospitals have been high. The hospitals have always operated between the wars with local practitioners serving on a part-time basis for modest fees. With the expanded programme resulting from World War II, the major element of professional care is still supplied, again on a part-time basis, by leading members of the medical profession. The affiliation of many of these hospitals with local medical schools and their consequent involvement in teaching and research guaranteed a standard of care equal to that in the best of the hospitals in the country. However, for reasons mentioned later, this situation is not likely to endure.

Supplementing the present attending and consulting staffs in veterans' hospitals are 165 employed doctors, 35 dentists and 1,650 nurses. These, together with administrative and service personnel totalling 8,600, are civil servants.

The annual cost of operating the veterans' hospital programme is approximately \$50 million. This does not include charges to votes of other departments or indirect costs, but it does include the cost of care of certain veterans who enter public hospitals because access to a federal hospital is not readily available.

The original aim was to provide for the grievously wounded. Treatment facilities in the expanded programme resulting from World War II were designed for the care only of veterans with pensionable disabilities. Today, however, the class of patient and the nature of the malady of the typical case in hospital are radically different. No less than seventy per cent of the case load now consists of chronic cases or those in need of no more than domiciliary care. Under existing policies this percentage will progressively

increase. In the main, chronic and domiciliary care is being provided to veterans whose fighting days ended in 1918 or earlier. The veterans of World War II and Korea, in substantially greater numbers, have still to come. Without any further liberalization in the conditions of entitlement, and assuming a recurrence of past patterns, it is estimated by officers of the Department of Veterans Affairs that the case load will double, with the peak to be reached in 1980 (*see* Table 4). Thereafter numbers will decline

Table 4—PROJECTION OF MALE VETERAN POPULATION FROM 1951-1981 AND VETERANS ENTITLED TO TREATMENT UNDER VETERANS TREATMENT REGULATIONS FROM 1961-1981.

| <i>Year</i> | <i>Disability Pensioners¹</i> | <i>Veteran Recipients²</i> | <i>Veterans Living</i> |
|-------------|--|---------------------------------------|------------------------|
| (thousands) | | | |
| 1951..... | 162 | 31 | 1,170 |
| 1956..... | 160 | 37 | 1,117 |
| 1961..... | 153 | 49 | 1,051 |
| 1966..... | 137 | 46 | 970 |
| 1971..... | 118 | 47 | 876 |
| 1976..... | 97 | 55 | 770 |
| 1981..... | 77 | 79 | 656 |

¹Entitled to treatment for service incurred disabilities.

²Entitled to medical care and hospitalization.

Table 5—EXPENDITURE FOR HOSPITAL CONSTRUCTION, YEARS ENDING MARCH 31, 1951-1961, AND PROJECTED EXPENDITURES TO 1968.

| <i>Year</i> | <i>Expenditure</i> | <i>Year</i> | <i>Expenditure</i> |
|--------------------|--------------------|-----------------------|--------------------|
| 1951 (Actual)..... | \$3,008,426.00 | 1960 (Actual)..... | \$3,742,116.00 |
| 1952 (Actual)..... | 3,267,190.00 | 1961 (Actual)..... | 5,407,272.00 |
| 1953 (Actual)..... | 3,550,182.00 | 1962 (Forecast)..... | 4,670,000.00 |
| 1954 (Actual)..... | 3,552,837.00 | 1963 (Estimated)..... | 3,800,000.00 |
| 1955 (Actual)..... | 3,265,330.00 | 1964 (Projected)..... | 4,180,000.00 |
| 1956 (Actual)..... | 3,094,780.00 | 1965 (Projected)..... | 5,300,000.00 |
| 1957 (Actual)..... | 3,989,162.00 | 1966 (Projected)..... | 4,600,000.00 |
| 1958 (Actual)..... | 2,642,769.00 | 1967 (Projected)..... | 4,200,000.00 |
| 1959 (Actual)..... | 2,703,597.00 | 1968 (Projected)..... | 1,400,000.00 |

NOTE: The projected expenditures for fiscal years 1963-1968 include 14 million dollars for construction of improved facilities at Montreal, Ste. Anne de Bellevue and Saskatoon. The construction planned for these locations will replace obsolete and inadequate facilities but does not represent any increase in total accommodation.

rapidly and demand will disappear in a few years. The veterans' hospitals, containing upward of 16,000 active treatment beds (unless present policies are changed), will then become surplus to government requirements.

The capital outlays ahead are formidable sums to contemplate: 8,500 new beds at present costs of \$23,000 each will require a minimum expenditure of nearly \$200 million (*see* Table 5). Operating budgets may be expected to more than double in view of the steadily rising costs of hospital operation. Expenditures of this magnitude to provide active treatment beds to house chronic and homeless veterans appear unwise from every standpoint. The cost of providing suitable accommodation and care in properly designed domiciliary institutions represents fifty per cent or less of the capital investment required, and a smaller percentage of the operating costs of active treatment hospitals.

Further consequences of the change in the nature of the patient population of these hospitals have serious implications both for operating costs and the quality of medical care available. As the case load changes, the difficult and challenging problems resulting from combat disabilities give way to the routine chores of caring for a group of elderly males suffering from chronic illness, senility or general decrepitude. Such cases have limited medical interest and little value for teaching purposes. The probability is that, progressively, medical care will have to be provided by fully-employed doctors. If so, costs will rise materially and the standard of care is bound to decline. As matters now stand, the prospect is that by 1980:

- An additional \$200 million will have been spent to double the present bed capacity.
- The operating budget will have risen to over \$100 million annually.
- The hospitals will be almost wholly occupied by patients requiring only domiciliary care.
- The quality of medical care will have fallen from the high standards originally achieved.

Reference has been made to the original intent that these hospitals should serve the war veteran who returned to Canada with service-incurred disabilities. Today this group represents but ten per cent of the patient population and the proportion continues to decline. Over the years the doors have been thrown open to a wide range of non-service disability cases, and some members of other groups for whom the government assumes direct responsibility have been admitted to keep up hospital occupancy. The average case

load in these hospitals today subdivides broadly into the three following categories:

| | |
|--|-------|
| Veterans with service disabilities (but not necessarily being treated for such disability) | 10% |
| Veterans admitted as pay or part-pay patients; sick and injured members of the Armed Forces and the R.C.M.P.; Indians, Eskimos, sick mariners, etc. | 25% |
| Veterans in receipt of war veterans' allowances (low income veterans) | 65% |
| | <hr/> |
| | 100% |
| | <hr/> |

Currently, the majority are World War I veterans who are in hospital for reasons other than war disabilities. The *Department of Veterans Affairs Act* permits the Governor in Council to define the persons who may be admitted to the hospitals and, as beds available progressively out-numbered the requirements for war disability cases, Orders in Council have broadened eligibility for admittance and free treatment. It is not inappropriate to regard the situation as out of balance. Since 1957-58, provincial hospitalization insurance plans (supported by federal contributions) have offered protection to all Canadians whenever the need for hospitalization arises. Where domiciliary care, as in this instance, is the primary need, it is generally agreed that it is a costly misapplication of facilities to provide such care for extended periods of time in acute-care hospital beds.

As the problem of care for the old without adequate means has developed in respect of veterans, so has it been increasingly accepted as a community responsibility for the population at large. Prompted finally by the need to exclude such persons from active treatment community hospitals in order to accommodate the seriously ill, and assisted by the increases in old age pensions, there has been a growing programme of facilities for domiciliary care of the indigent. Federal policy must take note of this trend and, from every point of view, the avoidance of further duplication of facilities is to be desired. The interests of the federal government and the communities coalesce at another point—in the existence of over 6,000 active beds in federal hospitals not occupied by acute cases while, in most communities, there is still a substantial shortage of such accommodation.

Should accommodation in the federal hospitals again be restricted to veterans with pensionable disabilities, one of the larger existing hospitals could

theoretically accommodate them all. For geographical reasons, such a solution is impracticable. However, patients in this category are already being accommodated in public hospitals at federal expense and such practice might be advantageously extended, with a view to bringing about a reasonable consolidation of federal hospital activities, which would make much needed acute facilities available to communities.

The more immediate problem is, of course, the chronic and domiciliary care class, both present and future. The extent of federal responsibility is a question of policy; your Commissioners are concerned only with the means adopted to carry out policy. It is difficult to imagine a more costly solution than that embodied in present practice. Your Commissioners' first conclusion is that there should be no further construction of active treatment hospitals. To the extent that federal responsibilities dictate new construction, it should be of the domiciliary institution type. In view of the limited period in which these facilities will be required by veterans, they should be either of temporary construction or designed for adaptation to general community needs.

Of these alternatives, the latter appears to your Commissioners to be preferable. The *British North America Act* assigns to the provinces "the establishment, maintenance, and management of hospitals, asylums, charities, and eleemosynary institutions in and for the province, other than marine hospitals." Experience built up in this type of care has largely been achieved as a result of the work of the Department of Veterans Affairs. It would seem logical for the Department of Veterans Affairs to undertake further study in the field of domiciliary care facilities. The total load of patients required would not be great and they could be selected from the original group covered—the pensionable veteran. To the degree that there is federal responsibility for the aging and indigent veteran, it would seem more appropriate that the government contribute towards construction of the appropriate facilities by local authority or the provinces, rather than undertake further construction itself to meet a transient need.

The policy envisaged is a gradual integration of federal and community facilities and the eventual withdrawal by the federal government from the operation of veterans' hospitals, hostels or homes. There is no doubt that hospital care in provincially supervised institutions has reached an adequate level for any treatment needs of those veterans with service-incurred disabilities—a class for which the federal government must have the most direct concern. Moreover, in the process of integration, the transfer of federal facilities can be made on terms that assure priority of admission for this group.

Because of the varying conditions in communities where federal hospitals are situated, the problem will have to be approached city by city. An opportu-

nity for integration now exists in Victoria, B.C., where the Armed Forces have immediate need of 100 to 125 active beds. There is a veterans' hospital in the city with 300 such beds, at present occupied to the extent of eighty per cent by chronic or domiciliary care cases. An effective solution which would avoid construction of a new Armed Forces active hospital is to be found by turning over the veterans' hospital to the community, reserving the necessary accommodation for Armed Forces personnel on a priority basis, and erecting a suitable institution to provide, under community management, domiciliary care for the displaced veterans and possibly others. The gains to all would be substantial.

- We therefore recommend that:*
- 1 No further hospitals be constructed by the government as active treatment hospitals for war veterans.
 - 2 Progressively, the treatment of veterans with pensionable disabilities be transferred to public hospitals, with the cost borne by the federal government.
 - 3 Veterans with major pensionable disabilities, who require chronic or domiciliary care, continue to be a federal responsibility.
 - 4 Veterans without major pensionable disabilities now receiving chronic and domiciliary care at public expense be progressively transferred to community facilities under such financial arrangements as may be expedient.
 - 5 Active treatment hospitals now operated by the Department of Veterans Affairs, when cleared, be sold and converted into community hospitals under transfer agreements providing preferential admission rights for veterans with pensionable disabilities.

INDIANS AND ESKIMOS

The Indian and Northern Health Services of the Department of National Health and Welfare are responsible for medical and public health services for most of the 185,000 Indian and 11,500 Eskimo residents of Canada. Within

the limitations of resources and available working conditions, the Services attempt to bring to this population facilities available to the general public through private physicians, municipal public health units, and public hospitals.

The extent and nature of the responsibility of the federal government to provide free health services for Indians in populated areas of the country is not clearly defined. Neither the *Indian Act* nor other statutes refer specifically to native health services, and the established arrangement owes its existence solely to annual appropriations by Parliament. At least one Indian Treaty requires that the Government of Canada maintain medicine chests at the homes of Indian Agents, and that these be used at the discretion of the Agents. In practice, however, any Indian or Eskimo living on a reserve or Crown lands can today obtain medical and hospital care at little or no personal expense.

Initially, health care was given by Army physicians and missionaries. In 1908 a few public health nurses were employed by the Department of Indian Affairs, an arrangement which marked the beginning of the present Indian Health Services. An organized medical service was founded in 1928 and expanded slowly during the next nine years. By 1937, tuberculosis had virtually reached epidemic proportions among the Indian population. The annual death rate from this disease alone was 2,000 per 100,000 population, and at this point federal government activity was stepped up. In 1945, the Medical Service was removed from the Indian Affairs Branch to the Department of National Health and Welfare and, in 1954, the responsibility for Northern Health Services was added. The growth has continued, and a budget of less than \$1 million in 1937 increased to \$23 million in 1960-61.

The Indian and Northern Health Services are now charged with the responsibility for providing hospital services to Indians and all residents of the Territories. The hospital services fall naturally into three groups:

- Hospital services for Indians within the provinces, which are provided in various ways. In several parts of Canada, Indians are hospitalized in community hospitals where they are, for the most part, freely accepted. In other areas, hospitals owned, operated and staffed by the Indian and Northern Health Services provide care exclusively for Indians; the majority are located in regions where community hospitals capable of caring for Indians already exist.
- Hospital services available to the general public in areas where community services do not exist. The Northern Health programme is intended to provide, in the Yukon and Northwest Territories, the same services as a provincial health department.

- Hospitals operated as referral centres for the native populations. These hospitals, all within the provinces, of which the Charles Camsell in Edmonton is the best and largest, serve as:
 - a. Referral centres for problem cases in the Indian and Eskimo populations.
 - b. General hospitals for Indians in the immediate vicinity.
 - c. Holding units for native patients who, while recovered from acute conditions, are not yet ready to return to a rigorous environment.

Medical and dental care is provided to all Indians within the provinces and to Indians, Eskimos and other residents of the Territories. Although the native population expect this service to be free, an attempt is made to collect moderate fees from those financially able to pay.

The Indian and Northern Health Services, with 2,568 authorized personnel, operate eighteen hospitals* with a total rated capacity of 1,882 beds, approximately evenly divided between tuberculosis and general treatment. In addition, many small medical treatment units, nursing centres, and public health units are operated.

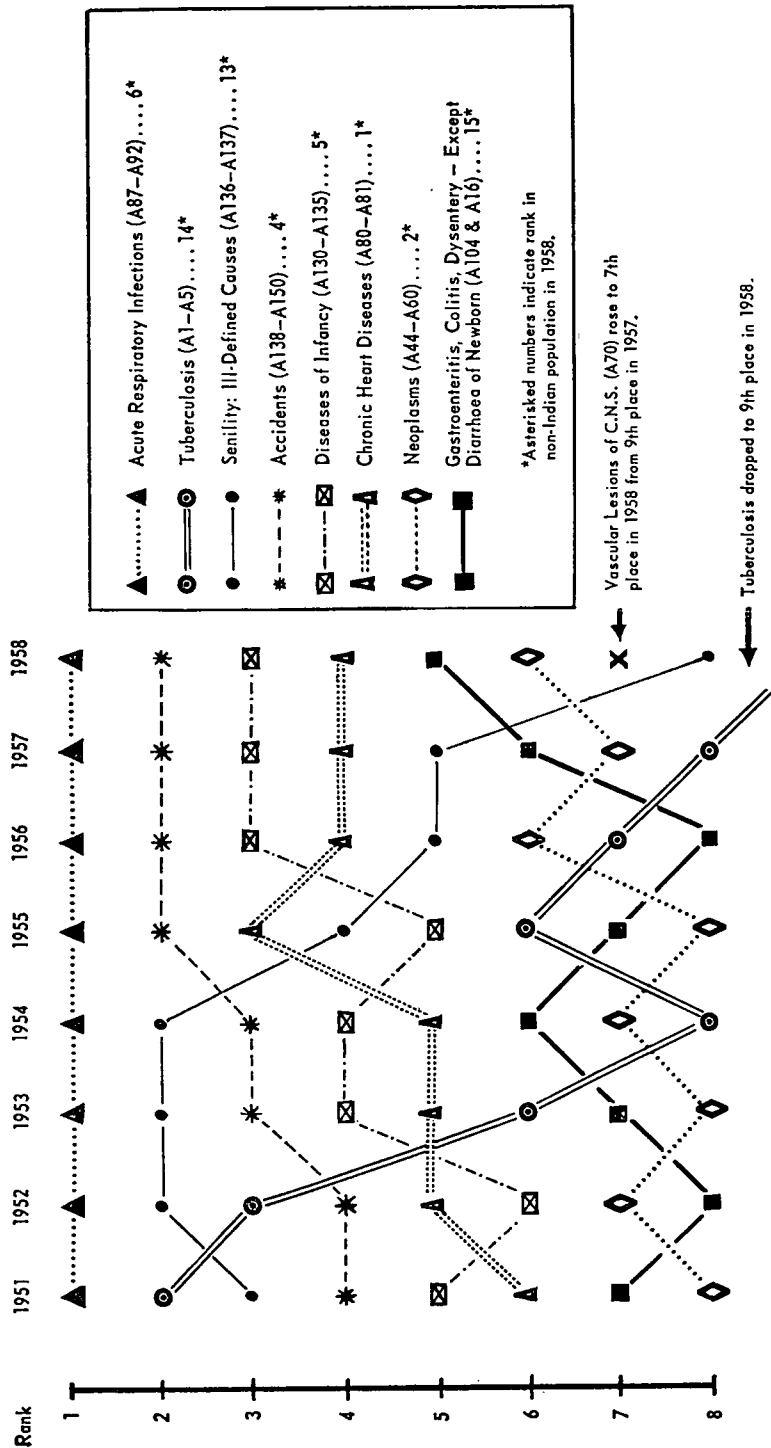
Too frequently, the quality of care in Indian and Northern Health Services hospitals is not comparable with that provided in community hospitals in the same area. The hospital facilities are generally old, ill equipped and inadequately staffed; moreover, it is evident that the Department finds it hard to get suitable personnel, particularly in the lower ranks.

Of the 117 physicians who have joined the Department of National Health and Welfare in the past five years, forty-seven per cent are graduates of foreign medical schools. Many of them have not passed their Canadian licensing examinations and are therefore not qualified for private practice. The Canadian physicians joining the service in the same period averaged 40 years of age. The great majority of these had left private practice. The Department always has unfilled posts, and few young Canadian graduates show any interest because of the remoteness of places of employment, the ill equipped hospitals, and limited opportunities for career development.

There is no evidence that the very significant number of Indians who depend for health services on ordinary community facilities are receiving care inferior to that supplied by Indian and Northern Health Services facilities. The intro-

*The Assiniboine Hospital at Brandon (227 beds) and the Clearwater Lake Hospital at The Pas (155 beds) are operated for the Indian and Northern Health Service by the Sanatorium Board of Manitoba. The transfer of ownership of the former to Manitoba is now being negotiated.

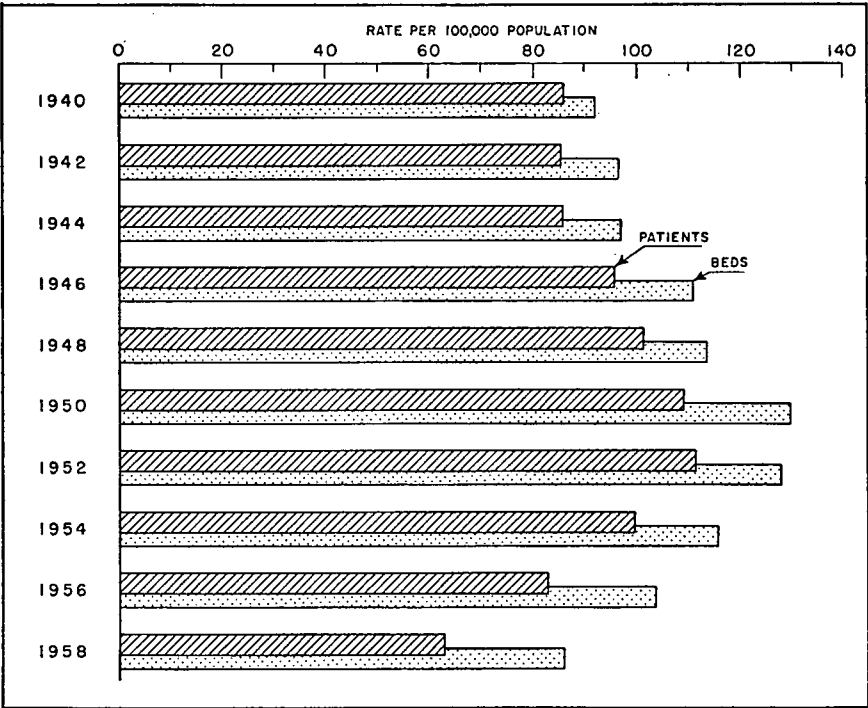
Chart 1 —SELECTED CAUSES OF INDIAN MORTALITY BY RANK, 1951-1958*



* Annual Report, Department of National Health and Welfare, 1960.

duction of government supported hospitalization for all citizens also provides native people with easy access to hospitals. The cost of pre-paid insurance premiums, even when borne by the federal government, is an economical means of providing hospital care. Similarly, the existence of many pre-paid insurance plans for physicians' services makes medical care relatively simple for either the Indian himself or the government to arrange.

Chart 2—PATIENTS IN TUBERCULOSIS SANATORIA AND BED CAPACITY*



* Canada Year Book 1960.

Tuberculosis has long been a major cause of illness and death to the native people, and many of the present-day services arose from the need to combat this disease. However, since 1937, the annual death rate from tuberculosis has been reduced from 2,000 per 100,000 population to 40 per 100,000, and from 1951 to 1958, tuberculosis, as a cause of Indian mortality, fell from second to ninth rank (*see* Charts 1 and 2). Compared to the 1959 death rate of 5.5 per 100,000 persons in the general population, the disease is still serious but, as a problem peculiar to native people, it is no longer of critical significance.

The integration of Indians with the general population is being vigorously promoted by the Indian Affairs Branch of the Department of Citizenship and Immigration, particularly in the education of Indian children. In health services the possibilities of successful integration have been amply demonstrated in several parts of Canada. In fact, in some of the provinces separate facilities for Indians have never existed. The conclusion is unavoidable that, from the standpoint of convenience and expense, as well as the quality of care, the use by Indians of established community facilities is highly to be desired.

