

17 THE POST OFFICE

SERVICES FOR THE PUBLIC

REPORT 17: THE POST OFFICE

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PART 1

1

INTRODUCTION

The Post Office has, since Confederation, seen little change in its function—the handling of the country's mails. While some departments are engaged to a major degree with the shifts of public policy as the country develops and must equip themselves to deal with the diverse factors by which such policy is influenced, the task of the Post Office Department is almost wholly operational. For this reason it lends itself more than most departments of government to the application of modern techniques, such as are employed by industry, to improve service and increase productivity. As an operating organization in search of efficiency, its main handicap is that it has to behave like a department of government—which, of course, it is.

The operations of the Post Office are many and varied—forwarding personal and business correspondence, distributing information, transporting goods, facilitating financial settlements, widespread distribution of advertising and promotional material, and other services. These familiar tasks, woven into the fabric of our daily existence, affect local life, social interests and business operations in every neighbourhood. The Post Office, in performing them, is more than a vast public utility. It is a unifying force throughout the country.

The review made by your Commissioners discloses that a commendable degree of efficiency has been achieved, in spite of the disabilities the Post Office suffers in the form of its organization and the control techniques to which it is subject. The changes recommended in this report are designed to improve the framework for management, to eliminate needless time-consuming procedures imposed by the government system of central control, and

to render the postal operations susceptible of appraisal through a meaningful system of accounts and financial reports. That significant cost savings can result from such changes is evident. Even more important may be the benefits accruing to the country as a whole through further improvement of its postal service.

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THE SERVICES OF THE POST OFFICE

The Post Office carries approximately four billion pieces of mail each year—about 225 for every person in the country. The mails are handled through more than 11,000 post offices employing 40,000 people, of whom 27,000 are full-time civil servants. The fifty-two million money orders issued each year transfer moneys totalling over \$800 million. The revenues of the Post Office approximate \$200 million and its direct expenditures come to almost the same amount.

The individual offices range from very large to very small, 80 of the 11,000 account for four-fifths of all the mail. The scale of revenue for individual offices ranges from a high of \$46 million per annum to a low of eleven dollars; employment varies from over four thousand to but a fraction of the time of a single person. Large offices occupy multi-storied buildings filled with modern machinery; the smallest may be simply a corner in a general store or a shelf in a farm house. The daily output of a large office may fill a fifteen-car railway mail train, while the small office may handle only a few letters and post cards.

The postal service embraces the collection, carriage and delivery of letters, newspapers, other published and printed matter, and parcels up to twenty-five pounds in weight. It issues money orders and in certain offices provides a savings bank service. A variety of additional special services offered is described hereafter.

THE FOUR CLASSES OF MAIL

The Post Office classifies the mail into four categories. In general, the classification is determined by the content of the mail matter. It is this classification which dictates the fee to be charged and the type of service to be rendered.

First Class Matter

This class is defined as letters, post cards and all matter wholly or partly in writing or typewriting, sealed or unsealed, except manuscripts of books and newspapers and certain dominion, provincial and municipal documents. In addition, money packets of bank notes, coin, bullion, gold dust, stocks, bonds, coupons and other securities negotiable by bearer, having a value of \$100 or more, are classed as first class matter. By law, the collection, conveyance and delivery of letters in Canada is the sole and exclusive privilege of the Postmaster General, but other services in which the Post Office engages may be performed by other individuals or organizations.

First class matter receives preferred treatment throughout the whole postal system in order to achieve maximum speed of delivery. The goal is to deliver all first class mail the day following its deposit in a Post Office, and this goal is reached with impressive regularity except where the time or distance renders that impossible. Tests made of the service between Toronto, Montreal and Vancouver indicate that more than eighty per cent of the west-bound mail meets this objective, and that the east-bound mail failed, in part, only where time differentials had full impact. Some large city post offices attempt to have mail that is collected in the morning delivered in the afternoon of the same day, as is done in some European cities. It may well be that such a goal is less important for Canadian cities due to more extensive telephone communication facilities. Moreover, single delivery in residential areas and the adverse effect on the scheduling of sortation labour militate against the objective of same-day delivery. On the other hand, Canada's "all-up" system is unique in world postal administration. This provides that all first class mail up to and including 8 ounces in weight is, without surcharge, forwarded by air if this will speed the service. First class mail over 8 ounces in weight may be qualified as "air-mail" by the payment of additional fees.

Second Class Matter

Second class matter consists of newspapers and other periodicals:

- (a) printed and published in Canada and mailed by the publisher in a postal area approved by the Postmaster General;

- (b) of Canadian, British and foreign origin and mailed by newsdealers to regular subscribers; or
- (c) mailed by the public.