The express policy of the Department of National Health and Welfare is to turn over the responsibility for medical care for Indians to the provinces, but progress is slow and more positive promotion of the policy is required. The declining tuberculosis rate makes it probable that all Indian cases could be looked after in provincial sanatoria within a very few years. Obviously, some time will elapse before hospital services in unorganized remote areas can be assumed by the community, but immediate steps should be taken to end the duplication of facilities in the more populous areas of the provinces.

The hospitals used as referral centres (for example, Charles Camsell in Alberta, and Coqualeetza in British Columbia) present a more difficult problem. The excellent work of the Charles Camsell hospital with native patients has earned for it an enviable reputation. Its existence, serving only Indian and Eskimo patients, has made the prospect of hospitalization reasonably acceptable to shy Indian and Eskimo patients who might have been less responsive to treatment, particularly long-term tuberculosis treatment, in a setting where they were in the minority among white patients. Nonetheless, the need for this segregation is passing. Indians in southern Alberta are treated in an integrated tuberculosis sanatorium, and no serious problems have been encountered.

There are strong indications of diminishing need for these hospitals. The Camsell hospital's 480 beds were well filled until two years ago, but in 1960 the hospital had only a seventy-five per cent occupancy. At the Coqualeetza hospital occupancy is falling and the length of stay increasing—an indication of lack of pressure for beds. These hospitals are expensive to operate. As a result of the difficulty of attracting interns and residents, work normally assigned to such staff is done by more expensive full-time medical staff. At the Camsell hospital, the high quality of professional care results principally from the strong university affiliation. Senior members of the teaching staff at the University Hospital in Edmonton act as consultants and manage problem cases. This has been achieved although the two hospitals are several miles apart.

The Department does not, regrettably, plan to relinquish these referral hospitals. In fact, an immediate rebuilding of the Camsell hospital on its present site is planned, at a cost of over seven million dollars, and a further building programme for Coqualeetza is in prospect. Your Commissioners were not convinced by the arguments in support of these plans. Cases of tuberculosis now make up two-thirds of the patients at the Camsell hospital. The majority of these could be cared for in empty beds in sanatoria in the provinces. The tuberculosis cases from the Territories could be treated either in local hospitals or brought to sanatoria in adjacent provinces.

Excluding tuberculosis cases, the present patient load on Camsell is about 120 patients. These could be cared for in the University Hospital, Edmonton, or other hospitals in the region. Should it be deemed essential to continue some segregation of Indians and Eskimos for a further period, it would be desirable to consider building an addition to the University Hospital in Edmonton of, say, 100 beds. This would provide professional medical care by the staff of the University Hospital on a more satisfactory basis than at present. It would mean that many of the present fifteen full-time staff members could be replaced by interns and residents at a lesser cost. Apart, however, from the monetary savings and the standard of care, the building of a large new segregated hospital for natives is inconsistent with the policy of integration actively pursued by the Indian Affairs Branch of the Department of Citizenship and Immigration, and somewhat less enthusiastically subscribed to by the Department of National Health and Welfare. In health matters, the progress toward full integration, already less rapid than desirable, is bound to be affected for many years by a large new investment in segregated hospital facilities.

Much of the very real progress which has been made in reducing disease in the native population has been due to the educational efforts of public health nurses. This aspect of the service should not be curtailed in any circumstances. However, there is evidence that such nursing service within the provinces could be taken over by provincial nurses. In many instances, provincial nursing staffs are located in towns near reserves and could provide care to Indians more economically than under the present arrangements. This would not be true in the Territories and remote areas, where a strengthening of the special service is justified.

We therefore recommend that: 1 A positive programme be developed for the more rapid transfer of Indian health care to normal community facilities in populated areas of the provinces.

- 2 Where possible, medical and dental care be arranged through private practicing physicians and dentists (with the federal government bearing the cost of pre-paid medical plans where necessary).
- 3 The referral hospitals, Charles Camsell at Edmonton, and Coqualeetza at Sardis, B.C., be neither rebuilt nor extended.

SERVICEMEN

Before 1958 each of the Armed Services had its own medical branch. In that year orders were issued to integrate the three medical services into a single Canadian Forces Medical Services. This group comprises over 4,700 personnel and its cost, excluding capital construction, is estimated at over \$35 million in 1962-63. Apart from a large number of "sick bays" or infirmaries, eleven hospitals with a total capacity of 1,205 beds are operated. Certain problems have delayed the completion of the integration programme. More detailed comment on these difficulties is contained in the report on *The Department of National Defence*.

In the field of medical care, the Armed Forces have certain obvious requirements that must be met from their own resources. Aside from succouring the wounded in time of war, provision must be made for personnel in barracks, afloat, or located in isolated areas. In general, the existing system of infirmaries and sick quarters must continue to be staffed and maintained for such purposes, and the Armed Forces must carry on their strength qualified doctors, nurses, and other specially trained personnel.

The needs of the Armed Forces within Canada in peacetime, however, do not necessitate the operation of special acute treatment hospitals of their own. The character of war, with its present nuclear hazard, invalidates the concept of yesterday under which the creation of hospital capacity for war wounded might have appeared a farsighted precaution. An argument may be advanced that the ability of Service doctors to practise in their own hospitals is necessary to the achievement of a suitable degree of professional competence, as well as for a desirable effect upon *esprit de corps* generally. While this contention may have some validity, your Commissioners see no compelling reason why Service personnel who are in need of hospitalization in peacetime should not be treated in community facilities.

At present, a number of acute treatment hospitals are operated by the Services for the use of military personnel in areas that already have well

developed community hospital facilities. As previously mentioned, consideration is currently being given to the construction of new Service hospital facilities in Victoria, B.C.

Under provincial hospitalization insurance plans, Service personnel are entitled to hospitalization in whichever province they are located, and, in the view of your Commissioners, community facilities should be employed in preference to the creation of segregated institutions. This view is reached not only from considerations of cost and quality of medical care, but in the belief that the establishment of a system of Service hospitals across Canada constitutes an unnecessary elaboration of the responsibilities of the Armed Forces, which affords no significant advantages.

- We therefore recommend that:*
- 1 The hospital care of Service personnel in Canada be gradually transferred to civilian hospitals, and no building of new Service hospitals or replacement or enlargement of existing institutions be undertaken.
 - 2 Vigilance be exercised to prevent the expansion of sick quarters and infirmaries into more sophisticated treatment centres in areas where community hospitals exist.
 - 3 The Canadian Forces Medical Services be allocated 100-125 beds in the Department of Veterans Affairs Hospital, Victoria, pending complete integration of Service and community needs, and the Royal Canadian Navy Hospital, Naden, be abandoned.

While it is apparent that the training of specialists in the Armed Forces in recognized clinical fields of medicine is satisfactory, there is evidence that insufficient emphasis is being given to aero-medicine. In the Royal Canadian Navy there is a need for increased knowledge of the effects of underwater environment. The Services might well give greater attention to the medical aspects of abnormal environments, which are becoming increasingly significant. A number of medical officers sufficient to manage the resultant problems must receive the necessary training.

A subsidy programme to encourage medical students to enter the Armed Services has been in effect for several years. The present programme finances

them through four years (three years of medical school and one year of internship). A married student can obtain a total of \$16,386 in a period of 45 months, in return for which he must give three years of service at the rank of army captain. This subsidy programme is undoubtedly generous but might be more productive if aid were given for four years of medical school and not for the internship year, when at least some funds are available from other sources. Moreover, because this programme starts only in the second year of medical school, its existence is often known only to individuals who have already entered medicine and have presumably already arranged for the financing of their education. If the subsidy were offered from the first year, students would be attracted to medicine who, for financial reasons, would not otherwise be able to embark on a medical education.

Ancillary medical personnel in the Armed Forces have been receiving training in their respective trades in schools run separately by each Service. Only minor progress has been made in bringing them together for training. Integrated training programmes should be immediately adopted for all ancillary medical personnel.

It has been noted that the three Services have different physical standards for recruitment examinations. Physical standards must be different for individuals in special categories, (e.g. aircrew require higher physical standards), but trades common to the three Services should certainly have common standards. Such a policy is essential to satisfactory operation of the tri-service recruiting units.

OTHER GROUPS

Inmates of Federal Penitentiaries

Five federal penitentiaries have a total "maximum security" capacity for 4,365 inmates. All penitentiaries have facilities with less rigorous security policies, which provide additional capacity for almost as many prisoners. There is a hospital unit in each penitentiary, which usually consists of offices for physicians, clinic rooms for sick parades, and special cells. In the main they are adequate but, in the Kingston Penitentiary, the thirty-five-bed hospital built in 1850 and still in use was condemned in 1938 by the Royal Commission on the Penal System in Canada.

The Director of Medical Services for Penitentiaries, based in Ottawa, travels extensively and represents the sole medical link with the penitentiaries. With few exceptions, the professional medical staff employed at the penitentiaries is part-time, and includes psychiatrists. Psychologists in the penitentiaries are not attached to the medical group but work with the classification department in attempting to evaluate the status of prisoners.

In most cases of acute illness, only medical ailments are cared for in the penitentiary hospitals. Surgical cases are referred either to the nearest Veterans hospital or to general hospitals in the community. This is expensive, for a guard must remain with the prisoner at all times.

Medical work in the penitentiaries contains a large element of psychosomatic or psychiatric medicine. Many of the prisoners require psychiatric care, but existing treatment practice is designed mainly to permit the prisoner to be treated as an inmate without creating undue problems for the penitentiary. At present, little or no attempt is made to prepare the prisoner for a more healthy approach to life after release.

Provision of more intensive psychiatric services to the inmates of federal penitentiaries is a complex problem. Prisoners are usually graduates of provincial gaols or, in many instances, of youth correctional centres, and it would seem more appropriate to apply curative psychiatric services in these earlier stages. However, there is one important psychiatric facility found in certain communities such as Toronto and Montreal which is sorely missed in others where it is not available. This is a forensic clinic whose function is to advise the court. Where such clinics operate, they usually owe their existence to the joint effort of a university and the Department of Justice. Problem cases before the courts are studied intensively for periods of ten days to a month, and correctional programmes are based on results of the studies.

The use of part-time medical professional personnel in the penitentiaries seems justified. The problems encountered in such institutions are highly specialized and, in the main, restricted. Full-time physicians would be neither content nor productive in such an environment.

Seamen

Part 5 of the *Canada Shipping Act*, which antedates Confederation, was designed to provide medical, surgical and hospital benefits for crews of foreign ships. Over the years, these benefits have been extended to other groups: first, to foreign fishermen arriving in Canadian ports; then to the crews of Canadian vessels which touch foreign ports; and finally to Canadian fishermen. In return for a very small charge, based on the ship's tonnage, the local Customs Office certifies that the crew of a particular vessel is entitled to these benefits. Services are provided by the Quarantine, Immigration Medical and Sick Mariners Services of the Department of National Health and Welfare in departmental clinics and in community hospitals at federal expense.

The Act applies only to the east and west coasts of Canada and to Hudson Bay, extending inland as far as Montreal in the east, and to coastal ports

only of British Columbia in the west. The extension of the St. Lawrence Seaway into Ontario renders this arrangement somewhat illogical.

There is evidence of extensive abuse of the Act, particularly by Canadian fishermen and tug-boat operators who, because the names of the crew are not required to be listed, can secure benefits for persons other than their crews with minimum risk of detection.

The cost of the service is currently about \$800,000 a year, and receipts from tonnage levies meet less than half of this amount (*see* Table 6). For Canadian fishermen, whose relatively small craft produce only a nominal contribution, the amount paid out is twenty-five times that collected.

Table 6—HEALTH SERVICES FOR SEAMEN¹—REVENUE, EXPENDITURE AND DEFICIT CLASSIFIED ACCORDING TO TYPE OF VESSEL

| Calendar Year 1960 | | | | |
|---|-------------------|--------------------|-------------------|---|
| <i>Classification of Vessel</i> | <i>Revenue</i> | <i>Expenditure</i> | <i>Deficit</i> | <i>Deficit Expressed as Percentage of Revenue</i> |
| | \$ | \$ | \$ | |
| Foreign-going..... | 460,065.27 | 509,052.64 | 48,987.37 | 10 |
| Coasting..... | 4,522.32 | 8,828.10 | 4,305.78 | 95 |
| Fishing..... | 14,374.56 | 314,399.80 | 300,025.24 | 2,087 |
| Additional expenditure not classified as to type of vessel:—..... | — | 14,544.91 | 14,544.91 | — |
| TOTAL..... | 478,962.15 | 846,825.45 | 367,863.30 | 76 |
| Government (not paying S.M. Dues) Treatment provided under Authority of P.C. 1955-4/483 T.B. 484135 up to July 31, 1960 ² | — | 45,870.85 | — | — |

¹Annual Report, Department of National Health and Welfare, 1961—Sick Mariners Services.

²On July 31st, 1960, Order-in-Council P.C. 1955-4/483, which provided free treatment to crew members of government vessels, in the same manner as for crews of ships which pay dues, was repealed and treatment arrangements became the responsibility of the employing department. As a result, the total expenditure for the year was reduced to \$45,870.85 from \$86,221.07, the previous year. There were 2,076 eligible crew members employed on 200 government vessels.

With the recent extension of the Seaway, which may bring about an expansion of the service, and having in mind the fact that government-supported hospitalization is now available to all Canadians, it is considered by your Commissioners that this service should be discontinued.

We therefore recommend that: Part 5 of the *Canada Shipping Act* be repealed.

The Population of the Territories

It is not to be expected that adequate medical services for residents of the Territories can be provided as a result of community initiative, and federal initiative in building hospitals will be required for many years. The new hospitals at White Horse and Inuvik, opened within the past eighteen months, represent an improvement in facilities that have been on the whole less than adequate. Plans for improving the hospitals in the District of Mackenzie should be implemented as soon as possible. As communities develop, it will obviously be desirable to transfer the operation of federal hospitals to local authority as soon as possible.

The hospital at Fort Churchill, Manitoba, now operated by the Department of National Defence but serving a part of the Territories, is inadequate in size and poorly designed. Much of the patient load comes from the Indian population, and the provision of adequate water supply and sewage disposal would do much to improve the general health situation. A new hospital should be built, preferably under the auspices of the provincial government, with such federal government financial assistance as may be appropriate.

3

PROMOTION OF PUBLIC HEALTH

All the programmes falling into this category are administered by the Department of National Health and Welfare. Section 5 of the *Department of National Health and Welfare Act* assigns to the Minister a general responsibility "... relating to the promotion and preservation of the health, social security, and social welfare of the people of Canada over which the Parliament of Canada has jurisdiction . . .", and then proceeds to define particular responsibilities. However, since its enactment in 1919, the federal statute has recognized provincial rights and declares: "Nothing in this Act or in any regulations made hereunder authorizes the Minister or any officer of the Department to exercise any jurisdiction or control over any provincial or municipal board of health or other health authority operating under the laws of any province."

There are two Deputy Ministers of National Health and Welfare responsible severally for the Health Branch and Welfare Branch, and jointly for seven administrative and technical divisions which provide common services to both branches. In 1961-62 the authorized staff was 5,300; 3,900 of these allocated to the Health Branch, 1,030 to the Welfare Branch, and 370 to the central administrative and technical divisions.

Until the fall of 1961, the Health Branch was composed of four services or directorates whose heads reported to the Deputy Minister of National Health and Welfare (Health). These were: Health Services; Indian and Northern Health Services; Medical Advisory, Diagnostic and Treatment Services; and the Food and Drug Directorate. The second and third of these are now being amalgamated in one Medical Services organization.

HEALTH SERVICES DIRECTORATE

This Directorate has four hundred and ninety-three classified positions, of which all except thirty-six in the Public Health Engineering Division are located in Ottawa. With thirty-four physician positions, the Health Services Directorate is responsible for administering environmental health programmes, national health grants, health insurance, international responsibilities in the field of health, and research development. There are fourteen consultant and specialist divisions, nine of which are quite small and primarily advisory in nature. These units are the Chief Nursing Consultant, and the Divisions of Child and Maternal Health, Hospital Design, Medical Rehabilitation, Mental Health, Dental Health, Blindness Control, Epidemiology, and Nutrition. The other five divisions are: Occupational Health, Radiation Protection, Public Health Engineering, the Laboratory of Hygiene, and Emergency Health. One special health programme, administered by the Medical Services Directorate, exists to meet the needs of the government's own employees. Your Commissioners' report on *Personnel Management* examines the Civil Service Health Division in some detail. In this report, comment is confined to those parts of the organization described above in which problems have been encountered.

NATIONAL HEALTH GRANTS

The National Health Grants Division co-ordinates the development of the health grant policies, the assessment of applications and the processing of payments. Almost \$48 million was disbursed under nine grants in the fiscal year 1960-61. The health grant programme has been productive, but the detail required from recipient institutions and the provincial governments is excessive. These should be jointly reviewed and simplified. Consideration should also be given to placing the programme on a firmer basis in order to permit more long-term planning.

We therefore recommend that: The present reporting and accounting requirements for health grants be reviewed and simplified, and consideration be given to placing health grant programmes on a period-of-years basis.

ENVIRONMENTAL HEALTH

There are three programmes of environmental health: radiation protection, occupational health, and public health engineering. Each is carried out by a

separate division. A Principal Medical Officer is the senior staff adviser to the Director of Health Services on the three programmes.

The Occupational Health Division has grown rapidly. Its expansion was stimulated by the development of Crown corporations, whose occupational health has been regarded as a responsibility of the federal government; in all other industrial activities, occupational health is the responsibility of the provinces. The Division also provides consultant and technical assistance to government and industry, and carries out research. A central laboratory, employing fifty people, performs three main functions: it studies toxic substances encountered in industrial plants in Canada, samples air for toxic material, and does research work on the properties of substances whose effects on humans are not yet known. The work is closely related to radiation protection and public health engineering.

The Radiation Protection Division, with an authorized staff of sixty-one, fulfills similar functions in the field of radiation hazard; under a United Nations agreement, it also measures the radioactivity of rain and soil samples from several foreign countries.

The Public Health Engineering Division is, in many respects, unique among the components of the Health Services Directorate. Its primary functions are not directed to assisting the provinces, and most of its activities fall into two main categories: the administration of certain statutes and regulations, and the provision of technical advice to other components of the federal government. The chief regulatory activities of the Division are:

- The regulation of sanitary conditions and medical services for persons employed in the construction of federal public works.
- The regulation of sanitary conditions on railroad properties and ships of Canadian registry, with particular regard to the health of employees and passengers.
- The sanitary regulation of water and ice supplies on common carriers.
- The enforcement of regulations made by the International Joint Commission on boundary waters, "so far as the same relate to public Health".
- The enforcement of regulations on the sanitation and toxicity of shell-fish, in collaboration with the Laboratory of Hygiene and the Department of Fisheries.
- The inspection and analysis of water supplies for fish-packing plants, in collaboration with the Department of Fisheries.

This Division estimates that half its staff resources are expended on these inspection and regulatory functions. The remaining resources are occupied in providing public health engineering studies, advice, and designs, principally to other components of the federal government but occasionally to the smaller provinces.

The need for the regulatory functions of this Division, although at one time extremely important, seems now to have largely disappeared. Provincial departments have developed their own public health engineering groups. Federal employees in separate offices are superfluous in provinces where well-established departments are already in operation. For example, milk and water for common carriers, checked by provincial health departments, are re-checked by this Division. Most provincial departments of health have expressed a readiness to take over this function.

The need for many of the services of the three environmental health Divisions will continue to diminish as provincial and territorial departments become more complete, and constant vigilance will be required to ensure that the laboratories and other facilities necessary to provide these services do not continue to grow and take on other functions. There is a natural tendency for active, well-staffed laboratories to increase research activities as their service functions decline. Therefore, to control their growth, independent expert scrutiny of the research undertaken is necessary.

In summary, the three Divisions of Occupational Health, Radiation Protection and Public Health Engineering, all of which perform similar functions and provide services to the provinces, would function more effectively as a single Division of Environmental Health. In all three Divisions, the primary function should be to provide consultation and services to the provinces and territories.

- We therefore recommend that:*
- 1 The three Divisions of Occupational Health, Radiation Protection, and Public Health Engineering be combined into a single Division of Environmental Health.
 - 2 Regulatory functions be left to the provinces to the maximum practicable extent.

REHABILITATION PROGRAMMES

The Blindness Control Division does excellent work with a small staff. It rules on eligibility for Blind Persons Allowances and operates a treatment

plan for those receiving allowances. The organization could be simplified and made more effective if the Division were absorbed into the Medical Rehabilitation Division, of which it is essentially a part.

The Medical Rehabilitation Division is a consulting unit in the field of medical rehabilitation, and carries on evaluation of disability under the *Disabled Persons Act*. In the former role, it assesses applications for payments under the Medical Rehabilitation Grant. The Department of Labour is charged with the co-ordination at the federal level of a comprehensive civil rehabilitation programme, but provincial co-ordinators are generally in provincial departments of health or welfare rather than labour departments. As rehabilitation is essentially a health problem up to the stage of vocational training, it would simplify administrative relations with the provinces if the Medical Rehabilitation Division were assigned responsibility for all medical aspects of the programme.

We therefore recommend that: All aspects of the medical rehabilitation programme be co-ordinated by the
Department of National Health and Welfare.

OTHER ADVISORY AND CONSULTATIVE SERVICES

The functions of the Laboratory of Hygiene fall into three categories:

- Biochemical and biological research on human diseases.
- Technical services: National Reference Centre for certain groups of bacteria; production and distribution of standard solutions and diagnostic reagents; evaluation of hospital laboratory techniques.
- Quality control of biological drugs in accordance with the *Food and Drugs Act* and Regulations.

The Laboratory of Hygiene is organized in seven Sections—Bacteriological, Biologics Control, Biochemical Research, Clinical, Zoonosis, Virus, and Administration. This laboratory shows signs of continued growth although provincial departments of health are developing increasingly effective laboratories. An indication of this trend is the development of significant programmes of a pure research nature in certain sections of the Laboratory. Several activities, particularly the analysis of biological drugs and the inspection of manufacturing facilities, would be more appropriately carried out by the Food and Drug Directorate.

The Nutrition Division has grown extensively in recent years, and performs a number of functions:

- Surveys on nutritional health of specific groups.
- Operation of a specialized nutritional assay laboratory service for physicians and provincial departments of health.
- Production of recipes for quantity cooking (e.g. for hospitals) in an experimental kitchen.
- Provision of educational material and consultant services to the provinces and territories.

These services have limited value to those who are expected to benefit from them. Little new information seems to have emanated from the food surveys in recent years. Provincial departments have developed their own nutritionists who are capable of performing surveys suited to the special needs of their own population groups. The nutritional laboratory enjoys scant usage by the medical profession; only about seven specimens are received monthly from practising physicians. The main source of material to the laboratory is provided by the departmental food surveys. The recipes developed for hospitals appear to be little used. There are other sources for such recipes and, in the provinces in which inquiries were made, no group was found that utilized these recipes.

The educational material produced by the Division is of value and should be continued. Consideration should be given to producing more nutritional material for native populations.

Consideration should be given to withdrawing the consultant services to provinces. Consultant and advisory services could be utilized to some degree in the Territories. Generally, there seems little need for the present strength, and consideration should be given to eliminating this Division and placing the remaining functions in another division, perhaps the Maternal and Child Health Division.

- We therefore recommend that:*
- 1 The programme of the Nutrition Division be carefully re-examined with a view to discontinuing unnecessary services and reducing staff.
 - 2 The continuing responsibilities of the Division be assigned to the Maternal and Child Health Division.

The Hospital Design Division reviews plans for new hospital construction and since 1948, when federal grants became available, has scrutinized the planning for 83,000 patient beds. The staff is small and little effort has been applied to the development of special skills in the design of efficient hospital lay-out. There is undoubted advantage in developing an expert group in Canada to promote better hospital design, particularly as those responsible for building new hospitals frequently lack the specialized experience needed to achieve a functionally efficient structure of so complex a nature. How such a service can be best provided is a matter for mutual agreement between the governments concerned, but your Commissioners believe that unless the present Division can be converted into a useful agent for such purposes, which would require its substantial enlargement, it should be discontinued.

We therefore recommend that: The Hospital Design Division be either expanded to provide effective leadership in all phases of hospital design, or discontinued.

Your Commissioners were generally impressed by the manner in which the several divisions in the Health Services Directorate perform their functions, but certain inherent dangers merit discussion.

However knowledgeable a division head may be in his own field of medicine, there is a danger that, on ceasing active practice, he will find it difficult to keep abreast of new developments. The use of part-time consultants might offset any such deficiency, but it is difficult to attract outstanding individuals to this type of work.

In the few divisions in which they have been developed, advisory committees from outside the public service have been most effective in this regard. Relatively small advisory committees, chosen from leading professionals in the field, should be established for every division, meeting periodically with the division heads to promote new concepts and developments.

Further, because of the relative ease of securing continuing funds for programmes previously approved, there is always a possibility that programmes will continue after outliving their usefulness. The advisory committees should have the task of appraising and evaluating the work of their respective divisions.

We therefore recommend that: Each division in the Health Services Directorate have a small committee of outstanding non-departmental advisers, meeting regularly to:

- a. Maintain and expand the knowledge of the division.

- b. Evaluate current programmes, with particular reference to the continuing need therefor.

Finally, two further organizational changes are suggested for the Health Services Directorate. An Associate Director should be appointed, primarily to share the Director's extended span of control and to assist in appraising the programmes of the consultant divisions. An Assistant Director, National Health Grants and Hospital Insurance, is required in view of the importance of these activities. His duties should be the promotion of programmes and policies advocated by the Directorate, and co-ordination of certain aspects of existing programmes on behalf of the Director.

HOSPITAL PROGRAMMES

The past few years have witnessed the development of an important collaboration between federal and provincial governments, not only in respect to public health generally, but through jointly financed programmes for hospital construction and the operation of broad schemes making hospital treatment generally available to the public.

Involved in these matters is the Dominion Council of Health, the main function of which is to provide, at deputy minister level, liaison between the federal Health Branch and the provincial health departments. The Council comprises the Deputy Minister of National Health, as Chairman, the chief executive officers of the provincial health departments, a scientific adviser, and representatives of labour, agriculture, and urban and rural women's groups. The Council is an effective instrument for the exchange of views on federal health activities, particularly those of the Health Services Directorate which most directly affect the provinces, and in achieving co-ordination of provincial health programmes. It is to be noted that the Council, by reason of its constitution, is primarily concerned with ways and means, while matters of broad policy remain to be dealt with by representatives of the federal and provincial governments of cabinet rank.

The federal-provincial partnership in financing both construction of hospitals and their continuing operation is based on a sharing of cost which varies from province to province. The federal government's share in 1961 amounted to \$287 million. The initiative in determining the kind of construction and the classes of operating services to be supported with public money rests largely with the provinces. If, therefore, a province chooses to support a certain service, the federal government will follow, but if a province refuses

to pay a share of a particular class of operation, the service in question is not available as part of the hospitalization scheme in that province.

One result is a variation between provinces in the payment for diagnostic costs on an out-patient basis. Provinces that refuse to cover such costs in their schemes do so on grounds of economy but they may, as a result, incur equal or greater costs, both capital and operating in nature, through the pressure for hospital beds caused by patients who unnecessarily enter hospital to obtain free diagnosis. It may, in this context, be significant that your Commissioners are credibly informed that Canadians are currently using hospital beds to a degree fifty per cent greater than in the United States and at about four times the rate prevailing in the United Kingdom.

The second matter of material financial consequence to the federal government, which falls within the discretion of the provinces under the agreements, relates to the type of new hospital accommodation being constructed. In the absence of any uniform planning approach, your Commissioners regard the present arrangements as being wasteful of public money. They encourage the continuing practice of building acute-treatment hospital beds to mediocre standards, rather than the selective building of beds to meet specific purposes—chronic and domiciliary care, general treatment, teaching and research.

Constitutionally, hospitals are a provincial responsibility, but it is difficult to believe that as a contributor of half the moneys expended the federal government is not entitled, simply on the grounds of getting its money's worth, to insist on more effective planning to avoid the waste arising from the present situation.

Proper planning in this field involves not only the avoidance of duplication of expensive facilities but the provision of hospital and patient-care facilities at various levels of cost and completeness of service, so that the people of Canada have access to the appropriate facility for each type of case. In Canada, at present, there is heavy spending for the building of acute-treatment hospitals, more on the basis of local pride and initiative than on the planned development of particular areas as a whole. Thus, open-heart surgery, a most costly activity, is being projected for virtually every large acute-treatment general hospital. There is no real need for such duplication of facilities, nor are there sufficient trained physicians to operate them.

The jurisdictional difficulties involved in resolving these problems and the federal role therein must be a matter of public policy, which is beyond terms of reference of your Commissioners. Comment is therefore restricted to the observation that the degree of waste is substantial, and to achieve a solution there is a clear need for the development of vigorous leadership, as well as co-operation.

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PREVENTIVE PROGRAMMES

The preventive programmes are all undertaken in the Department of National Health and Welfare. Civil aviation medicine and quarantine and immigration medical services are responsibilities of the Medical Services Directorate. All aspects of the food and drug programmes are administered by the Food and Drug Directorate, and the planning for health services in time of national emergency is performed by the Emergency Health Services Division of the Health Services Directorate. The organization for the administration of these programmes seems basically sound. All told, some 770 persons are employed and the annual expenditure is about \$12.3 million.

CIVIL AVIATION MEDICINE

The Civil Aviation Medicine Division was established by Order in Council in 1946 to "provide medical advice and assistance in setting out physical standards for civil aviation personnel" and "to advise on all matters connected with the health of travellers by air". The Division recommends physical standards to the Department of Transport for pilots and air traffic controllers, and also participates in the administration of these standards.

Civil air personnel, who are subject to licensing by the Department of Transport, must be periodically examined at their expense by private physicians who are appointed for the purpose by the Department of Transport. These reports are then reviewed by one of six regional medical officers employed by the Civil Aviation Medicine Division, who in turn advises regional

licensing authorities of the Department of Transport on the medical condition of the applicants. Any difficult case is referred to the Chief of the Division for his assessment before the Department of Transport is advised. All medical reports are finally filed in Ottawa where they are available to both the Civil Aviation Medicine Division and to the Department of Transport. It would be logical to assign complete responsibility to the Minister of National Health and Welfare for the medical examinations of civil air personnel, including the appointment of the private examining physicians.

Significant problems have arisen in the operations of this Division. For nearly two years there has been serious conflict over the visual standards set by the Civil Aviation Medicine Division and its consultants. Although originally accepted by the Department of Transport, some older pilots were unable to meet these standards, and they have not been enforced.

QUARANTINE AND IMMIGRATION

Quarantine, Immigration Medical and Sick Mariners Services (already reviewed) are administered in one division of the Medical Services Directorate. The Division employs about 336 persons in Ottawa, fifteen field offices in Canada, and several cities in Great Britain and Europe. The services of private physicians are extensively used on a fee-for-service basis both in Canada and overseas.

Quarantine

The Division administers the entire *Quarantine Act*, the purpose of which is to reduce the hazard of major communicable diseases entering Canada, by immunization procedures, by disposing of potential disease carriers and, when preventive measures fail, by detecting, isolating and treating diseased persons and contacts. This function is fulfilled by permanent and part-time personnel located at Canadian ports of entry.

At major airports a nurse or technician is on duty twenty-four hours a day, and a physician for arrival of foreign flights, for visual examination of passengers and the verification of immunization documents. At ports, large passenger liners are met by physicians, and other ships are dealt with by technicians. Ships are regularly inspected for rats by technical personnel, and fumigation is supervised by a physician. In unorganized and small ports, the quarantine work is done by customs officials.

The Quarantine Service, although very necessary in the past, could now be modified and reduced. Visual examination of passengers alighting from aircrafts or ships does not today result in the discovery of significant disease.

Although the Quarantine Service is responsible for preventing the entry into Canada of individuals suffering from any of the usual communicable diseases, the major fear is smallpox. The main defence against this disease lies in ensuring that vaccination has been performed.

In these circumstances, the attendance of present staffs at airports on twenty-four hour duty is no longer necessary. Customs or immigration officials could be given the task of examining immunization documents. For aircraft and ship arrivals from foreign countries, the attendance of a technician or nurse is sufficient.

Apart from the actual examination of sick passengers, technicians have performed all of the duties of the Quarantine Service. It seems logical to extend the use of their services.

- We therefore recommend that:*
- 1 Visual examinations of passengers arriving by aircraft and ship be discontinued.
 - 2 Customs or Immigration officials be given the responsibility for examining immunization documents.
 - 3 Technicians be employed in larger numbers to replace physicians and nurses in quarantine work not requiring professional skills.
 - 4 A nurse or technician meet incoming aircraft and ships from foreign lands; and a physician be only on call for emergency situations.

Immigration

All persons seeking to enter Canada, other than temporary visitors and returning Canadian residents, are subject to medical examination. A general medical examination, including chest x-ray, is made on all immigrants. Non-immigrants (tourists, businessmen, etc.), are inspected and may be medically examined when necessary. Non-immigrant students are given a complete medical examination. Casual visitors from the United States are treated in the same manner as Canadian residents.

Medical screening overseas is carried out in three distinct ways. The majority of persons from Great Britain, Western Europe and Hong Kong are examined by physicians of the Department, who are stationed in the large cities. Where a lapse of several months occurs between examination of

the immigrant and his departure for Canada, he may again be examined or treated by departmental personnel at Canadian ports.

Physicians of the Department of National Health and Welfare are augmented by 'roster' doctors who do a small number of examinations in Great Britain and other European countries. These are local physicians who have been designated to make medical examinations of applicants for entry into Canada. Their reports and x-rays are checked by the Canadian Medical Officer supervising that area, who arranges for additional diagnostic work as indicated, advises the Department of Citizenship and Immigration regarding prohibited persons, and gives his opinion on a migrant's capacity to work at his occupation or on his suitability as an immigrant.

Neither Canadian physicians nor roster doctors are located either in communist countries or in countries from which there are few immigrants. Inhabitants of such countries seeking to enter Canada are examined at their own expense by physicians whose medical reports and x-rays are examined by a Preliminary Screening Section in Ottawa. If a visa is granted, the immigrant is subjected to a thorough physical examination and x-ray on arrival at a Canadian port. Examinations by Canadian physicians are free; others are not.

Treatment is provided for those who are ill on arrival and for all persons subject to Immigration jurisdiction after arrival. It is also provided for persons receiving subsistence from the Immigration Branch of the Department of Citizenship and Immigration and for immigrants who become ill in transit, if they lack resources.

There is evidence that the number of Canadian government physicians abroad is excessive. The number of examinations carried out in 1960-61 was 94,020. It is estimated that one doctor can examine 6,000 prospective immigrants in a year. In 1960-61, there were 46 doctors abroad, giving an average of 2,043 examinations per doctor (*see* Table 7).

Table 7—TOTAL EXAMINATIONS AND RE-EXAMINATIONS BY CANADIAN MEDICAL OFFICERS¹—
(EXCLUDING ALL ROSTER WORK)

| <i>Fiscal Year</i> | <i>Examinations and re-examinations</i> | <i>Cost</i> | <i>Cost per Examination</i> |
|--------------------|---|-------------|---------------------------------|
| 1958/59..... | 104,543 | \$1,099,979 | \$10.52 |
| 1959/60..... | 107,046 | 1,040,991 | 9.72 |
| 1960/61..... | 94,020 | 1,165,600 | 12.39 |

¹Department of National Health and Welfare figures.

Table 7—TOTAL EXAMINATIONS AND RE-EXAMINATIONS BY CANADIAN MEDICAL OFFICERS¹—
(EXCLUDING ALL ROSTER WORK)—(Continued)

| Place | No. of Doctors | Total No. of Exami- nations | Performance Average No. of Exams per Doctor | Total Cost | Unit Cost | |
|--|-------------------|--------------------------------------|--|---------------|-------------------------|---|
| | | | | | Cost per Examination | Capital Items |
| | | | | \$ | | \$ |
| BELFAST | | | | | | |
| 1958-59..... | 1 | 1,521 | 1,521 | 27,440.00 | 18.04 | — |
| 1959-60..... | 1 | 1,653 | 1,653 | 19,570.00 | 12.00 | 136.00 |
| 1960-61..... | 1 | 1,210 | 1,210 | 31,476.00 | 26.00 | 5,370.00 (new office and X-ray) |
| BRISTOL | | | | | | |
| 1958-59..... | 1 | 1,338 | 1,338 | 37,295.00 | 27.87 | 12,868.00 (X-ray plant installed) |
| 1959-60..... | 1 | 1,351 | 1,351 | 17,453.00 | 13.00 | 120.15 |
| 1960-61..... | 1 | 1,074 | 1,074 | 13,770.00 | 13.0 | — |
| GLASGOW | | | | | | |
| 1958-59..... | 4/3 | 5,273 | 1,465 | 77,263.00 | 14.66 | — |
| 1959-60..... | 3 | 6,826 | 2,275 | 69,269.00 | 10.00 | 798.00 |
| 1960-61..... | 3 | 4,678 | 1,559 | 72,454.00 | 15.00 | 8,698.00 (new X-ray) |
| LEEDS | | | | | | |
| 1958-59..... | 3/2 | 2,499 | 1,250 | 43,799.00 | 17.53 | — |
| 1959-60..... | 2 | 3,043 | 1,523 | 34,313.00 | 11.00 | 25.00 |
| 1960-61..... | 2 | 2,170 | 1,085 | 35,347.00 | 16.00 | 46.00 |
| LIVERPOOL | | | | | | |
| 1958-59..... | 3 | 3,667 | 1,223 | 53,699.00 | 14.65 | 76.00 |
| 1959-60..... | 3 | 3,429 | 1,143 | 48,452.00 | 14.00 | 175.00 |
| 1960-61..... | 3/2 | 2,414 | — | 44,505.00 | 18.00 | 50.00 |
| LONDON | | | | | | |
| 1958-59..... | 15* | 12,504 | 1,250 | 322,249.00* | 25.75 | 932.00 |
| 1959-60..... | 15* | 12,306 | 1,231 | 312,186.00* | 25.40 | 2,935.00 |
| 1960-61..... | 15* | 10,095 | 1,010 | 391,624.00* | 38.80 | 2,204.00 |
| *includes 5 administration or specialist consultants | | | | | | |
| DUBLIN | | | | | | |
| 1958-59..... | — | 965 | — | 5,617.00 | 5.82 | Roster doctor, costs now doubled |
| 1959-60..... | — | 992 | — | 7,973.00 | 8.00 | |
| 1960-61..... | — | 663 | — | 5,536.00 | 9.00 | |
| THE HAGUE | | | | | | |
| 1958-59..... | 4 | 7,313 | 1,828 | 60,373.00 | 8.00 | 523.00 |
| 1959-60..... | 4 | 8,507 | 2,129 | 57,034.00 | 7.00 | 25.00 |
| 1960-61..... | 4 | 4,289 | 1,072 | 61,134.00 | 14.00 | — |
| (now 3) | | | | | | |

Table 7—TOTAL EXAMINATIONS AND RE-EXAMINATIONS BY CANADIAN MEDICAL OFFICERS¹—
(EXCLUDING ALL ROSTER WORK)—(Concluded)

| Place | No. of Doctors | Total No. of Exami- nations | Performance Average No. of Exams per Doctor | Unit Cost | | |
|--------------|-------------------|--------------------------------------|--|---------------|-------------------------|-------------------------------------|
| | | | | Total Cost | Cost per Examination | Capital Items |
| | | | | \$ | | \$ |
| COLOGNE | | | | | | |
| 1958-59..... | 6/5 | 8,613 | 1,723 | 79,269.00 | 9.00 | — |
| 1959-60..... | 4 | 8,163 | 2,040 | 80,895.00 | 10.00 | — |
| 1960-61..... | 4 | 6,207 | 1,551 | 90,815.00 | 15.00 | — |
| BERLIN | | | | | | |
| 1958-59..... | 1 | 2,346 | 2,346 | 13,236.00 | 6.00 | — |
| 1959-60..... | 1 | 2,074 | 2,074 | 14,516.00 | 7.00 | 8,170.00 |
| 1960-61..... | 1 | 1,592 | 1,592 | 15,447.00 | 10.00 | 555.94 |
| HAMBURG | | | | | | |
| 1958-59..... | 1 | 3,686 | 3,686 | 25,002.00 | 7.00 | — |
| 1959-60..... | 1 | 3,244 | 3,244 | 18,856.00 | 6.00 | — |
| 1960-61..... | 1 | 2,936 | 2,936 | 11,387.00 | 4.00 | — |
| MUNICH | | | | | | |
| 1958-59..... | 1 | 1,974 | 1,974 | 15,213.00 | 8.00 | — |
| 1959-60..... | 1 | 2,572 | 2,572 | 15,837.00 | 6.00 | — |
| 1960-61..... | 1 | 1,763 | 1,763 | 15,514.00 | 9.00 | — |
| STUTTGART | | | | | | |
| 1958-59..... | 1 | 3,795 | 3,795 | 14,984.00 | 4.00 | — |
| 1959-60..... | 1 | 3,524 | 3,524 | 15,838.00 | 4.00 | — |
| 1960-61..... | 1 | 3,238 | 3,238 | 17,826.00 | 5.50 | — |
| ROME | | | | | | |
| 1958-59..... | 6 | 39,799 | 6,633 | 112,546.88 | 2.80 | — |
| 1959-60..... | 6 | 29,460 | 4,910 | 122,400.37 | 4.15 | — |
| 1960-61..... | 6 | 24,837 | 4,156 | 147,199.00 | 5.92 | 2,302.36 (Air Con- ditioning) |
| ATHENS | | | | | | |
| 1958-59..... | 1 | 6,373 | 6,373 | 17,692.00 | 2.78 | — |
| 1959-60..... | 1 | 6,207 | 6,207 | 27,245.00 | 4.39 | 720.00 (New Office) |
| 1960-61..... | 1 | 6,362 | 6,362 | 23,577.00 | 3.71 | 653.00 |
| PARIS | | | | | | |
| 1958-59..... | 3 | 4,102 | 1,367 | 59,335.00 | 14.00 | — |
| 1959-60..... | 3 | 5,413 | 1,804 | 71,204.00 | 13.00 | 10,086.00 |
| 1960-61..... | 3 | 5,685 | 1,895 | 73,786.00 | 13.00 | 862.00 |

¹Department of National Health and Welfare figures.

Five of the doctors employed in London do not conduct examinations, and a few doctors elsewhere do not examine full-time. Nonetheless, it is clear the average workload for 1960-61 was less than one-half of the normal. The variation by location was extreme. The physician in Athens examined 6,362 persons, while his counterpart in London examined 1,010. The workload in London has not varied significantly for the last three years, yet no reduction has been made in the number of physicians. There are ten examining physicians operating at one-sixth of the normal workload, but no move has been made to reduce costs. The average cost per examination in 1960-61 was \$12.39, varying from \$3.71 in Athens to \$38.80 in London. It is clear that, in those centres where more than one Canadian physician is now employed, staff reductions should be made immediately.

Even at full-employment, this type of work is routine, monotonous and confined within narrow limits, and deterioration of skill inevitably results. The employment of competent physicians full-time in this work is wasteful, particularly in view of readily available alternatives.

Fast-changing world health conditions allow a reappraisal of the methods of the Immigration Medical Service. General standards of health have improved in all parts of the world. The incidence of tuberculosis, once the greatest danger in an immigrant population, has been reduced to such a degree that the Canadian government, in some instances, has deliberately admitted cases of tuberculosis to Canada for treatment. Certain provincial governments have accepted a similar responsibility for tuberculosis cases.