To qualify as second class matter, the major requirement is that the item must be a *bona fide* publication which is issued at least quarterly. Also, it must consist "wholly or in great part of political or other news, or of articles relative thereto, or to other current topics". In practice, the phrase "wholly or in great part" is interpreted as not less than thirty per cent of the printed text. Finally, unless mailed by members of the public, the addressee must be a *bona fide* paid subscriber.

Parliament has fixed various rates for newspapers and periodicals. In the case of a daily with a circulation in excess of 10,000, the rate is $2\frac{1}{2}$ cents per pound for reading matter and 4 cents per pound for advertising. Where the circulation is less, a uniform rate of $2\frac{1}{2}$ cents per pound applies. In the case of weeklies, 3 cents per pound is charged to those with a circulation in excess of 50,000 copies, $2\frac{1}{2}$ cents to those with a 10,000—50,000 circulation, and $1\frac{1}{2}$ cents to those with less than 10,000. Should the weekly be published in a place of less than 10,000 population, the statute authorizes 2,500 copies to be carried free of postage if delivered within a distance of 40 miles of the place of publication. Monthly publications pay either $1\frac{1}{2}$ or $1\frac{1}{2}$ cents per pound, depending on whether circulation is above or below 10,000, and they also have free mailing privileges for 2,500 copies.

There is a significant amount of mail which may appear to be second class matter but, in reality, is not. Items such as unsolicited magazines (used extensively for trade advertising) and magazines published in the United States but mailed in Canada are not second class matter and are subject to special rates. From the service point of view, the Post Office gives priority to matter whose contents have an immediate value. Thus newspapers, special trade papers containing market information, and so forth are treated with almost the same dispatch as first class mail, although transportation is normally limited to surface carriers and air mail is not used. Where the value of the reading matter is less perishable, such as that contained in magazines, no special priority is given and the mail is handled as rapidly as available labour will permit.

Third Class Matter

Third class matter is defined as printed matter (other than second class), manuscripts, duplicated material and miscellaneous articles, including samples. Of this class, the public is most familiar with direct mail advertising, addressed or unaddressed, and greeting cards. Rates are fixed by the Post Office.

Third class material is not given any priority in postal operations. It is always processed subsequent to first class matter and newspapers. In many instances it is used to absorb excess labour periodically available in the post office. Surface transportation is the medium normally used.

Fourth Class Matter

Familiarly known as parcel post, this category includes parcels of any material (except personal messages and contraband), up to and including twenty-five pounds in weight. This service is used extensively by mail order houses because of its relatively low cost and the near-universal coverage provided by the postal system.

This mail receives no special priority but is handled with all reasonable dispatch. Normally surface transportation is used, but an air parcel post service is available at extra cost. Because of the bulky nature of the material, a high proportion of all surface transportation costs is incurred in handling this class.

MONEY ORDERS AND BANKING

The financial operations falling under this heading are of large dimensions. Transfers of money effected through the 50 million money orders issued each year aggregate \$800 million. In 1,500 post offices, personal savings accounts may be maintained by members of the public. Balances on deposit earn interest at the rate of $2\frac{1}{2}$ per cent per annum, and sums up to \$100 per day may be withdrawn. Deposits exceed \$28 million in the aggregate, and current plans call for concentrating in areas where no branches are maintained by the chartered banks. This service was established in 1868 and the law makes no provision for the disposition of dormant accounts. As a result, the \$28 million on deposit includes many inactive accounts which have grown in size by accumulating interest credits over the years. In the fiscal year 1960-61, deposits approximated \$6.2 million and withdrawals \$7.8 million. There are approximately 300,000 accounts, and the average balance is \$94.20. A special feature of these savings deposits is that they are exempt from seizure by third parties.

SPECIAL SERVICES

The regular activities of the Post Office include the provision of most of the following additional services in all its branches:

Registration

Registration is available for all first, second and third class mail. It is also available for ballot boxes (4th class). Registration is accomplished by

giving the mailer a receipt for the registered article at the time of mailing and requiring signatures and special post marks each time the article changes hands until it is finally delivered to the addressee, who must give the Post Office a receipt. Registration is not intended as insurance; the maximum indemnity for loss or damage is from \$25 to \$100 depending on the fee paid. Rather, it is a procedure to assure maximum security while in transit. Over 300 claims were honoured in 1961, at a cost of \$4,210.

Special Delivery

Special Delivery is an express service available for letters within Canada, the United States and its possessions and territories. It also applies to parcels, but only in Canada. This service is available only in towns and cities where there is letter-carrier delivery. There are about 250 such centres in Canada.