A second factor of importance is the speed with which documents can today be transported and screened. One of the major reasons for introducing Canadian physicians into Europe was the delay consequent on the pre-screening technique. Documents can now be brought from any city in Europe to Ottawa almost as quickly as they can be taken to the European headquarters in London, where many reports of examinations now go for approval. The security investigations of the Department of Immigration are alleged to require an average of two weeks to complete. This period would provide ample time for evaluation in Ottawa of the results of local physical examinations in Europe.

Thus there are sound grounds for recommending that examinations abroad by Canadian physicians be discontinued altogether, and that roster doctors be employed in all countries. The present policy of providing free examinations for prospective immigrants of certain countries is of questionable value. Your Commissioners did not find evidence to support the apparent belief that the cost of the physical examination in any way affected the decision to emigrate.

Serious study should be given to developing a more objective type of examination. Modern needs would appear to include a continuation of x-rays for tuberculosis, to be read by physicians in Ottawa; urinalysis to be performed in a laboratory other than that of the examining physician; blood tests for syphilis, and the like. The present psychiatric staff should be used, with an advisory group, to produce an objective questionnaire to be filled out by the potential immigrant and evaluated in Ottawa. The findings of such a questionnaire should be followed carefully and constantly evaluated.

It is argued that the location of Canadian physicians in the field tends to minimize the danger of examination results being falsified by local physicians. However, the parts of the world in which this phenomenon is allegedly most likely to occur are not all at present staffed by Canadian physicians. Proper precautions will reduce the danger of bribery, and the selection of dependable physicians can best be accomplished with the advice of the local licensing body for physicians or the faculty of the local medical school.

In some centres there may be merit in following the example of Australia—in addition to employing full-time Australian doctors in London, Australian doctors following post-graduate training in England are employed on a part-time basis. This plan is considerably less expensive, has all the advantages of employing a national, and provides worthwhile assistance to young doctors.

- We therefore recommend that:*
- 1 More objective tests of prospective immigrants be developed, to include enquiries of a psychiatric nature.
 - 2 The 'roster doctor' plan for carrying out examinations be universally applied, and the staff of Canadian physicians overseas be recalled.
 - 3 Pending the implementation of the foregoing recommendation, the number of physicians now abroad be sharply reduced, and proper management controls be introduced in the Immigration Medical Service.

FOOD AND DRUGS

The Food and Drug Directorate administers the *Food and Drugs Act*, the *Proprietary or Patent Medicine Act*, and the *Opium and Narcotic Drug Act*.

The intent of these statutes is to ensure the purity of foods and the safety and effectiveness of drugs; to guide the public against health hazards in foods and drugs; to prevent fraudulent and deceptive labelling and advertising; and to regulate the importation, manufacture and distribution of narcotics.

The Directorate was established in 1875 and its scope has steadily increased. In recent years the volume of products appearing on the market and subject to scrutiny under the *Food and Drugs Act* has severely strained available resources. In 1960, some 25,000 radio commercials were checked; 2,000 of the 25,000 pharmaceutical products for sale in Canada were examined; some 200 new pharmaceuticals were investigated; and foods brought into Canada were inspected.

The Directorate, with headquarters in Ottawa, operates central laboratories in that city and in five regional offices across Canada which co-ordinate and direct the inspection of foods and drugs, with the exception of narcotics. The auditing of narcotic supplies in the drug trade is performed separately by eight inspectors, located at various points across the country, who are under the direct authority of the Chief, Narcotic Control Division, a unit only recently incorporated in the Directorate.

There is considerable honest doubt on the part of the inspection staff of this Directorate whether current responsibilities are being adequately met. The limited staff available results at times in a degree of superficiality of screening which can be dangerous, and staff requirements should therefore be carefully reviewed. Reference is made in the discussion of the Laboratory of Hygiene to the desirability of transferring to the Food and Drug Directorate the responsibility for analysis of biological drugs and inspection of manufacturing facilities.

We therefore recommend that: The analysis of biological drugs and the inspection of manufacturing facilities be henceforth administered by the Food and Drug Directorate.

5

CONSOLIDATION OF FEDERAL HEALTH SERVICES

The most efficient conduct of federal medical services cannot be achieved with fragmentation and separation of skilled manpower and facilities. Workloads vary unduly for personnel and equipment. In addition to the lack of correlation of activities of general medical officers, there is limited opportunity to make optimum use of special skills. Co-operation between the members of the various departments at the local or provincial levels is rendered needlessly difficult. In the federal government service, the various health divisions and directorates are more or less self-contained. Even though career opportunities may be singularly inadequate in certain parts of the Health Branch of the Department of National Health and Welfare, there is little opportunity for transfer. This extreme limitation of career opportunities accentuates problems of recruitment and strongly influences the quality of medical service.

The effect of the recommendations to transfer the operation of the majority of the federal hospitals to other jurisdictions will be to reduce the health services staff of the federal government by very significant proportions. When the transfer of hospitals has been completed, necessarily a long-term project, as many as 9,000 positions on the establishment of the Veterans Treatment Services Branch of the Department of Veterans Affairs and 1,500 in Indian and Northern Health Services of the Department of National Health and Welfare may be affected. The remaining federal employees engaged in health activities, excluding the Canadian Forces Medical Services, would number less than 5,000 (based on present strength). This number would exceed the

current strength of the Health Branch of the Department of National Health and Welfare by less than twenty-five per cent.

The logical step following the devolution of the medical care services and the consequent reduction in federal health personnel would be consolidation of the remaining services in one department.

REORGANIZATION OF HEALTH AND RELATED SERVICES

The top structure of the present Health Branch of the Department of National Health and Welfare is basically fitted to assume the reorganized functions. The continuation of three directorates is recommended, respectively consolidating:

- All activities and services designed to support and to co-ordinate the health services operating under provincial jurisdiction.
- All public health, diagnostic and treatment services provided by, or at the expense of, the federal government to persons whose health is primarily a federal responsibility or concern.
- All federal activities designed primarily to safeguard the public health through the control of the advertising, packaging and quality of foods and drugs, and of the distribution of narcotic drugs.

The proposed organization structure of a reconstituted Department of National Health and Welfare is illustrated in some detail in charts 3, 4, 5 and 6. Although future treatment service for veterans will, in the main, be furnished by part-time physicians on a fee basis, the remaining full-time staff should be part of this unified health service, as should the present health staff of the Penitentiaries Service. The medical evaluation required by the Canadian Pension Commission should be provided for in the reorganized Health Branch.

The changes outlined in the proposed structure are described elsewhere in this report, except for those pertaining to the proposed Medical and Treatment Services Directorate.

This Directorate will be executing several programmes for specified groups of veterans, Indians, and others. As far as possible, an integrated field staff will administer these programmes. It is desirable that specialists, concerned primarily with planning and control, should be provided to ensure that each programme is properly designed and executed by the Directorate. An Assistant Director, Programme Planning, should co-ordinate the activities of the programme specialists.

Chart 3 — NATIONAL HEALTH AND WELFARE — RECOMMENDED ORGANIZATION OF THE HEALTH BRANCH

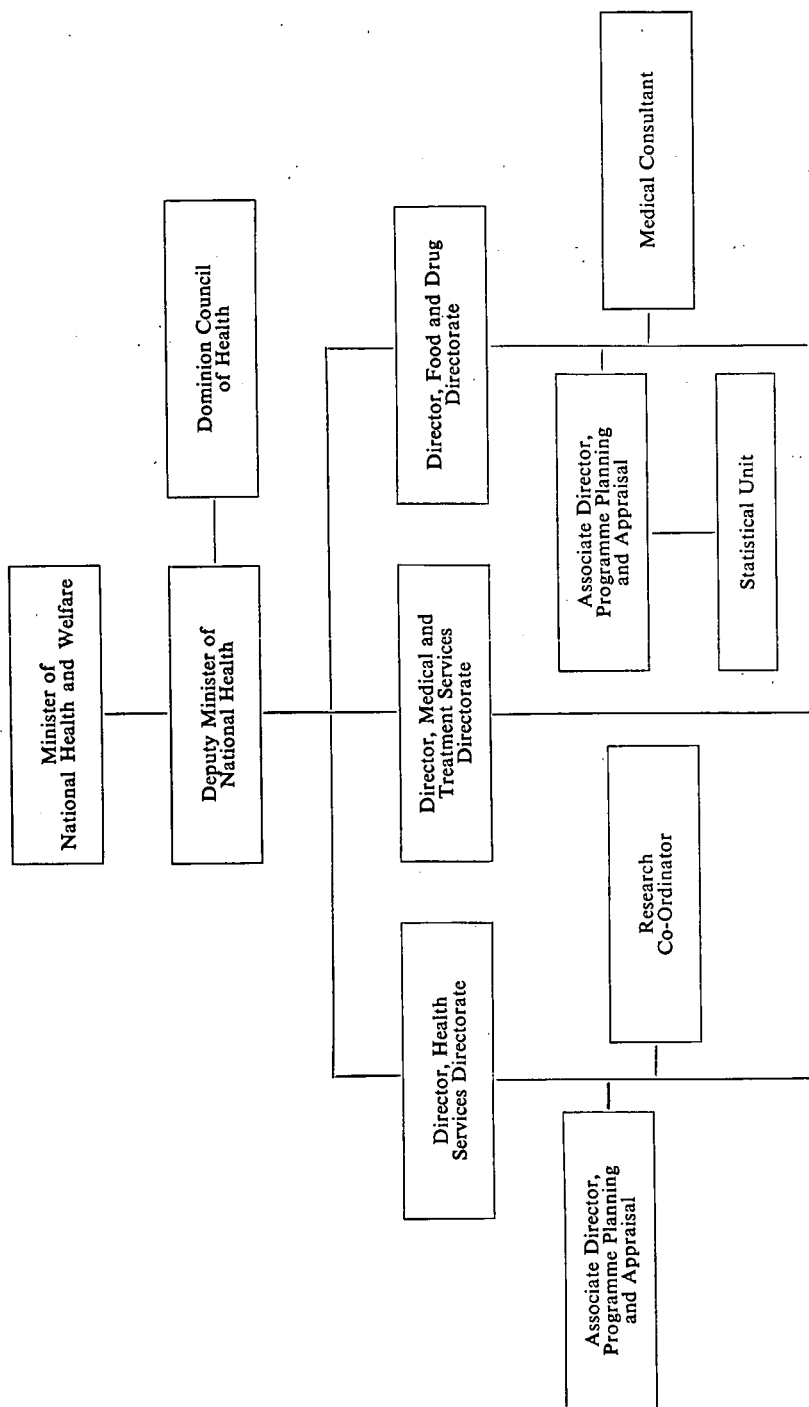


Chart 4—HEALTH SERVICES DIRECTORATE

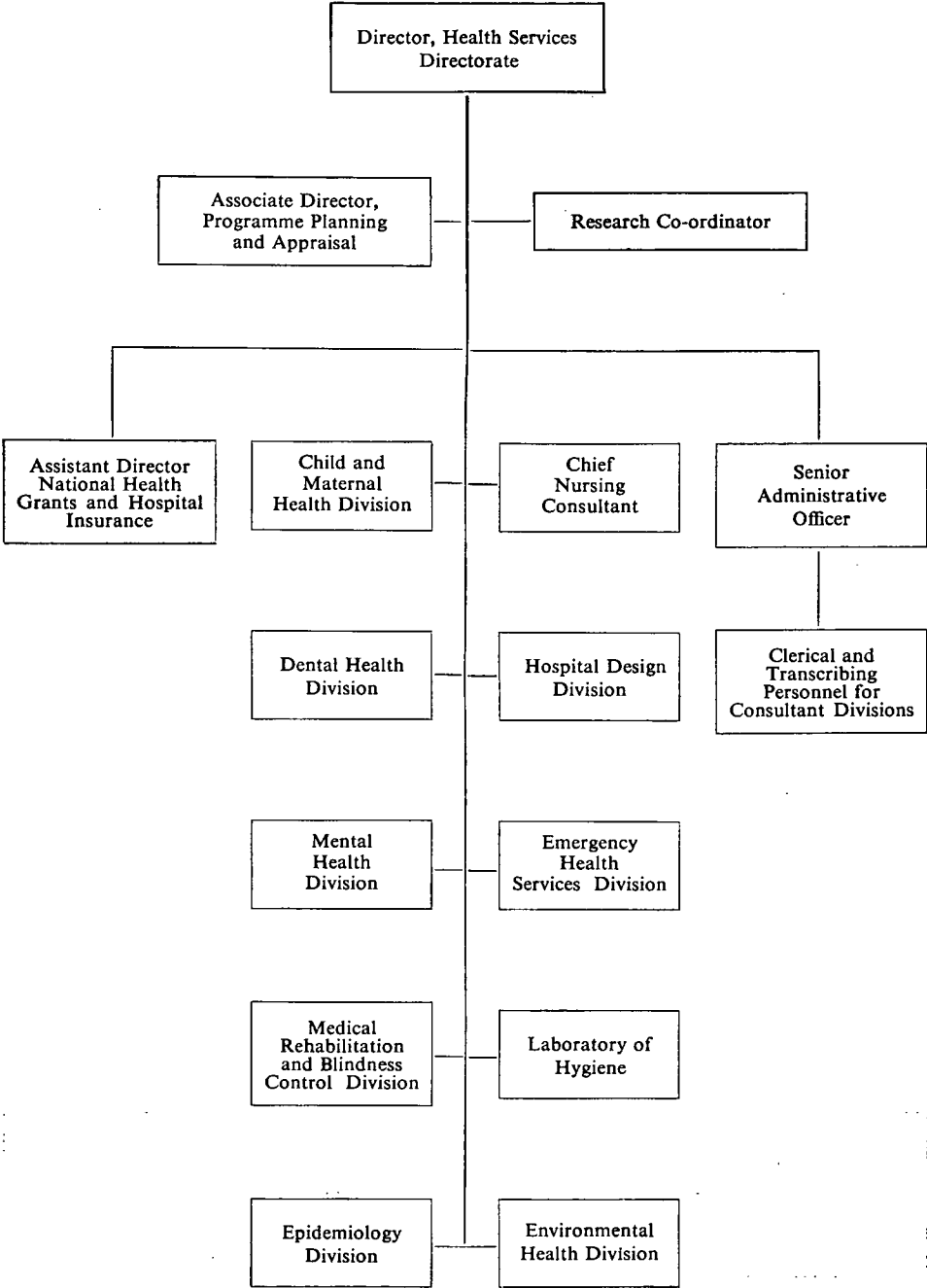


Chart 5—MEDICAL AND TREATMENT SERVICES DIRECTORATE

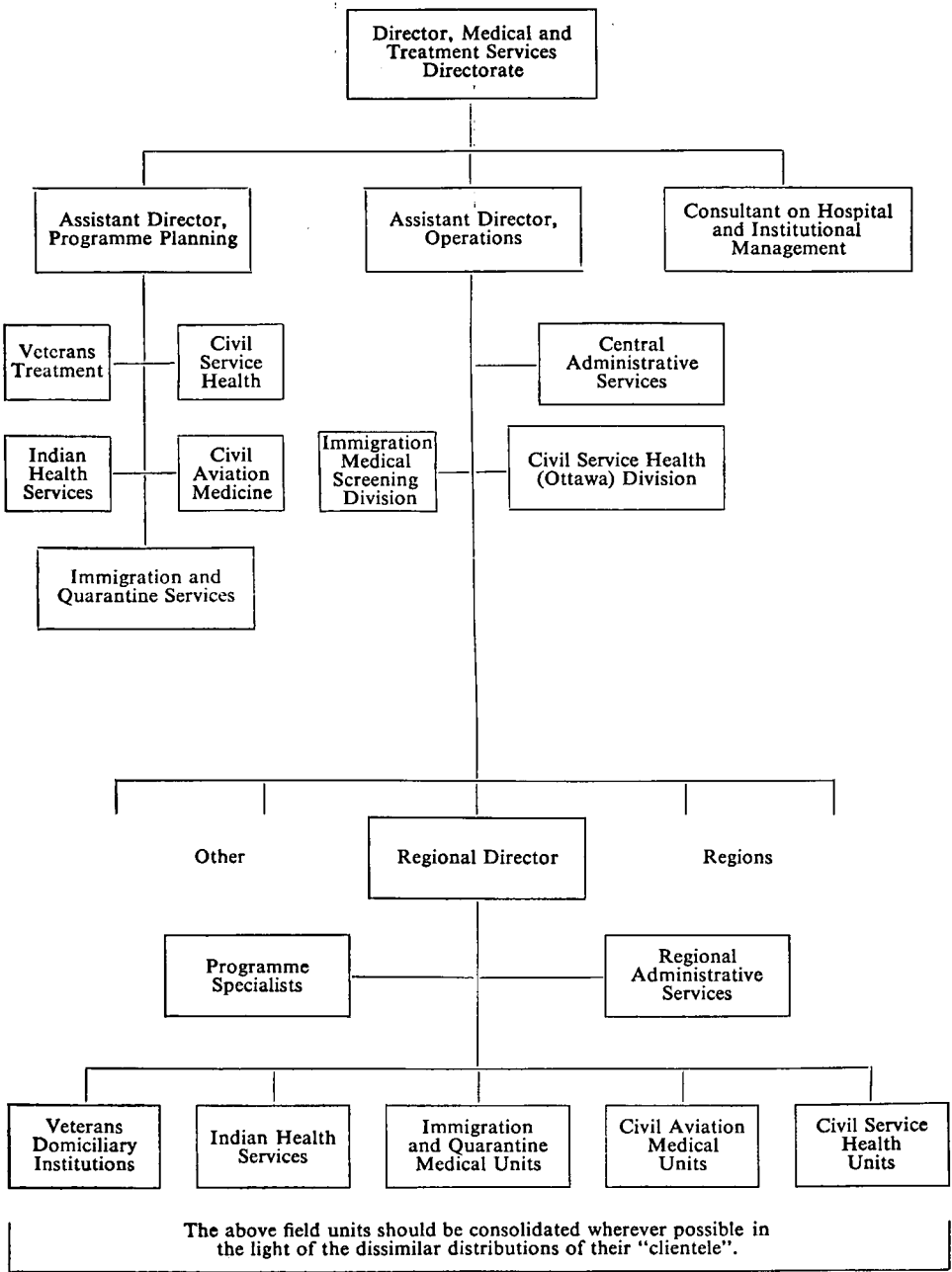
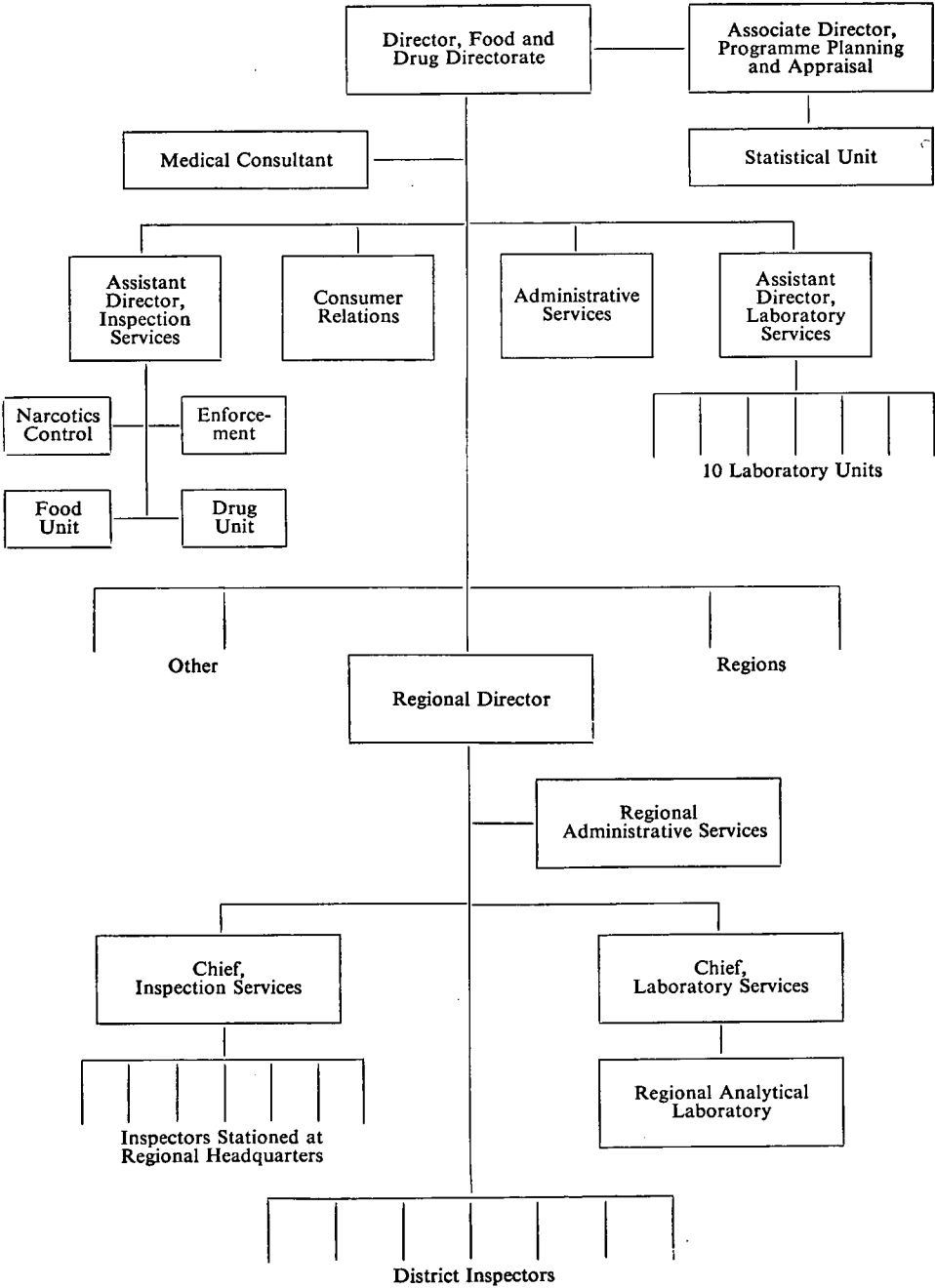


Chart 6—FOOD AND DRUG DIRECTORATE



One officer with extensive training and experience in hospital management should be appointed in a staff capacity to the Director, to ensure that the special problems of hospital management receive adequate attention within the Directorate.

An Assistant Director, Operations, is proposed to prevent the imposition of an over-extended span of control on the Director, to co-ordinate the relationships between regions, and to represent the operating units in the formulation of policies at the Directorate level.

Certain exceptions should be noted. In the north, the need for close co-ordination between public health and other public services (particularly education) leads to the conclusion that all government health services in each of the Territories should be under the control of the respective Commissioners. It is proposed, however, that the health personnel be rotated between the territorial civil services and the National Health Branch in order that a continuous supply of qualified persons can be made available to the Territories.

The incorporation of the Canadian Forces Medical Service within a unified health service was considered by your Commissioners. The assignment of civilian personnel from a central health service to serve with the Armed Forces, the special exigencies of war, and the control and discipline of servicemen receiving treatment in civilian facilities pose unique problems. The proposed consolidation of existing services in Veterans Affairs, National Health and Welfare, the Canadian Pension Commission, and the Penitentiaries Service should be completed before any decision is taken to incorporate any military personnel or facilities. This proposal does not preclude the seconding of civilian personnel from the Health Branch to the Canadian Forces Medical Service; conversely, health personnel retiring from the Armed Forces at an early age should be positively encouraged to join the civilian organization.

Once the federal health services have been successfully integrated, there would be advantages in developing a high degree of co-operation with provincial and municipal health services. Agreements for the interchange of staff would provide more opportunity for medical personnel and should thereby result in improved standards of care and a more attractive career for physicians. Recruiting difficulties for undesirable locations would be lessened, and greater staff mobility could be accomplished.

We therefore recommend that: All health services of the federal government other than the Canadian Forces Medical Service be consolidated in a reconstituted Health Branch of the Department of National Health and Welfare.

STAFFING

Although the formation of a single federal health service will in itself provide better career opportunities, concrete steps will have to be taken to encourage the best medical graduates to enter and remain in the public service. Acceptance and implementation of the recommendations contained in the report on *Personnel Management* will help to overcome the present cumbersome recruiting procedures and the barriers to transfer, but other factors remain which, unless approached positively, will continue to impede the enlistment of the best physicians. The opportunities for graduate training are limited. The heads of some of the specialist divisions have not had sufficient training to be certificated in their specialty. Salary ranges, unrealistic up to two years ago, have been significantly increased, but the problem has not been entirely removed.

The decline in the number of really good entrants to medical schools presents a serious problem to Canada as a whole. However, this a subject more properly within the reference to the Royal Commission on Health Services; therefore it is not now reviewed in detail, although of significance in staffing the public service.

6

MEDICAL RESEARCH

Medical research is considered here, apart from the report on *Scientific Research and Development*, because of its relationship to some of the activities in the field of medicine and public health dealt with in this report.

A comprehensive study of government-supported medical research in Canada was made several years ago by a committee of eminent doctors, under the chairmanship of Dr. R. F. Farquharson of the University of Toronto. The report of this Committee, submitted to the Government in November 1959, recommended the establishment of a Medical Research Council and an increase in the expenditures of public funds in support of medical research. These recommendations have been acted upon in part, and the Medical Research Council has been separately established under the aegis of the National Research Council for the time being.

Table 8—EXPENDITURES FOR MEDICAL RESEARCH IN 1961-62

| | (\$000) |
|---|---------|
| Department of National Health and Welfare | 5,700 |
| Defence Research Board | 1,600 |
| Medical Research Council | 3,300 |
| Department of Veterans Affairs | 369 |
| Queen Elizabeth Fund for Research into Diseases of Children | 55 |
| | <hr/> |
| | 11,024 |
| | <hr/> |

In the year 1961-62, expenditures totalling \$11 million were made by the government to support medical research. Five federal agencies were involved

and, of the total expenditures, approximately \$7 million was disbursed in grants to universities and hospitals. The balance represents the cost of research conducted within the laboratories of three of the federal agencies concerned. Expenditures of the several agencies in 1961-62 are shown in Table 8.

DEPARTMENT OF NATIONAL HEALTH AND WELFARE—\$5,700,000

Of the total medical research budget of the Department, \$3.5 million is disbursed through the National Health Research grants. This programme is primarily devoted to public health and clinical medicine. Outside scientists advise the Department with respect to all such grants, and the screening operation appears to work effectively. The balance of the budget, \$2 million, is spent to support the Department's own intramural programme which has expanded by nearly twenty-five per cent in the past two years. Here, individual projects are passed upon by groups of departmental officials without any independent advice from outside the public service. Your Commissioners, on the basis of their observation of other intramural research activities within the government, and in the absence of independent scrutiny of programmes, feel that a progressive increase may be expected in the proportion of the total funds available which is devoted to intramural research.

DEFENCE RESEARCH BOARD—\$1,600,000

The same conflict is apparent between the support of outside projects and the growth tendencies of the Board's own laboratories. Grants made to universities are carefully screened by panels of experts drawn from all parts of Canada but no similar screening is applied to the intramural programme. Here again, the sums provided for the Board's own programmes have grown while the amounts available for outside research grants have diminished with the years.

THE MEDICAL RESEARCH COUNCIL—\$3,300,000

Expenditures of the Council are devoted entirely to the support of research in universities and hospitals. The amount available in 1961-62 represents an increase of \$1 million over the disbursements of the preceding year.

DEPARTMENT OF VETERANS AFFAIRS—\$369,000

This small programme finances research in clinical medicine. While formerly an extramural programme was supported, the "in house" activities have grown

to a point where no funds were available for grants to outside bodies in the year 1960-61.

QUEEN ELIZABETH FUND FOR RESEARCH INTO DISEASES OF CHILDREN—\$55,000

The activities of this Fund are confined to grants to young research workers in the field of child health to complete their training and qualify them as full-time research workers in universities and hospitals.

DIMENSIONS OF THE CANADIAN EFFORT

In the report on *Scientific Research and Development*, your Commissioners recommend means for the determination of national scientific and research policy. The proportion of total government research expenditures that should be devoted to medical research will be a matter for decision at ministerial level, with the advice of the proposed National Scientific Advisory Council. It is noteworthy that at the present time the support of research in the field of medicine claims but a modest ($4\frac{1}{2}\%$) share of the government's total research expenditures. Monies spent on medical research in the United States are currently running at one hundred times the total of Canadian expenditures. This disproportion has become more accentuated in recent years as a result of a virtual explosion of activity in this field in the United States, which has had a significant effect upon the conduct of Canadian programmes. Facilities and salaries offered to medical scientists in the United States are on a lavish scale when compared with Canadian practice, and inevitably there has been a serious loss of Canadian trained scientists to the United States in recent years. There is no doubt that public funds are being applied in Canada to train scientists for the research programmes of the United States.

It is considered that, unless a substantial increase in support and facilities can be achieved in Canada, the standard of research activity may well suffer and the loss of trained personnel to the United States continue. In this context, the Farquharson report recommended the expenditure of \$25 million for the creation of additional research facilities at Canadian universities and the granting of substantial annual increments to the budget for operating costs. A too rapid increase in the amount of money devoted to medical research can result in an imbalance between the integrated functions of research and teaching in the medical schools of the country. This danger was recognized by the Farquharson Committee and should be taken into account in the development of government policy in this area.

While the major portion of monies currently being spent by the government

is now devoted to financing research in the universities and hospitals, the several internal research activities display a tendency towards expansion which your Commissioners feel should be held in check. In general there is broad agreement that medical research should be conducted in the centres of medical education because of its effect on the increase in medical knowledge generally and on the training of medical workers. Properly to contain the activities of government laboratories, it will be necessary to establish a policy that no research be undertaken within government laboratories unless there are compelling reasons why it cannot be conducted at universities; in addition, the practice of submitting all "in house" activities for periodic screening or review by outside experts should be adopted.

7

ASPECTS OF FEDERAL GOVERNMENT HOSPITAL MANAGEMENT

Your Commissioners have recommended that the federal government withdraw progressively from the operation of hospitals, but some hospitals will be operated for many years. Recommendations in other reports of your Commissioners, particularly *Financial Management*, have a general bearing on hospital management, and certain other particular matters need attention.

HOSPITAL MANAGERS

Hospitals are complex organizations. To operate efficiently, they require the harmonious co-ordination of effort among diverse groups of people. Expensive facilities and large staffs must be utilized economically and, simultaneously, high standards of medical care must be maintained. These are the considerations that have led many large public and teaching hospitals to secure professionally qualified hospital managers as their senior executives. Federal hospitals, however, are managed by physicians, few of whom have had adequate preparatory training for the executive functions of their positions. Future appointments of hospital managers should be based on proven administrative ability in the hospital field and should not be restricted to physicians.

HOSPITAL SUPPORTING SERVICES

Certain services are rendered to federal hospitals by other departmental units, including functions such as personnel, purchasing, engineering and

budgetary control. In the Department of Veterans Affairs, the regional administrators are senior line executives in the field, responsible to the Deputy Minister for the management of veterans' welfare services and of central administrative groups within their regions. They also exercise, with certain exceptions, an authority over the personnel, purchasing, transport, accounting, and engineering functions within the hospitals. The Senior Treatment Medical Officer in each region is, nevertheless, held responsible "to the Director-General of Treatment Services" (at headquarters) "for providing complete medical, prosthetic, dental, hospital and domiciliary care to veterans and other persons . . .".* The hospital administrator is dependent on these outside officers and subject to the rules and regulations of an outside authority. Where authority is so divided, no one can be fully accountable.

For example, the centralization of purchase authority in regions or districts frequently results in contracts being awarded to other than local firms, even when local prices, quality and service are comparable. Consequently, difficulties arise through shortages and non-delivery. Central purchase of certain common goods is obviously justified because of the very significant economies available through bulk purchasing. The items to be purchased centrally should, however, be designated in an up-to-date catalogue, and rapid delivery must be assured. The hospital administrator must have the authority to purchase any item locally in an emergency.

Wherever feasible, all essential administrative services must be co-ordinated within the hospital under the authority and control of the hospital manager, subject only to broad guidelines.

FINANCIAL MANAGEMENT AND CONTROL

Estimates

The inadequacy of the information currently provided to Parliament in the Estimates is stressed in the report on *Financial Management*. Some specific comment is required on hospital estimates and financial control. In no case are the anticipated expenditures for individual hospitals disclosed in the Estimates. In general, the anticipated cost of operating all hospitals in any department is combined in one vote in the Estimates, often grouped with other expenditures, and is categorized only under "standard objects of expenditure", such as salaries, rental of equipment, and postage, which indicate the nature of the expenditure but not its purpose. The hospital department-heads responsible for expenditures often do not participate in the preparation of the

*D.V.A. Departmental Instructions, October, 1961.

Estimates. The principal guide in arriving at the forecasts is the historical record, and this is the primary reference of those who review the Estimates. The individual hospital estimates are consolidated, reviewed and often reduced by headquarters staff. Hospitals are not always advised of the revised amounts within which they are expected to operate.

Hospital programmes presented to the Treasury Board and Parliament for approval should show the total estimated costs of each individual hospital. The estimated costs of certain smaller institutions or centres could probably be combined for Parliament but should be submitted individually to the Treasury Board for review. Individual hospital estimates should originate with hospital management.

Expenditure Control

Generally accepted principles of management control require that individual managers be held accountable for expenditures incurred on their authority. Decisions of department heads in a hospital obviously have a direct effect on the operating costs of their respective departments and of the hospital. However, expenditures are now controlled not by areas of operating responsibility but by the same standard objects of expenditures as are used in compiling the Estimates. At the hospital level, this necessarily places the onus of control on the senior accounting or administrative officer and not on the department heads, on whose decisions expenditures depend. In practice, little control is exercised until the latter months of the year, when accumulated expenditures approach the original amounts estimated. At this point, some departments within the hospital may suffer because of inefficiencies or mismanagement in others.

The Estimates are now prepared and expenditures controlled under the government's standard cash accounting system. An accrual system is required, both to satisfy the needs of management and as a basis for proper financial reporting. The adoption of the standard accounting system developed by the Canadian Hospital Association, which is used today by most Canadian hospitals, would not only lead to improved management but would enable the government to set standards for its own operations by comparison with a wide variety of private institutions.

Improved financial information for management control purposes should be available both in hospitals and at headquarters. Comprehensive monthly statements should be prepared showing comparisons of actual and budgeted costs and the amounts of variances. Some hospitals,—e.g., Royal Canadian Navy Hospital Naden in Esquimalt, B.C.—have no reliable cost information, nor is it available at headquarters. At Sunnybrook Hospital, a cost statement

for the fiscal year 1959-60 was released only in March 1961, long after it could have served any useful purpose.

INVENTORY MANAGEMENT

Inventory management in government hospitals is less than satisfactory. There are no uniform policies for establishing the minimum and maximum quantities that should be on hand; where limits have been set at the local level, control is not always exercised to assure adherence to those limits. Also, the clerical effort put forth is inefficient and uneven; stores of low monetary value receive the same attention as expensive supplies.

Hospital stores should be financed through the use of a revolving fund. This would provide additional flexibility and avoid the year-end rush to spend remaining funds that would otherwise lapse. It would also facilitate the use of accrual accounting for management purposes and permit accurate costing procedures.

**16 LENDING, GUARANTEEING AND
INSURING ACTIVITIES**

SERVICES FOR THE PUBLIC

REPORT 16: LENDING,
GUARANTEEING AND
INSURING ACTIVITIES

PUBLISHED BY THE QUEEN'S PRINTER • OTTAWA • CANADA FOR
THE ROYAL COMMISSION ON GOVERNMENT ORGANIZATION

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A number of briefs and submissions bearing on this subject were considered and these are duly recorded in the final volume of your Commissioners' reports.

Your Commissioners, in acknowledging the assistance and advice received, dissociate all those named above from any of the findings and conclusions contained in this report; for these, your Commissioners assume full responsibility.

1

INTRODUCTION

Homeowners, farmers, fishermen, business firms, veterans, exporters, immigrants, public servants and the public at large benefit from the lending, guaranteeing and insuring services provided by the Government of Canada. These programmes substantially redirect normal streams of credit. Loans to individuals and businesses now approach \$5 billion and present liabilities arising from the sale of annuities to the public and from the pension plans for public servants are calculated to total almost \$4 billion.

This report relates to those activities of the government which provide financial services and assistance to individuals and businesses in Canada. Broadly defined these include direct and indirect loans, guarantee, and insurance programmes, the pension arrangements for public employees and annuities sold to the public. Excluded are loans and guarantees to foreign countries, to other levels of government in Canada, and to Crown corporations save where these are engaged in lending, guaranteeing and insuring activities. The activities of the Unemployment Insurance Commission and the Bank of Canada, which are under review by others, are not included here.

No attempt is made by your Commissioners to develop any conclusions with reference to the public policies that these programmes are designed to achieve. The concern is with the effectiveness of the procedures and forms of organization under which the programmes are administered.

2

DESCRIPTION OF PROGRAMMES

The lending, guaranteeing and insuring services provided by the Government of Canada, here examined, are administered by the following departments and agencies:

THE DEPARTMENT OF FINANCE directs four programmes of assistance to individuals through short and intermediate-term loans at preferred rates of interest. Most of these loans are made directly to borrowers by the chartered banks, which are protected against loss by government guarantee. Legislation administered includes the *Farm Improvement Loans Act*, which provides loans to farmers for the improvement and development of farms; the *Fisheries Improvement Loans Act*, which provides credit to fishermen engaged in primary fishing enterprises; the *Veterans' Business and Professional Loans Act*, which assists veterans to establish themselves in business or the professions; and a comparatively recent statute, the *Small Businesses Loans Act*, which offers credit to proprietors of small business enterprises for the improvement and modernization of equipment and premises.

THE DEPARTMENT OF AGRICULTURE, under the terms of the *Prairie Farm Assistance Act*, provides prairie wheat farmers with a form of insurance against crop failures. Those eligible contribute towards the cost through a levy on grain sold to licensed buyers.

THE CANADIAN WHEAT BOARD, under the authority of the *Prairie Grain Advance Payments Act*, makes partial payments to farmers on grain stored on farms and undelivered because of quota restrictions. Funds are borrowed

by the Board from the chartered banks, under government guarantee, for this purpose.

THE DEPARTMENT OF FISHERIES administers the Fishermen's Indemnity Plan. This plan offers fishermen, on payment of a premium, a form of insurance protection against total or partial damage to their vessels or to their lobster traps.

THE DEPARTMENT OF CITIZENSHIP AND IMMIGRATION, under the Assisted Passage Loan Scheme, makes interest-free loans to immigrants to cover the cost of transportation and other expenses.

THE DEPARTMENT OF VETERANS AFFAIRS, under the programmes administered by the Director, the Veteran's Land Act, provides three forms of assistance to veterans. The first aids those who wish to settle on land as full or part-time farmers, or to engage in commercial fishing. Under this programme land is acquired and sold to a veteran under a sale agreement bearing interest at the low rate of three and one-half per cent, a portion of the loan being non-repayable if the veteran meets prescribed conditions. Since 1954, veterans who are full-time farmers have been offered additional long-term credit at an interest rate of five per cent. The third form of assistance is the temporary financing provided to veterans during construction of their own homes, pending receipt of an insured mortgage loan from the Central Mortgage and Housing Corporation upon completion of construction.

THE DEPARTMENT OF LABOUR sells annuities to the general public under the terms of the *Government Annuities Act*; a maximum annuity of \$1,200 per annum may be sold to one person.

THE CENTRAL MORTGAGE AND HOUSING CORPORATION is the instrument for carrying out federal housing policies. Financial programmes take a variety of forms:

- Mortgage insurance schemes offer to approved lenders (including the Corporation itself) protection against losses on funds advanced for the construction of new homes and on funds advanced for improvements to old homes.
- The Corporation has in the past (but not since 1954) contracted to guarantee eighty-five per cent of the annual rentals from certain multiple housing units, in return for an annual fee. The Corporation is empowered to offer guarantees for land assembly projects and other specified purposes, but these programmes are also largely dormant.

- Direct loans are made by the Corporation for a variety of purposes. Normal housing loans are made on a residual basis only, that is when funds are unavailable from private lenders. However, direct loans are made without this limitation for the following purposes: low-rental projects constructed by limited dividend enterprises and non-profit agencies; housing for employees of mining, logging, lumbering and fishing producers; university dormitories; and sewage collection and treatment facilities constructed by municipalities.
- Finally, the Corporation may buy, sell, and lend on insured mortgages.

THE FARM CREDIT CORPORATION offers long-term mortgages to farmers to enable them to place their farms on a sound economic basis.

THE INDUSTRIAL DEVELOPMENT BANK provides money for businesses that cannot finance development through ordinary channels. Financing is usually by way of mortgage loans, but the Bank has wide discretion as to the nature of the financing it may provide and the security it may accept.

THE EXPORT CREDITS INSURANCE CORPORATION insures receipts from Canadian exports of goods and certain services. Protection is also provided against abnormal risks, including those arising from the long-term financing of large exports of capital goods. The latter programmes are administered by the Corporation, but the government assumes the risk.

Later in this report, programmes providing pensions to public servants are described. Other financial activities of the government were noted but not subjected to detailed review. These include loans to Indians and Eskimos, and to government employees posted abroad; loans or long-term receivables arising out of the sale of government property; life insurance offered to civil servants and war veterans; and several pension plans, including those providing for members of the House of Commons, diplomats and judges. The liabilities outstanding under the programmes not reviewed are often large, but many have either been discontinued, are dormant, or have only a restricted number of participants.

The programmes reviewed are classified in Table 1, which shows the amounts of loans, guarantees and insurance outstanding, and demonstrates that housing and related loans account for the major portion of the total. Only the liabilities for pension benefits guaranteed to public servants and those arising from sales of annuities are of comparable magnitude. The financial assistance provided to farmers, businesses, veterans and others is of substantial proportions, but small in relation to the other programmes.

Loans vary in term. Long-term loans are usually made to finance new

housing construction, university dormitories, and municipal sewerage projects, under the programmes administered by the Central Mortgage and Housing Corporation. Loans by the Farm Credit Corporation and certain of the loans administered by the Director, the Veterans' Land Act, are also long-term. Short and medium-term loans are made directly to business firms by the Industrial Development Bank. The guaranteed loans made by chartered banks to farmers, fishermen, veterans and small business firms, and the insured loans made to homeowners for home improvements, are short or medium-term. The Canadian Wheat Board's advances against undelivered crops are short-term, as are the loans to immigrants by the Department of Citizenship and Immigration.

Table 1 shows that the total of direct loans by government agencies is over \$1.8 billion, and indirect loans almost \$3 billion. The latter comprise the loans made by private institutions on the basis of government guarantees or insurance.

Some of these programmes are limited to the provision of money, but a number provide the beneficiaries with special services designed to promote financial success. For example, the staffs of the Veterans' Land Act Administration and the Farm Credit Corporation not only appraise loan applications from the viewpoint of the security offered and the soundness of the farming plan, but also maintain a continuing scrutiny of the mortgagor's operations. This includes reviewing financial results, inspecting progress and generally supervising operations to ensure that plans are being soundly implemented. The Industrial Development Bank has a large professional staff to counsel and advise prospective and current borrowers. Programmes of the Central Mortgage and Housing Corporation include inspection of housing construction financed both directly and by private lenders. Because of the Corporation's statutory responsibility to improve the quality of housing generally, the inspections are usually more detailed than those normally carried out by private lenders. The Export Credits Insurance Corporation freely provides exporters with advice and counsel. By contrast, the Department of Finance provides few supplementary services; the chartered banks and other authorized lenders are responsible for administering the loans made under government guarantee, while the interest of the Department is limited to scrutinizing performance and paying losses.

Comparative assessment of the efficiency of these services is hindered by the variety of supplementary services. Generally, administrative costs are much greater than they would be if no more than financial accommodation were provided. The borrower is not often permitted to accept the financial assistance without also becoming the beneficiary of the supplementary services.

Table 1 — LENDING, GUARANTEETING AND INSURING ACTIVITIES REVIEWED

| Purpose | Agency | Activity | Amounts Outstanding at Fiscal Year End December 31, 1960 or March 31, 1961 | | | | |
|---------|--|---|---|-----------|--|---------------|--------|
| | | | Loans (note 1) | | Commitments Under Guarantees or Insurance | | |
| | | | Direct | Indirect | Total | Contingent | Fixed |
| | | | (thousands of dollars) | | | | |
| Housing | Central Mortgage and Housing Corporation | — Long term loans for housing, including moderate and low income rental housing..... | 1,296,384 | 2,751,847 | | 3,090,000 | |
| | | — Long term loans for university dormitories and sewerage projects (note 2) | | | | | |
| | | — Rental guarantee to owners of low and moderate rental housing..... | | | | 15,500 | |
| | | — Short and medium term loans for improvements to existing housing.. | | 56,000 | | 9,410 | |
| | | | 1,296,384 | 2,807,847 | 4,104,231 | 3,114,910 | — |
| Farmer | Farm Credit Corporation | — Long term mortgage credit..... | 162,427 | | | | |
| | | — Loans to western farmers against undelivered crops..... | 35,836 | | | | |
| | Department of Finance— <i>Farm Improvement Loans Act</i> | — Intermediate and short term credit to farmers for improvement and development of farms, and for the improvement of living conditions thereon..... | | 177,536 | | 45,426 | |
| | | — Assistance for western farmers suffering crop failure..... | | | | Indeterminate | |
| | | Department of Agriculture | | 198,263 | 177,536 | 375,799 | 45,426 |

| | | | | | | |
|-----------|--|--|---------|---------|---------------|---|
| Business | Industrial Development Bank | - Credit to industry, trade, or other business undertakings by supplementing the activities of other lenders..... | 105,900 | | | |
| | Department of Finance— <i>Small Businesses Loans Act</i> | - Loans to proprietors of small business enterprises for the improvement and modernization of equipment and premises..... | 1,865 | 107,765 | 187 | |
| | | | 105,900 | 1,865 | 187 | — |
| Veterans | Department of Veterans Affairs — <i>Veterans Land Act</i> | - Financial assistance through loans for settlement of veterans in full or part-time agricultural pursuits, or as commercial fishermen or for home construction..... | 199,644 | | | |
| | Department of Finance— <i>Veterans Business and Professional Loans Act</i> | - Short and medium term loans to assist veterans in their establishment in business or professionally.. | 209 | | 209 | |
| | | | 199,644 | 209 | 209 | — |
| Fishermen | Department of Finance— <i>Fisheries Improvement Loans Act</i> | - Short and medium term loans to assist fishermen engaged in primary fishing enterprise..... | 355 | | 147 | |
| | Department of Fisheries | - Fishermen's indemnity plan covering vessel and lobster trap losses | | | Indeterminate | |
| | | | — | 355 | 147 | — |
| Exporters | Export Credits Insurance Corp. | - Guarantees for long term financing of exports of large capital goods... | | | 110,067 | |
| | | - Insurance for short and medium term financing of exports..... | | | 64,847 | |
| | | | — | — | 174,914 | — |

Table 1 — LENDING, GUARANTEEING AND INSURING ACTIVITIES REVIEWED (Concluded)

| Purpose | Agency | Activity | Amounts Outstanding at Fiscal Year End December 31, 1960 or March 31, 1961 | | | | |
|------------------------|---|---|---|-----------|--|--------------------|-----------|
| | | | Loans (note 1) | | Commitments Under Guarantees or Insurance | | |
| | | | Direct | Indirect | Total | Contingent | Fixed |
| (thousands of dollars) | | | | | | | |
| Immigrants | Department of Citizenship and Immigration | — Short term loans to immigrants to cover cost of transportation, and other expenses..... | 3,427 | — | 3,427 | — | — |
| Public Servants | Department of Finance | — Public service Superannuation, Retirement and Death Benefits..... | — | — | — | 1,479,983 (note 3) | — |
| | Department of National Defence | — Canadian Forces Superannuation and Death Benefits..... | — | — | — | 1,163,478 (note 3) | — |
| | Royal Canadian Mounted Police | — R.C.M.P. Superannuation and Dependents Benefits..... | — | — | — | 29,483 (note 3) | — |
| | | | — | — | — | 2,672,944 | — |
| General Public | Department of Labour | — Sale of Annuities..... | — | — | — | 1,199,123 (note 3) | — |
| | | | 1,803,618 | 2,987,812 | 4,791,430 | 3,335,793 | 3,872,067 |
| | | | — | — | — | — | 3,872,067 |

Notes: — 1. Where loans, or some portion thereof, are insured or guaranteed, these amounts are shown both as loans and as guarantees or insurance.

2. Loans for university dormitories and sewerage projects were not authorized by Parliament until December 1960 and accordingly none were outstanding at December 31, 1960.

3. These amounts represent the liability recorded in the Statement of Assets and Liabilities included in the 1960-61 Public Accounts, and do not reflect an actuarial calculation of the commitment.

There is always a danger that secondary services may increase in scope and intensity when a programme declines in volume and the staff endeavour to justify their continued existence. Wider adoption of the practice of the Farm Credit Corporation, which charges a fee for supervision, together with a more accurate assessment of the cost of these secondary services might help to preserve a reasonable balance.

3

ORGANIZATIONS PROVIDING SERVICES

TYPES OF ORGANIZATION

The programmes examined exhibit no clear pattern to suggest that present forms of organization for the administration of loans, guarantees and insurance result from any consistent policy or accepted set of principles. Even within a single field of activity, a mixture or combination of methods and organizations may be employed.

Private Financial Institutions

The government uses the services of the chartered banks in certain lending programmes for farmers, fishermen, veterans, small businessmen and homeowners (for housing improvements). Banks and other private financial institutions, including trust, loan and insurance companies have also been used in housing finance and in a variety of other ways. After 1935, federal housing loans were on a partnership basis; the government supplied some of the funds and, with partial government guarantees, financial institutions provided the balance and administered the loans. In 1947, the Central Mortgage and Housing Corporation began guaranteeing a minimum return to lending institutions on land assembly projects; later, similar guarantees were made available for rental housing. Joint loans continued until 1954, with the government providing one-quarter of the funds and guaranteeing, in various ways, the balance of the loans. In that year, legislative amendments altered the role of the Corporation from that of partner to that of insurer. Private lenders, including for the first time the chartered banks, advanced the full amount of each loan but were protected against loss through an insurance scheme

administered by the Corporation, the homeowner paying a fee for the insurance.

Government Organizations

Both departmental and other forms of government organization have been used to execute certain programmes of financial assistance.

Programmes originating before World War II were generally executed and administered by departments, although the Canadian Farm Loan Board was created in the late 1920's to carry out a lending programme similar to that of its successor, the Farm Credit Corporation. Housing loans were the responsibility of the Department of Finance until 1946 and the sale of annuities has been a departmental responsibility since 1908. Over the past twenty years, the Department of Finance was made responsible for the administration of the four guarantee programmes previously described.

Programmes not under direct departmental administration are usually conducted by corporate agencies specially formed for the purpose. The Industrial Development Bank and the Export Credits Insurance Corporation are ventures into relatively new fields of assistance to business. The Central Mortgage and Housing Corporation, the government's principal agent in the housing field, is responsible for the largest volume of loans, both direct and indirect. The Farm Credit Corporation was formed in 1959 to engage in direct lending on farm mortgages.

Most of the programmes administered by departments, such as the Fishermen's Indemnity Plan and loans to immigrants, are small and relate to other departmental activities. However, the programmes administered by the Director, the Veterans' Land Act, while closely associated with other programmes of the Department of Veterans Affairs, resemble those of two corporate agencies: the Central Mortgage and Housing Corporation and the Farm Credit Corporation. All three lend directly on long-term mortgages or agreements for sale, and require field staffs spread across Canada to administer their programmes.

Boards of Directors of Corporate Agencies

The corporate agencies of the government operating in this field vary in form although, generally, the objective has been to model them on comparable institutions in the business world. Boards of directors (or an equivalent) have been appointed for all corporate agencies, but responsibilities and composition vary. Both the Farm Credit Corporation and the Export Credits Insurance Corporation have boards drawn entirely from the public service. Advisory committees of private citizens serve both organizations. The board

of the Central Mortgage and Housing Corporation has equal representation from within and without the public service. All but one of the directors of the Industrial Development Bank are the directors of the Bank of Canada, mostly drawn from outside government service. Neither the Industrial Development Bank nor the Central Mortgage and Housing Corporation has an advisory committee.

SELECTION OF TYPE OF ORGANIZATION

Thus, in the past, the form of organization chosen to conduct lending, guaranteeing and insuring programmes has not followed any clear pattern. Nevertheless, the use of private versus government facilities, the choice between a direct departmental operation, a departmental agency, or a corporate agency, and the selection of directors for corporate agencies are all affected by many of the same considerations. Your Commissioners are of the opinion that an enunciation of some principles or guidelines would therefore be helpful.

Private Financial Institutions

In allocating administrative responsibility for lending, guaranteeing and insuring activities, the first consideration should be whether private institutions can be used to implement the programme. The government and the public alike derive benefits from the use of outside facilities to provide services for the public—the same advantages as those obtained when supporting services are purchased from commercial sources, which are discussed by your Commissioners in the report on *The Make or Buy Problem*. For the government, unnecessary growth is curtailed, distraction from pertinent public responsibilities is avoided, and tax revenues are enhanced; for the public, private institutions are strengthened, thereby enabling them to provide better service.

Most direct lending activities undertaken by the government have required new organizations with outlying units across Canada. Often an acceptable standard of service cannot be provided unless representatives of the agency are widely dispersed. Employees are frequently assigned to offices where work loads are insufficient to keep them fully employed. The scale of such organizations, once established, rarely adjusts automatically to varying demands for service, and it is extremely difficult to terminate their existence when their usefulness has ceased. On the other hand, the chartered banks and other private financial institutions already have widespread branch organizations established throughout Canada. They can often undertake to provide additional financial services without any great increase in staff, and variations in the level of demand for these services can be flexibly met. Government use of the facilities of these insti-

tutions may enhance their ability to give service, whereas competition from government agencies may have the opposite effect. Above all, the most effective way to isolate lending programmes from political pressures is through the use of private institutions.

However, not all programmes can be carried out in this way. In fact, private financial institutions would probably be unwilling to undertake most of the programmes now administered by government agencies, particularly in their present form. The extensive counselling services offered under the *Veterans' Land Act* programme, and the extensive inspection of new housing construction by the Central Mortgage and Housing Corporation, designed primarily to assist the borrower to an extent beyond normal commercial practice, are not activities that a private institution is equipped to undertake. Programmes of a paternalistic nature, where the service provided may suffer if governed too closely by cost considerations, are generally unsuited to private administration.

Present practices have demonstrated that a successful programme can be developed by using private facilities in combination with a government agency. For example, the Central Mortgage and Housing Corporation assumes responsibility for all housing inspections, even though many insured mortgages are made by private lenders. While a variety of approaches may be necessary to achieve all the government's objectives, those which most closely accord to existing commercial patterns are to be preferred, since they may permit the use of private facilities to some degree, whereas the alternatives may not.

It is therefore concluded that the government should undertake to provide services directly, either for new programmes or for changes in existing programmes, only when it is clearly evident that private facilities cannot be effectively used.

The Crown Corporation

Programmes carried out by a branch or division of a department are under the direct control of the responsible minister, and must comply with general regulations on financial, personnel and administrative procedures. Finances are provided annually by Parliament, accounts are kept on a cash basis, and all receipts are deposited in the Consolidated Revenue Fund.

By contrast, programmes carried out through corporate agencies are relatively remote from the supervision of the responsible minister, although in practice there are some significant variations. Crown corporations operate with greater freedom from the detailed regulations of the Treasury Board, and often personnel may be selected and managed without reference to the Civil Service Commission. Financial and accounting procedures usually follow those of comparable private organizations.

If recommendations made by your Commissioners elsewhere are implemented, departments will enjoy greater freedom in financial, personnel and administrative matters, and much of the present sharp differentiation between departments and corporate agencies will disappear. Nevertheless, it will probably still be possible for a corporate agency to organize itself more closely along the lines of similar private institutions, conducting legal transactions, administrative procedures, and the like, in a manner generally familiar to the public.

More important, however, may be the greater degree of independence from the political process that a corporate agency enjoys, since it is apt to be more independent than either an integral branch of a minister's own department or a departmental agency. Nevertheless, there can be no true independence when the directors are all public servants, regardless of their rank or the departments to which they belong. While it may appear expedient, in exceptional cases, to fill a board with public servants, such a course really calls in question the need for the use of the corporate form.

Even when chosen from outside the public service, a board of directors can have no real independence unless clear policy guidelines are laid down and financial arrangements permit the recovery of operating costs from revenues or statutory grants. A board can either run the agency in fact, receiving ministerial guidance only in respect to major policy, or it may be merely a buffer between the minister and the staff of the agency.

Your Commissioners take the view that the corporate form should be chosen as a vehicle for lending programmes only where it can function in a normal corporate way, with responsibility for operations vested in a competent board of directors who can be held accountable for performance. In such cases, board members should be chosen primarily for their judgment and management experience, not to represent regions, users, and so on. Corporate agencies may need the expert advice and collaboration of members of the Department of Finance, the Bank of Canada, or other agencies, but external participation in the affairs of the corporation or in the deliberations of its board should be on an advisory basis only.

Direct Departmental Operation

Programmes that are not intended to be financially self-supporting and programmes that embody unusual types of service to borrowers are not suitable for execution either by private financial institutions or by Crown corporations. The cost of making interest-free loans or rendering gratuitous services has significance only as departmental expenditure under approved government programmes. Thus, logically, the programme offering interest-free loans to

immigrants remains a departmental responsibility. The Fishermen's Indemnity Plan is also best operated departmentally, because premiums earned are less than claims paid and no administrative costs are recovered.

Similarly, the guarantee or insurance features of plans under which private institutions do the lending must be administered by the government. The staffs required are not so large as to warrant the establishment of separate agencies. Under the supervision of the Department of Finance, such programmes can be harmonized with other financial and economic programmes. The Mortgage Insurance Scheme of the Central Mortgage and Housing Corporation is a possible exception to this general rule, because it is closely related to the other responsibilities of the Corporation.

Conclusions

The foregoing considerations lead to certain general conclusions about suitable forms of organization for government lending, guaranteeing and insuring:

- Chartered banks and other private financial institutions should be made responsible, in whole or in part, for administering programmes offering benefits to widespread segments of the population, using their existing branch facilities for this purpose. The supervision of programmes embodying guarantee or insurance against loss should be done by a department—preferably the Department of Finance.
- Corporate agencies should be used only when the management of the programme is to be entrusted to an independent board of directors and financial viability can be provided by suitable capitalization and adequate revenues or statutory grants.
- Departmental agencies should be used to administer programmes requiring field organizations and where the benefits offered include the provision of specialized services or assistance not suitably provided by private institutions. The use of advisory committees from outside the public service may be warranted in such cases.
- Direct departmental operation, through a branch or division, is appropriate for programmes with a very limited class of beneficiaries, or where cost recovery is not intended.

4

FINANCING OF SERVICES

DEPARTMENTAL PROGRAMMES

Departments generally obtain their annual financial requirements through parliamentary appropriations of funds to cover both advances and costs of administration. No charge is made to a department for the use of the money to be advanced, while repayments, interest and other fees received from beneficiaries are credited to the Consolidated Revenue Fund.

In business, present and prospective earnings determine whether a service to the public will be offered or maintained. The government, however, offers certain services with little regard to cost or profit, relying on its general revenues to finance departmental programmes. Services considered to be in the national interest might prove abortive if full costs were charged to the beneficiaries. The future level of operations is governed more by the willingness of Parliament to appropriate funds for these purposes than by the balance between income and expenditure.

For example, sales agreements under the *Veterans' Land Act* bear interest at three and one-half per cent, which is less than the current borrowing cost to the Crown, but the programme is not charged for the use of public funds. Some departmental programmes, such as the sale of government annuities by the Department of Labour, set premiums without regard to administrative costs, which are charged to parliamentary appropriations. Receipts from many programmes of this nature fail to cover even these direct disbursements, and Parliament is thus often called upon to appropriate additional funds to meet further deficiencies. Because cost allocation between departments is seldom complete, departmental lending programmes are normally in receipt

of a further hidden subsidy in the form of free accommodation, postage, superannuation coverage, and so forth, which are provided to them without charge. Thus the true cost of the financial services provided by departments is not usually computed or generally appreciated.

LENDING PROGRAMMES (CORPORATE AGENCIES)

Crown corporations are normally expected to follow more closely the general financial practice of attempting to balance income with outgo. They usually pay for all services received from other government departments and agencies, and are expected to meet all costs. Subsidiary activities, such as housing research, which are not expected to earn sufficient revenue to cover costs, are sometimes financed by parliamentary appropriations. Otherwise, corporate agencies are provided with money for their operations in the following ways:

- Provision of capital stock and contributions of a capital nature voted by Parliament,
- Interest-bearing loans from public funds,
- Public borrowings,
- Charges to beneficiaries.

One of the requisites for an independent Crown corporation is a sound capital structure. An agency can be truly independent only if it has sufficient capital to meet its operating requirements and to cover its losses in the ordinary course. Charges to those using its services must, of course, bear some adequate relationship to costs. Since a proper assessment of performance must take into account the amount of capital employed, regardless of its form, charges for the use of public money should be based on uniform principles.

Three major lending organizations, all corporate agencies, were examined in the course of this review—the Central Mortgage and Housing Corporation, the Farm Credit Corporation, and the Industrial Development Bank. Their financing has little in common.

Capital and Retained Earnings

The Central Mortgage and Housing Corporation, at December 31, 1960, had paid up capital of \$25 million, all subscribed by the government, and borrows large sums from the government at varying rates of interest. The corporation is permitted to retain earnings up to \$5 million, and has done so; consequently,

all profits are now turned over to the Receiver-General annually, but the surrendered profits are not set off against the Corporation's indebtedness to the Crown. With assets of approximately \$1,600 million, capital and retained earnings are currently in a ratio of 1:52.

The Farm Credit Corporation, at March 31, 1961, had a capital of \$6.4 million subscribed by the government, and has retained earnings of over \$3.5 million. Loans to farmers approximated \$162 million, giving a ratio of 1:16. When retained earnings equal the Corporation's \$8 million capital, unless the government subscribes for additional capital stock, all future profits are to be surrendered annually. The ratio of equity to loans outstanding may be expected to vary considerably, because the financial structure of the Corporation need bear no relationship to varying volumes of business.

The Industrial Development Bank had, at September 30, 1961, about \$124 million of loans outstanding and \$44 million in capital and retained earnings, a ratio of 1:2.8. There is no ceiling on the amount the Bank may accumulate and retain out of earnings. Since annual dividends, if paid, are limited to four per cent on its capital stock, all of which is held by the Bank of Canada, the amounts accumulated may be expected to become even larger, but again not necessarily varying in relation to loans outstanding.

The capital and surplus contributions of the government to these corporate agencies, on which no return is required to be paid, are not made without cost to the government as a whole. If this money were put to other uses, the total borrowings of the government and interest costs thereon would be reduced. Experience shows that Crown corporations are generally reluctant to pay dividends, even when their funds may be in excess of current requirements. Quite naturally, the management regards funds accumulated out of earnings as belonging to the corporation, and seeks to retain continued use thereof at no cost. But in the absence of charges to corporate agencies for capital held by them, the true cost of their programmes is not revealed.

The principal factor governing the amount of capital and retained earnings that a corporate agency should possess, beyond necessary working capital, is the need for protection against future losses. The loss experience of all corporations reviewed has been favourable, and none gives cause for present alarm. Nevertheless, if these corporations are to operate independently, their managements require freedom to determine, build and retain reasonable reserves against losses, without recourse to the government. Above a reasonable level, however, the government is the logical resort in a major emergency. Capital reserves and retained earnings should vary with loans outstanding, but no Crown corporation should seek to retain amounts beyond the prudent limits observed by private lending institutions. If these agencies

were charged for the use of capital contributed and earnings retained, any tendency to retain excessive reserves would be reduced.

Borrowed Money

Different borrowing practices are followed by the three Crown corporations examined. The Industrial Development Bank borrows only from its parent, the Bank of Canada, while the other two borrow from the government through the Minister of Finance. Both the Department of Finance and the Bank of Canada charge interest at rates related to the current cost of money, with a small loading to cover handling costs. The Department of Finance computes its lending rate only twice annually, thereby giving the borrowing agencies a six-month option on the rates at which they can borrow. The Bank of Canada makes a fresh calculation every fortnight, with the result that rates to the Industrial Development Bank are substantially in line with current money costs. The Bank also gives greater recognition to the period of the loan. One range of terms should be applicable to all these agencies, and the practice of the Bank of Canada seems the more appropriate.

Interest Charges to the Public

Table 2 shows the interest charged by the three corporate agencies and the charges for loans made under programmes administered by government departments. Wide variations in the charges and a general lack of consistency are revealed.

Interest charges run from nil to six and one-half per cent. Public policy may call for the offering of loans through government departments at less than normal interest rates, but such a policy imposed on a corporate agency may jeopardize its financial independence. Moreover, the interest rates charged under the various programmes administered by the Central Mortgage and Housing Corporation show no appropriate relationship either to the term of the loans or to the character of the risks involved. The five per cent lending rate of the Farm Credit Corporation bears no proper relationship to costs.

Authority to set or alter interest rates under the various programmes also varies. The Farm Credit Corporation's rate is set by statute; the Central Mortgage and Housing Corporation's rates are established by Order in Council; and the Board of Directors of the Industrial Development Bank themselves set and vary the rates charged by the Bank.

The fixing of rates by statute can lead to anomalous results. For example, the rate set by Order in Council for funds advanced by the government to the Farm Credit Corporation was recently five and three-quarters per cent,

Table 2—VARIATION IN CURRENT LEVEL OF INTEREST CHARGES ON LOANS

| <i>Purpose</i> | <i>Agency</i> | <i>Activity</i> | <i>Interest Rate</i> | <i>How Fixed</i> | <i>Maximum Term of Loan</i> |
|----------------|---|---|----------------------|--------------------|--|
| Housing | Central Mortgage and Housing Corporation | — Long term loans for housing..... | 6½% | Order in Council | 35 years |
| | | — Long term loans for low or moderate cost housing for employees of a primary produce company..... | 6¾% | Order in Council | 35 years |
| | | — Long term loans for low or moderate rental projects made to limited-dividend corporations..... | 5¼% | Order in Council | 50 years |
| | | — Long term loans for university dormitories and sewerage projects..... | 5¼% | Order in Council | 50 years |
| | | — Long term farm mortgage loans..... | 5% | Statute | 30 years |
| Farmers | Farm Credit Corporation | — Loans against undelivered crops..... | NIL unless default | Statute | 1½ years |
| Business | Canadian Wheat Board | — Credit to industry, trade or other business undertakings by supplementing activities of other tenders..... | 6-½% | Board of Directors | none fixed but normally in 5-10 year range |
| | | — Financial assistance including conditional grants for settlement of veterans in full or part time agricultural pursuits or as commercial fishermen..... | 3-½% | Statute | 20 years |
| Veterans | Department of Veterans Affairs | — Long term farm mortgage loans..... | 5% | Statute | 30 years |
| Immigrants | Department of Citizenship and Immigration | — Short term loans to immigrants to cover cost of transportation and other expenses..... | NIL | Order in Council | 2 years |

while the governing statute specifies five per cent as the maximum rate that the Corporation may charge borrowers. In the absence of legislative amendment, the total reserves of the Corporation and of its predecessor, the Canadian Farm Loan Board, accumulated over a quarter of a century, may be dissipated through a statutory obligation to lend money at less than cost.

Furthermore, although statutory rates may initially be set at an appropriate level, changes in the money markets may put such rates out of line. For example, the three and one-half per cent interest rate charged on agreements of sale under the *Veterans' Land Act* has remained unchanged for almost two decades, no adjustments having been made to reflect the wide variations that have taken place in the cost of money during the period. It seems appropriate that interest rates should be set or altered on the initiative of a corporate agency's board of directors but, since public money is involved, such rates should, in the opinion of your Commissioners, be subject to the approval of the Governor in Council. This procedure will prevent the development of inconsistencies and anomalies which enable borrowers with rights under more than one programme to borrow more cheaply from one government agency than from another for identical purposes.

- We therefore recommend that:*
- 1 Consideration be given to revising the basis of financing Crown corporations administering lending programmes, to the end that the cost of capital provided in any form, including retained earnings, be consistently and equitably borne.
 - 2 The interest charges and other terms of public loans to Crown corporations engaged in lending activities be based on uniform principles, taking into account the current cost of money to the government, the term of the loan, and other relevant factors.
 - 3 For loans made by Crown corporations to the public, interest rates be established from time to time by the board of each corporation without statutory limitation but subject to approval by the Governor in Council.

GUARANTEE AND INSURANCE PROGRAMMES

Guarantee and insurance programmes are of two types; guarantees or insurance are offered either directly to the public or to private financial institutions as an inducement to lend money to the public.

Charges to the Public

Borrowing charges under programmes backed by government guarantees or insurance are governed by considerations different from those determining the charges made by the government to recover its own costs. In Table 3, both sets of charges, where they exist, are shown for each programme, along with other pertinent information.

With one exception, the statutes administered by the Guaranteed Loans Division of the Department of Finance, providing for loans through the chartered banks, specify a maximum interest charge to the borrower of five per cent. The *Small Businesses Loans Act* sets no statutory maximum, and the current rate has been established by Order in Council at five and one-half per cent. Loans under the *Home Improvement Loans Act*, a very similar programme administered by the Central Mortgage and Housing Corporation, carry a maximum interest rate of six per cent, also set by Order in Council.

While it is recognized the deliberate intention of these government lending programmes is to make credit available at lower rates than are otherwise obtainable, these disparities are difficult to understand. The setting of a rate by Parliament without adequate machinery for variation may, as a result of fluctuations in money markets, have a detrimental effect on the success of the programme. Private financial organizations making the loans may find more profitable ways to employ their funds and therefore become less vigorous in their support.

Similar inconsistencies are shown in the charges made to the borrower to cover the cost of the guarantee or insurance provided by the government under these programmes. No charge is levied for any of the guarantees administered by the Guaranteed Loans Division of the Department of Finance. Neither the borrower nor the lender contributes towards the cost of losses or of administrative expenses of the government under these programmes; both are met out of parliamentary appropriations. The Central Mortgage and Housing Corporation charges a statutory fee of one per cent for the insurance of home improvement loans. Administrative expenses are not charged against this revenue but are met out of the general revenues of the Corporation. Losses are paid out of premium receipts and the balance is held in a reserve to provide for future losses.

Premiums or equivalent charges are levied under all programmes offering

protection in the form of insurance either directly to the public or to those institutions lending to the public. The relationship of these premiums or charges to actual loss experience varies greatly. The experience of the Central Mortgage and Housing Corporation illustrates one extreme. The losses paid under the Home Improvement Insurance scheme have been less than one-fifth of the income from the one per cent fee collected, with the result that accumulated assets currently represent almost twenty per cent of the total contingent liability outstanding. At the other extreme, claims paid for crop deficiencies under the Prairie Farm Assistance programme and disbursements for losses of lobster traps under the Fishermen's Indemnity Plan have been more than double the charges levied. The Export Credits Insurance Corporation, with premium income approximately equal to all losses and administrative expenses to date, reflects a more appropriate relationship.

Reserves for Losses

Further inconsistencies are disclosed by procedures for dealing with losses. No reserves for probable future losses are established in respect of programmes administered by any department; both losses and administrative expenses are paid out of parliamentary appropriations. Where charges are made to borrowers under such programmes, they have not been sufficient to cover even current losses, leaving nothing as a reserve for future losses. Guarantee programmes, such as those supervised by the Guaranteed Loans Division of the Department of Finance, have no revenue, and losses are charged to parliamentary appropriations.

Both the two corporate agencies operating guarantee or insurance programmes maintain reserves to cover future losses but they are differently established. The Export Credits Insurance Corporation may, by law, receive \$15 million from the Minister of Finance in subscriptions for capital stock, and the Minister may pay an additional sum not exceeding \$5 million into a Surplus Account. The Minister has taken up shares only to the value of \$5 million and has paid in the capital surplus; the Corporation thus has a claim on a further \$10 million. The Minister of Finance may also lend the Corporation up to five times the paid-up capital, but no loans have so far been made. Because both losses and expenses to date have been met out of current revenue, the Corporation has been able to invest a large portion of its capital and reserves in government securities, and earnings thereon of more than \$5 million have been accumulated and retained by the Corporation. The Corporation's total insurance liabilities at the end of 1960 were \$64 million, in relation to which contributed capital and retained earnings stood in a ratio of 1:4.

Table 3—VARIATION IN CURRENT LEVEL OF INTEREST AND OTHER CHARGES ON GUARANTEE AND INSURANCE PROGRAMMES

| Purpose | Agency | Activity | Maximum Interest Charged to Borrower | How Fixed | Charge for Guarantee or Insurance | How Fixed | Extent of Guarantee or Insurance Cover |
|------------------------|---|---|--------------------------------------|------------------|---|-----------|--|
| A—GUARANTEE PROGRAMMES | | | | | | | |
| Farmers | Department of Finance— <i>Farm Improvement Loans Act</i> | Intermediate and short term credit to farmers for improvement and development of farms and for improvement of living conditions thereon | 5% | Statute | Nil | — | 10% of all loans of each bank (maximum term 10 years) |
| Business | Department of Finance— <i>Small Businesses Loans Act</i> | Credit to proprietors of small business enterprises for modernization and improvement of equipment and premises | 5½% | Order in Council | Nil | — | 10% of all loans of each bank (maximum term 10 years) |
| Veterans | Department of Finance— <i>Veterans' Business and Professional Loans Act</i> | Medium and short term credit to assist veterans in their establishment in business or professionally | 5% | Statute | Nil | — | For each bank 25% up to \$1,000,000 15% thereafter (maximum term 10 years) |
| Fishermen | Department of Finance— <i>Fisheries Improvement Loans Act</i> | Medium and short term credit to assist fishermen engaged in primary fish- ing enterprises | 5% | Statute | Nil | — | For each lender 15% up to \$500,000 10% thereafter (maximum term 8 years) |
| Exporters | Export Credits Insurance Corporation | Government guarantees for long term financing of exports of large capital goods | varied | Order in Council | Nil | — | 100% No maximum return |
| B—INSURANCE PROGRAMMES | | | | | | | |
| Housing | Central Mortgage and Housing Corporation | Insurance of long term mortgage loans for housing | 6½% | Order in Council | Single premium ranging from 1¾ to 2½% of loan | Statute | 100% of principal and interest and charges to stated maximum |

| | | | | | | |
|-----------|---|------------------------------------|------------------|--|--------------------|---|
| | Rental guarantee insurance to owners of low and moderate rental housing | Program inactive—no rate available | Order in Council | Annual premium ranging from 1¾ to 2½% of rental guarantee | Statute | Maximum is 85% of annual rental as determined by CMHC. Maximum term is 30 years. CMHC may terminate by purchasing property at fixed price |
| | Medium and short term credit for improvement of existing housing | 6% | Order in Council | Single premium of 1% of loan | Statute | Maximum liability to each lender is 5% of total of all loans of this type made by each lender and is limited over-all to \$25 million |
| Farmers | Department of Agriculture Assistance for Western farmers | — | — | 1% on all grain sold to licensed dealers | Statute | \$2 to \$4 per acre up to a maximum of \$800 per farmer |
| Fishermen | Department of Fisheries Indemnity plan covering vessel and lobster trap losses | — | — | Vessel scheme—Annual premium 1% of appraised value | Order in Council | Vessel scheme—max. value for total loss ranges from 60–70% of appraised value. For partial loss a deductible ranging from 15–30% is applied |
| | | | | Trap scheme—Seasonal premium ranging from 5¢ to 35¢ per trap | Order in Council | Trapscheme—deductibles range from 20% to 30% and indemnity from 90¢ to \$3.75 per trap |
| Exporters | Export Credits Insurance Corporation Insurance for medium and short term financing of exports | — | — | Varied but the average is about 1% of the risk under-taken | Board of Directors | Insurance covers up to a total of 85% of the loss |

The two insurance schemes and the rental guarantee programme administered by the Central Mortgage and Housing Corporation have substantial assets segregated in separate funds to provide for future claims under each of the programmes. The accumulated reserves show very different relationships to the amounts at risk under each programme, as shown in Table 4.

Table 4—CENTRAL MORTGAGE AND HOUSING CORPORATION—RESERVES AND CONTINGENT LIABILITIES—DECEMBER 31, 1961

| | <i>Reserve Fund Assets</i> | <i>Approximate Contingent Liability</i> | <i>Ratio</i> |
|---|------------------------------------|---|--------------|
| | \$ | \$ | |
| Mortgage Insurance Scheme | 86,768,574 | 3,640,000,000 | 1:42 |
| Home Improvement Insurance Scheme | 2,193,232 | 11,325,000 | 1:5 |
| Rental Guarantees | 3,726,563 | 15,333,000 | 1:4 |

Investment of Reserves

At the end of March 1961, the Export Credits Insurance Corporation had investments in treasury bills and government bonds of over \$16 million. The Corporation's policy is to maintain about twenty-five per cent of its investments in short-term securities, another twenty-five per cent in medium-term investments, and the balance in long-term bonds. Considering the nature of the Corporation's business, where claims can arise suddenly out of exchange difficulties or political upheavals, the wisdom of keeping this large proportion of investments in long-term bonds, which are subject to substantial price fluctuations, is open to question.

The investments of the insurance or guarantee funds administered by the Central Mortgage and Housing Corporation show the same concentration in long-term bonds. The largest fund, the Mortgage Insurance Fund, has over two-thirds of the bond portfolio maturing in more than fifteen years. The method of settling claims against the Fund makes the wisdom of the present policy particularly questionable.

At present, a lender, upon acquiring title to the property and conveying it to the Corporation, is entitled to recover in cash the full amount due on the mortgage outstanding. In this respect, the practice differs materially from that of the United States Government under its mortgage insurance scheme. There the practice is to issue a government debenture to the lender in return for title to the real estate. The debenture interest rate is based on the long-term yield on United States Government bonds at the time the

mortgage was first insured, and the maturity date is three years beyond that of the original mortgage.

The Canadian practice is more favourable, affording greater incentive to the lender, and present administrative requirements are simple. Nevertheless, the possibility of large cash outlays having to be made from the Fund should be recognized. Liquidation of the Fund's investments on a large scale could lead to serious losses in view of the long-term nature of present investments.

Conclusions

In summary, charges to the public under lending programmes supported by government guarantee or insurance should be established and varied in the flexible manner proposed for loans offered directly by the government. The creation of reserves is normally desirable, because such programmes cannot be conducted without losses arising from defaults by borrowers. Where reserves are established, their dimensions and the level of charges to borrowers should be determined only after reference to the best available estimates of prospective losses.

The risks involved in these programmes are by no means similar, and therefore no uniform relationship between reserves and liabilities is to be expected. Continuing review of the several programmes is needed to determine whether the original basis of each plan remains appropriate under current conditions. Changes in programmes, or experience, may require periodic increases or reductions in charges, in order to maintain the integrity of reserves.

- We therefore recommend that:*
- 1 Charges to borrowers under programmes operated by private financial institutions with government guarantees or insurance be determined from time to time by the Governor in Council without statutory limitation.
 - 2 Charges for guarantees or insurance under existing programmes be re-examined, and consideration be given to harmonizing the level of such charges with government costs, including adequate provision for anticipated losses.

5

CENTRAL POLICY AND CO-ORDINATION

The varying practices and policies of individual agencies and programmes suggest strongly that central co-ordination is needed to secure greater consistency in government lending, guaranteeing and insuring activities. The present confused situation reflects the creation of special agencies and programmes over a long period of time, by different governments, by ministers of different departments, and under different conditions. There is no evidence that any over-all policy with respect to the organization and financing of these activities has ever been considered.

The argument for developing machinery for co-ordination does not rest merely upon the attractiveness of a tidy pattern, or upon the desirability of a more uniform allocation of benefits to the particular groups involved. Together, these programmes represent loans of almost \$5 billion of public money and contingent liabilities of almost \$3 billion under guarantees and insurance. Sums of these dimensions are significant factors in the fiscal and economic policy of the country.

It is important that certain basic principles be observed in reviewing existing programmes and establishing new ones, particularly where departures from usual patterns may be necessary. While it is unrealistic to attempt to develop a single standard pattern suitable for all programmes of financial assistance, the establishment of an agreed body of criteria and principles would facilitate decisions. These should include:

- Basic factors to be taken into account in determining whether a programme can be implemented in whole or in part through private facilities, backed by government guarantees or insurance.

- Criteria for determining the appropriate government department or agency to be charged with responsibility.
- Principles to be observed in determining the method of financing programmes.
- Principles to be observed in designing a suitable capital structure, where a corporate agency is to be employed, so as to create reasonable financial independence.
- Factors to be considered in fixing and revising charges to beneficiaries.
- Methods of financial reporting to facilitate proper assessment of performance.

It is clear that, to give effect to this proposal, some central authority must be responsible for general co-ordination. Because of the sums involved, and since the programmes are all financial in character though coupled with broad public purposes, the controlling and co-ordinating role can best be undertaken by the Minister of Finance. The Department of Finance has been successful over the years in bringing about a good deal of effective co-ordination in an informal manner, but a more formal approach now appears desirable.

First, the problem would be simplified by making the Minister of Finance responsible for as many of the financial programmes as can be appropriately detached from the administration of other departments. All programmes where the services of the chartered banks are principally involved should be so administered, and other programmes may be susceptible to the same treatment although some will undoubtedly remain which should not be removed from the control of other ministers.

It is therefore suggested that the following procedures be adopted:

- All new programmes of financial assistance to individuals and businesses, and changes in any aspects of existing financial programmes, be submitted for approval by the Governor in Council only after review by the Minister of Finance.
- A system of reporting be instituted whereby pertinent financial information on all programmes is regularly submitted to the Department of Finance, to be there converted into a consolidated statement for the information and guidance of the Minister.
- Where, in the opinion of the Minister of Finance, financial agencies have funds in excess of current need, he should recommend to the Governor in

Council that they be paid over, either in reimbursement of advances previously made, or by way of interest-bearing deposit with the government.

- Where the Minister of Finance considers, in the light of current fiscal policy, that changes in existing programmes should be made, particularly changes in the volume of activity or in the level of charges to beneficiaries, he should so recommend to the Governor in Council.

The purpose of these proposals is not to place the Minister of Finance in a position of control over all the lending, guaranteeing and insuring activities of the government, but rather to establish appropriate conditions for the effective co-ordination of important financial aspects of these programmes with prevailing fiscal and monetary policies. Other ministers should retain complete responsibility for the operation of the financial agencies under their administration. The Treasury Board will be responsible for assessing performance, in the manner recommended for all other agencies of the government.

We therefore recommend that: The Minister of Finance be charged with continuing responsibility for the financial co-ordination of all programmes of lending, guaranteeing and insuring which provide financial assistance for the public.

6

OTHER CHANGES IN RESPONSIBILITY

THE INDUSTRIAL DEVELOPMENT BANK

The Industrial Development Bank, incorporated by statute in 1944, is a wholly-owned subsidiary of the Bank of Canada. The preamble to the *Industrial Development Bank Act* states that its purpose is:

. . . to promote the economic welfare of Canada by increasing the effectiveness of monetary action through ensuring the availability of credit to industrial enterprises which may reasonably be expected to prove successful if a high level of national income and employment is maintained, by supplementing the activities of other lenders and by providing capital assistance to industry with particular consideration to the financing problems of small enterprises . . .

The Bank was created in a period when the extreme shortage of credit in the 1930's had not been forgotten and the problems of post-war industrial readjustment lay just ahead. The fear that worth-while but highly hazardous ventures might fail to secure accommodation from conventional lenders led to the formation of the Bank. Loans were to be made only when "credit or other financial resources would not otherwise be available on reasonable terms and conditions", and only to those engaged or about to engage in an enterprise having for its purpose:

- the manufacture, processing or refrigeration of goods, wares and merchandise;
- the building, alteration or repair of ships or vessels; or
- the generating or distributing of electricity.

Parliament has thrice expanded the ambit of the legislation, and since 1961 the Industrial Development Bank has been empowered to extend credit to

any "enterprise in which is carried on any industry, trade or business undertaking of any kind". As a result, the Bank's operations are expected to expand materially. The staff was increased by sixty-one per cent between September 1960 and September 1961, largely in anticipation of the expected increase in business. Present numbers are approximately 450.

The legislation still treats the Bank as a special residual source of credit, to be tapped only when money is not otherwise available on reasonable terms and conditions, but it has become impracticable to police this statutory injunction. The evolution of credit facilities since the end of World War II has brought about a significant increase in the ranks of Canadian lenders and changes in the terms and form of medium- and long-term financing generally available. Today, when industrial financing is available for virtually any worth-while venture, at a price determined in the market-place and based on the risks involved, the Industrial Development Bank almost inevitably competes with other lenders.

As a subsidiary of the Bank of Canada, the Industrial Development Bank looks to the former to provide the funds for lending operations. The Minister of Finance is the sole shareholder of the Bank of Canada, which must annually surrender its surplus to the Consolidated Revenue Fund. It follows that, in substance if not in form, the Industrial Development Bank is using public money; but that money is twice removed from the control of Parliament, and no minister of the Crown is answerable either for the lending policies of the Bank or for the manner in which it conducts its affairs.

The direction of broad lending policy, the provision of funds to government agencies, the control over borrowing activities which engage the credit of Canada, as well as the co-ordination of all federal programmes of financial assistance, are subjects properly falling within the realm of the Minister of Finance. But the Industrial Development Bank is subject to no such ministerial control because it is a subsidiary of another agency which, by statute, enjoys exceptional independence. Thus, the Bank may:

- Fix and alter the interest rates charged to borrowers, without reference to Parliament or the Governor in Council.
- Borrow funds from the Bank of Canada, without reference to the Government or to the Minister of Finance, in amounts subject only to the over-all ceiling imposed by Parliament.
- Budget for its operations without any review by the Treasury Board or the Minister of Finance.

In the realm of management efficiency, there is evidence that major decisions governing the operations of the Industrial Development Bank are made

in the Bank of Canada rather than by an independent management team. This stems, in part, from the fact that the Governor of the Bank of Canada is the chief executive officer of both banks—an arrangement that is of questionable merit, having regard to their dissimilar functions. Existing procedures disclose practices and attitudes that are more appropriate to the conduct of the Bank of Canada than to the more competitive task of the Industrial Development Bank. Your Commissioners conclude that any acceptable solution will entail a more independent status for the Industrial Development Bank than it has so far enjoyed, and the appointment of its own chief executive officer.

The selection of the Bank of Canada to finance this lending activity and to provide a buffer between the government and the public had obvious attractions in 1944, but your Commissioners believe that, in the current situation, it would be in the public interest:

- to appoint the chief executive officer of the Industrial Development Bank by Order in Council, on the recommendation of the Board of Directors; and
- to subject the Industrial Development Bank to such general policy direction as the Minister of Finance may deem to be in the public interest, and to publish any formal ministerial direction in the annual report of the Bank.

By statute, the directors of the Bank are those persons who for the time being compose the board of directors of the Bank of Canada, together with the Deputy Minister of Trade and Commerce. Thus, the present board of sixteen directors consists of the Governor and Deputy Governor of the Bank of Canada, the Deputy Ministers of Finance and of Trade and Commerce, and twelve others who are geographically representative and must not be federal or provincial civil servants, or directors, officers or shareholders of a chartered bank. A hazardous and competitive business such as the Industrial Development Bank needs directors whose qualities and experience are distinguishable from those appropriate to a director of a central bank.

Your Commissioners are of the opinion that further consideration should be given to the provisions of the *Industrial Development Bank Act* with respect to the composition of the board of directors.

We therefore recommend that: Steps be taken to give greater independence to the management of the Industrial Development Bank and to bring the activities of the Bank more appropriately under the general control of the Minister of Finance.

VETERANS' LAND ADMINISTRATION

A Director, answerable to the Minister of Veterans Affairs, administers the *Veterans' Land Act* and has the status of a "corporation sole" to facilitate the ownership and transfer of property. Nevertheless, he is subject to most of the financial, personnel and administrative regulations applicable to regular departments of government. His lending responsibilities are similar to, and somewhat overlap, those of two other lending agencies. The financial aid provided to veterans engaged in farming resembles the assistance provided generally by the Farm Credit Corporation, and the loans to veterans for building homes largely supplement loans made by the Central Mortgage and Housing Corporation. The main concern now is to eliminate any unnecessary duplication.

Some steps have already been taken. The Veterans' Land Act Administration and the Farm Credit Corporation have an arrangement whereby only one organization assigns staff in areas where the work load is light. This practice works well but is unsuitable as a permanent measure. Another arrangement transfers responsibility for administering housing loans, once the house is completed, to the Central Mortgage and Housing Corporation.

Loans to veterans engaged in full-time farming have declined from a peak of approximately 4,500 in the fiscal year 1947-48 to just over 300 in 1960-61. Loans to small holders decreased from 3,750 to 1,750 in the same period. Loans of both types have remained fairly constant in the past five years, but continuing administrative responsibilities will soon diminish.

The organization maintained is large and complex, although declining activity has permitted a reduction in staff from 1,041 to 738 in the past five years. The field organization at present includes eight district offices, five regional offices, twenty-seven sector offices and one hundred and nineteen field offices, of which forty-three are located in the homes of field officers. Operating costs approximate \$5 million a year.

While the Minister of Veterans Affairs would continue to have responsibility for programmes affecting veterans, the administration of the *Veterans' Land Act* could be undertaken by the Farm Credit Corporation in rural areas, and by the Central Mortgage and Housing Corporation in suburban areas. This would still permit the Minister, through the Director and a small staff, to review programmes and practices to ensure that veterans are successfully rehabilitated.

We therefore recommend that: Consideration be given to the orderly termination of the activities of the Veterans' Land Act Administration, by utilizing the services of the Farm Credit Corporation and the Central Mortgage and Housing Corporation in administering the *Veterans' Land Act*.

HOME IMPROVEMENT LOANS

The Home Improvement Loans programme of the Central Mortgage and Housing Corporation is the only lending programme operated through chartered banks that is not under the administration of the Department of Finance. Although quite different from any other programme supervised by the Corporation, this programme dovetails with other housing programmes. Were the Department of Finance to act for the corporation in administering the Home Improvement Loans programme, policies could remain co-ordinated, duplication in administration would be eliminated, and worth-while economies would be achieved.

Lending programmes operated through the chartered banks depend in large measure on the co-operation of the banks. Administrative procedures would be simplified if, in future, the banks are required to deal with only one department or agency of government. In view of the low cost to the government of providing these loans, the past success of these programmes, and the extensive service that the facilities of the chartered banks provide to the public, your Commissioners feel that this consideration cannot be overlooked.

We therefore recommend that: Responsibility for the administration of the Home Improvement Loans programme be transferred to the Department of Finance.

7

SALE OF ANNUITIES

VOLUME AND COSTS

The sale of annuities is a different type of financial operation from those already reviewed, and one of the oldest. The government first started to sell annuities in 1908, in an attempt to encourage thrift among lower-income groups and to provide security in old age. In 1920, sales promotion was intensified, the annuity limit was raised from \$1,200 per annum to \$5,000, and benefits were broadened. In 1931 the maximum annuity was reduced to \$1,200 per annum, a limit still in effect.

Premium rates were adjusted in the 1930's and new mortality tables adopted, in an attempt to eliminate actuarial deficiencies which were developing. However, the four per cent interest rate used in premium calculations made government annuities a bargain for many years when yields on government bonds were often below this level. Up to 1948, purchasers of deferred annuities were given the unusual privilege of purchasing an annuity up to the maximum permitted by law, paying only a nominal premium at the time of purchase, with the balance, based on rates fixed at the time of initial purchase, payable at any time up to the maturity of the contract. In view of the increasing life-span of annuitants, this option, which is based on earlier mortality tables, is very valuable to the buyer and costly to the government. The substantial growth in annuity business and a significant recent decline are reflected in the totals of premiums collected in certain selected years, as follows:

| | (\$ millions) | | (\$ millions) |
|------------|---------------|------------|---------------|
| 1935 | 13.3 | 1955 | 68.6 |
| 1940 | 19.8 | 1960 | 56.0 |
| 1945 | 32.6 | 1961 | 48.5 |
| 1950 | 63.1 | | |

There were 433,380 annuity contracts outstanding at the end of the fiscal year 1960-61. Annuities totalling \$45 million a year were being paid on 83,480 of these contracts. The present value of these vested annuities is over \$424 million, and the accumulation of premiums on deferred contracts more than \$774 million. Thus, the total liability in respect of annuities in force is approximately \$1.2 billion.

Funds received as premiums are used for current government purposes. However, the premiums received and the interest appropriated by Parliament as compensation for the use of funds are recorded for budgetary and accounting purposes in a separate account, to which all annuity payments are charged. These amounts have already proved inadequate to meet the government's liabilities; an additional \$30.2 million has had to be appropriated and credited to the account, either to meet the difference between the value of accumulated premiums and the amounts payable at maturity, or to provide for changes in the rates of mortality to date. It is currently estimated that a further \$40 million will be required to cover the cost of outstanding options granted to purchasers prior to 1948.

This programme has been subsidized since its inception, the full cost of administrative expenses being paid out of parliamentary appropriations. The Annuities Branch of the Department of Labour has over 170 employees. In addition, 84 Annuities Representatives sell annuities on a commission basis in 49 communities across Canada. Administrative expenses now exceed \$1.5 million annually, of which just less than one-quarter represents commissions. More than \$25 million has been appropriated over the history of the programme to cover these expenses. The costs of the programme already paid or still to be provided are substantial. Exclusive of future administrative expenses, the estimate is \$95 million for those annuities sold from the inception of the programme to date.

CURRENT NEED

More annuities have been purchased by people of some means than by those in the lower income brackets for whom the scheme was designed. The original need has been modified by old age pensions, now paid on a universal basis.

In comparison with the position in 1908, when few facilities were available to provide for pensions and annuities, the field today is highly developed. Through employer-employee supported pension plans, life insurance schemes, and the sale of annuities in a variety of forms by financial institutions, ample facilities exist to provide against want in old age. Apart from a periodic attractiveness when premiums are allowed to get out of line, some inflexible

aspects of government annuity contracts make them less popular than competing forms. It is not unfair to suggest that the only circumstances in which they will be sold in volume is when they are priced below the current market; thus the cost of making good future deficiencies will be substantial indeed.

The essential responsibilities of the government are many, and unnecessary activities should therefore be avoided. Moreover, the programme has been very costly to the government because:

- Premiums have not been set so as to recover administrative costs.
- The interest rates used have been fairly consistently out of line with the money market, thereby often giving the purchaser a definite advantage.
- The mortality basis used has not been promptly adjusted to reflect increasing longevity, so that premiums have been lower than appropriate.
- The provision for deferred payment was an option permitting purchasers, at negligible expense, to commit the government to very costly undertakings.

Your Commissioners conclude that the programme is no longer necessary, and that the continuing drain on public funds should be arrested.

We therefore recommend that: The sale of government annuities be discontinued.

8

PENSION PLANS FOR PUBLIC SERVANTS

STATUTORY PLANS

Description

Pension plans for public servants fall into two groups: the statutory plans which embrace most public servants and members of the Armed Forces and the Royal Canadian Mounted Police; and pension schemes established by certain Crown corporations to provide for their employees, under plans comparable to those commonly used in commerce and industry. The plans of the Canadian National Railways and Trans-Canada Air Lines were not reviewed.

Many government employees and pensioners are covered by former plans; the three statutory plans currently in force are:

- The Public Service Superannuation scheme, which covers civil servants and the employees of certain boards, commissions, Crown corporations, and other agencies, is administered by the Department of Finance. At March 31, 1961, there were 165,783 contributors, and benefits are being paid to 34,574 pensioners.
- The Canadian Forces Superannuation scheme covers members of the Armed Forces. It is administered by the Department of National Defence, and each of the three Services maintains its own personnel records. At December 31, 1960, contributors to the scheme numbered 112,242, and benefits were being paid to 4,028.
- The Royal Canadian Mounted Police Superannuation scheme covers members of the Force and is administered by it. At December 31, 1959, there were 4,014 contributors and about 130 pensioners.

The main benefits afforded by these plans are as follows:

- Pensions payable under all plans are based on the average salary of the contributor for the six best years of his service. The annual pension is based on two per cent of this average, multiplied by the number of years of pensionable service, up to a maximum of thirty-five years.
- Participation for most of those eligible is compulsory. Men contribute six and one-half per cent of their earnings (six per cent for the Armed Forces) and women five per cent. Contributions cease after payments have been made into the plan for thirty-five years.
- Survivors' benefits entitle the widow to one-half of her husband's pension, plus one-tenth for each child up to the age of eighteen, provided the total does not exceed ninety per cent of the pension.
- Pensions normally become payable at age sixty-five in the Public Service scheme, with an optional earlier retirement from age sixty. Pensions are payable immediately, based on accrued benefits, without discount for age, if early retirements occur due to disability. Retirement ages are lower for the Armed Forces, ranging from forty-five for a rank equivalent to lieutenant in the Army, to fifty-five for a rank equivalent to lieutenant-general. The age for "other ranks" varies, but fifty is generally the compulsory retiring age.
- A small additional premium is paid for a lump sum death benefit amounting to the lesser of one year's salary or \$5,000. This covers against death up to age 70.

One feature of the Public Service scheme is noteworthy. A person who has prior service with the government, or with certain other employers designated in the regulations, may elect, on joining the public service, to contribute thirteen per cent of his initial salary multiplied by the number of years of relevant prior service, thereby securing pension credits under the Public Service scheme equivalent to those that he would have earned in a like period in the public service.

Many of these benefits are greater, and therefore more costly, than those offered in private employment. The contribution that this pension policy makes in the management of government personnel is discussed in the report of your Commissioners on *Personnel Management*.

Costs

The costs to the government of providing these benefits are dealt with thus:

- Each year the government matches employees' current service payments into the public service scheme, and contributes $166\frac{2}{3}$ per cent of the amount paid

by members of the Royal Canadian Mounted Police and the Armed Forces. Further amounts are contributed in respect of past service contributions by employees.

- Interest at the rate of one per cent per quarter is credited every three months on the balance in the superannuation accounts.
- In the public service superannuation scheme, an amount is contributed to cover increase in liability resulting, as described in the statute, from "any salary increase of general application to the public service."
- From time to time, although not according to any definite plan, further amounts are appropriated by Parliament to reduce actuarial valuation deficits.

The amounts in these superannuation accounts are not held in cash or invested in securities. Nor should they be, considering that it is the government that is assuming the obligation to pay these pensions. The government utilizes all the moneys for general government purposes, crediting the accounts with interest quarterly for the use of the funds. Normally, the government's contributions, as set forth above, are recorded as budgetary expenditures, but certain deficits, arising out of actuarial valuations in recent years, have been recorded as a deferred charge to be applied against the budgetary revenues of future years. The accumulated liability acknowledged in the government's accounts as at March 31, 1961, was over \$2,672 million, of which \$602 million remained to be charged to future years' revenue.

Many features of these plans make them costly to the government. The best-average-salary feature results in the government bearing a large portion of the cost of pensions resulting from spiralling of salary costs due to inflationary pressures. The privileges granted in respect of past service are most costly to the government under a best-average-salary plan, particularly when related to the number of years of service to be rendered by the new employee prior to retirement. Early compulsory retirement ages in the Armed Forces add very materially to the cost of pensions granted under the Canadian Forces superannuation scheme.

During the ten years ended March 31, 1960, employees contributed \$304 million to the public service scheme alone, whereas the government contributed almost \$633 million, apart from \$279 million of interest credited. In addition, actuarial deficits of \$275 million under this scheme have yet to be charged as a budgetary expenditure. Thus the ultimate cost to the government may be as much as three times the contributions of public servants.

Changes Required

The manner in which the government's share of the cost of pension benefits is acknowledged needs to be placed on a less haphazard basis. Some may question the need for the government to record, in advance, the cost of the pensions it will pay in the future of its retired employees, for the power to tax means that these pensions are more than adequately protected and funds can be obtained to pay them when they are due.

Commercial and industrial employers normally segregate funds in trust, or insure their obligations to employees by contracting with an insurance company. Furthermore, business men recognize that pensions to be paid at some future date are a cost of obtaining the employee's current services, and are therefore a cost to be recovered out of current revenue.

To recognize its liability, the government keeps special accounts for each plan, but present practices fail to acknowledge or record the true cost of providing pension benefits. A current need is for an orderly and realistic method of recording, as budgetary expenditures, the continuing actuarial deficits which are inevitable if wage levels in the public service continue to rise as in the past decade; another need is to bring pension costs out in the open.

Deficits, determined by actuarial valuations, exceed \$602 million. No estimate has yet been made of the increased liability arising out of salary increases in 1961, or of that part of the cyclical salary adjustment granted in 1962. The Armed Forces scheme and the Royal Canadian Mounted Police scheme are currently being subjected to a statutory quinquennial valuation; further large actuarial deficits are anticipated in both. The liabilities of the Public Service scheme increased five-fold in the last decade, and those of the Armed Forces scheme more than ten-fold. An orderly method of budgeting for deficiencies, so as to amortize the amounts over a number of years, would be more appropriate than the present practice of making lump-sum provisions in years when surplus funds are available.

To achieve economies, possible through handling large volumes, to ensure impartial and independent administration, and to prevent possible abuses, your Commissioners believe that the three statutory plans should be brought under the administration of the Department of Finance.

We therefore recommend that:

- 1 A programme be authorized by statute to amortize systematically present and future valuation deficits of statutory pension plans by appropriate budgetary charges.
- 2 A study be made of present benefits in relation to costs, with particular attention

to the provisions permitting new employees to pay for past service outside the public service, and to the early compulsory retirement ages in the Armed Forces.

- 3 The administration of all statutory superannuation plans be undertaken by the Department of Finance, with record keeping the responsibility of the Accountant General.

PLANS OF CORPORATE AGENCIES

The following superannuation plans, which more closely resemble those in commerce and industry, were examined:

| | |
|--|--|
| Bank of Canada (including the Industrial Development Bank) | Eldorado Mining and Refining Limited (including its subsidiaries, Eldorado Aviation Limited and Northern Transportation Company Limited) |
| Canadian Wheat Board | Halifax Relief Commission |
| Canadian Arsenals Limited | International Fisheries Commission |
| Canadian Broadcasting Corporation | Polymer Corporation Limited |
| Central Mortgage and Housing Corporation | |

The International Fisheries Commission insures its liabilities; the others segregate funds with trustees. The investments of these funds exceed \$46 million, with approximately ten per cent invested in preferred and common stocks. Other investments include National Housing Act mortgages, and government and industrial bonds.

Benefits under most plans are modelled on the provisions of the Public Service scheme, but the plans of the Canadian Wheat Board, the Eldorado companies and Polymer Corporation Limited are more comparable to plans offered in the private sector. Throughout, there are small variations in contribution rates, retirement ages, rights on early retirement and minor benefits.

The Canadian Arsenals plan was merged with the Public Service scheme in January 1962. Many other Crown corporations, such as the Farm Credit Corporation and the Export Credits Insurance Corporation, obtain coverage for their employees under the Public Service scheme by assuming the cost of the government's matching contributions.

The question naturally arises as to the need for separate plans. They were originally created to enable the corporations to offer benefits similar to those offered by comparable private institutions. Some Crown corporations of a commercial nature prefer separate plans because of the need for flexibility in

collective bargaining. Benefits offered by private employers generally have improved greatly in the past decade, and most of the separate government agency plans have also increased their benefits.

A number of advantages could result from the merging of these separate pension plans with the Public Service scheme. Senior officers of the corporate agencies are frequently named trustees of the separate plans and, as such, may assume responsibility for investment of trust funds, a duty they are not necessarily qualified to discharge. The uniformity of pension benefits resulting from the suggested merger would facilitate transfers of personnel between agencies and departments. Accounting and record keeping would be carried out economically on electronic equipment, as part of the much larger volume of work in the Public Service scheme. Your Commissioners consider that it would be unwise, however, for the large corporate agencies of a commercial nature, such as the Canadian National Railways and Polymer, to merge their plans with the Public Service scheme.

We therefore recommend that: The Public Service Superannuation plan be extended to provide pension benefits for the employees of Crown corporations other than those engaged primarily in commercial activities where collective bargaining considerations apply.

PILOTS' PENSION PLANS

Most marine pilots in Canada are grouped in self-governing, independent bodies, formed within each pilotage district. These pilotage authorities may, subject to confirmation of their by-laws by Order in Council, provide for compulsory retirement of pilots at age 65, establish funds for the relief of superannuated or infirm pilots or their dependants, and determine the benefits to be paid and the persons entitled to participate. The legislation states that contributions to these funds, if not mutually agreed between the pilots and the pilotage authority, shall be fixed by the Minister of Transport. The government thus assumes some measure of responsibility.

Only one fund is in a solvent position. Deficits in the others, which have been calculated to exceed \$1.2 million, have arisen through a steady improvement in benefits without corresponding increases in contributions. These plans cover no more than 360 pilots, and the deficiency on a per capita basis is extremely large. The Halifax plan has already ceased to operate, and others will encounter the same fate unless action be taken to place their financing on a sound basis.

Nevertheless, your Commissioners realize that a solution to this question is only part of the larger problem of clarifying the entire future status of pilots and the government's responsibilities to them.

We therefore recommend that: Either the pilots' pension plans be placed on a sound financial basis, or the government clarify its position by repealing those sections of the *Canada Shipping Act* that imply some responsibility.

9

ACTUARIAL SERVICES

Traditionally, the responsibilities of the Department of Insurance, which is headed by the Superintendent of Insurance under the Minister of Finance, have been concentrated on the supervision of the insurance companies, loan and trust companies, and co-operative credit associations that are subject to federal jurisdiction. The principal concern of the Department has been with the solvency of such institutions, in order to protect the public.

The Department has assembled a group of actuaries to carry out the examination of the companies under its supervision, and this group has come to be recognized as the central source of actuarial advice in the government. In fact, a very substantial proportion of time is occupied in making examinations and giving advice in relation to problems for which the Department has no official responsibility. The initiative in exploring the actuarial aspect of programmes lies with the responsible departments and agencies, and frequently advice is sought after, instead of before, commitments are made to undertake new obligations. There is no machinery within the government to require formal investigations or to provide for periodic actuarial scrutiny of all continuing programmes where statistical probabilities bear upon ultimate costs.

The annuity, pension, and insurance liabilities of the government at March 31, 1961, stood at almost \$4 billion, an increase of \$400 million from the preceding year. While some of these liabilities are periodically recalculated, no statutory provisions govern either the methods of valuation or the qualifications of those making the examination. In fact, this work is usually done by the Department of Insurance, but the informality of the approach, coupled

with the failure to require a systematic inspection of all programmes requiring actuarial investigation, constitutes a real danger for the future. For example, the heavy losses on government annuities might well have been avoided had proper weight been given to actuarial advice.

The need for periodic actuarial scrutiny is not confined to the programmes discussed in this report. Responsibilities of growing proportions are being assumed in other fields, such as the provision of social insurance, pension and welfare benefits—all having important actuarial connotations.

Your Commissioners believe that steps should now be taken to clarify the position of the Department of Insurance in relation to work undertaken for other departments and agencies. First, the employment of actuaries by other departments should be avoided, and all actuarial services throughout the government should be rendered by the Department of Insurance, using a competent staff of professional actuaries. Second, where statistical probabilities have a bearing on future cost, programme changes should be submitted to the Treasury Board for approval only after actuarial investigation has been made. Third, all such programmes should be subjected to periodic investigation on a systematic basis. Finally, to provide for possible emergencies, the Minister of Finance should be empowered, on the advice of the senior government actuary, to require actuarial investigation of any programme where, in the Minister's opinion, current provision for future liabilities is not clearly adequate.

We therefore recommend that:

- 1 The Department of Insurance be required to develop a comprehensive plan for initial and periodic examination of all programmes giving rise to liabilities, the ascertainment of which requires the application of actuarial science.
- 2 The approval of this plan and its implementation be the responsibility of the Treasury Board.
- 3 The Minister of Finance, with the advice of the senior actuary of the government, be empowered to require actuarial investigations in any case where, in the Minister's opinion, current provision for future liabilities may be inadequate.