The words "Special Delivery" accompanied by the proper postage call for the earliest possible extraction of the letter or parcel from the mail stream of the post office at point of origin. It is then given special sortation and forwarded on the first available regular dispatch. At the receiving end, it is given to a letter carrier, placed in the addressee's lock box, or forwarded by special messenger, whichever will ensure earliest delivery.

Insurance

Insurance is available on parcel post, and on second and third class mail if paid at parcel post rates. The maximum indemnity is \$100. Free insurance up to \$50 is available but only if requested by the mailer. Over 11,800 claims were paid in 1961, at a cost of about \$190,000.

Cash on Delivery

Letters or parcels posted at an "Accounting Post Office" in Canada may be dispatched to any point in Canada subject to Cash on Delivery service (maximum \$100). In the case of C.O.D. parcel post, the fee covers insurance to the value of the shipment.

Philatelic Service

In recent years, through a special bureau in Ottawa, an increasing volume of Canadian postage stamps have been sold to philatelists in Canada and abroad. Sales in the fiscal year 1961-62 totalled \$353,162. Certain special services are rendered, such as the provision of "first day covers", and stocks available for sale include many issues no longer in current use. The service was established mainly to foster good public relations, but the fact that all

stamps, including the high values, are sold at face value renders the operation profitable.

International Mail

The various services described above, with the exceptions noted, apply to international as well as domestic mail. Canada is a member of the Universal Postal Union, which was established nearly eighty years ago to facilitate the smooth flow of international mails and assist in negotiations between countries on such matters as the division of revenues. The Union also serves as a focal point for the exchange of information relating to technical advances in the handling of mail.

SERVICE AND COSTS

The service that a citizen receives from the Post Office depends almost entirely upon the population density of the area in which he lives. The resident in the remote north may receive or dispatch mail only once a year when the supply ship calls. The resident of a sparsely settled area may be required to call at the local post office, often many miles distant, to transact his postal business. More heavily populated rural areas (three families or more per mile of road) are serviced by rural mail carriers at various frequencies depending on mail volume. Residents of villages and towns with less than 2,500 local addresses are required to call at the local post office. Only when a city or town has more than 2,500 local addresses is letter carrier delivery found; mail boxes are strategically located, sub-offices maintained, and so forth. Excluding the "frontier" type of service, which may take any form appropriate to local conditions, there are three basic types of postal service—the local post office, the rural mail carrier, and the letter carrier post office.

The Local Post Office

Located at cross-roads, in hamlets, villages and small towns, these offices are established to provide basic postal service to an area. Normally all services except postal savings are available in these offices. In addition they may serve as centres for one or more rural routes. It is their chief characteristic that the customer must visit the post office to transact any item of business from the mailing of a letter to the collection of his mail.

The Rural Mail Carrier

In many respects the 5,600 rural mail carriers, serving over 600,000 householders, represent the ultimate in postal service. This is the one agent who comes to the customer's door prepared to transact any postal business

or service available at his headquarters office. In addition to delivering mail, he collects it, sells stamps and money orders, registers letters, accepts parcel post, and so on. Although most of his deliveries are made to the familiar "mail box" along the road-side, there has been a tendency in suburban areas to service "group boxes" which, as their name implies, are a group of mail boxes on a single stand. In suburban areas, the group box is often the forerunner of letter carrier delivery.

The Letter Carrier Office

It is in this type of office that postal service is most diversified. Such offices are found in areas where the number of local addresses or "points-of-call" exceeds the 2,500 currently regarded as the minimum required to permit economical use of a letter carrier force. In areas served by this type of post office the mailer finds letter boxes so located that he will generally not have to travel more than two or three blocks to deposit his mail. Mail is delivered once a day in all residential areas. Business addresses receive two or more deliveries daily, depending on volume and past practice. Deliveries are sharply curtailed on Saturdays and none is made on Sundays or holidays.

Where a person must go to the post office, he may visit the main post office, or he may obtain wicket services at sub-offices located for his convenience or from wickets established in letter carrier depots. In short, a real effort is made to render a postal service as convenient as possible commensurate with cost and need. Included in the programme are coin-operated stamp vending machines available twenty-four hours a day.

The Post Office has a long-standing policy that there shall be no coercion of the public. This policy is reflected in the degree of effort by postal employees to deliver the mail in spite of lack of clarity (or carelessness) of address, time of mailing, and so forth. Thus, when people neglect to use postal zone numbers, or even omit street addresses, postal employees succeed in distributing a high proportion of such mail with very little delay. Most major post offices maintain a directory section, whose function is to take incorrectly addressed mail and determine, if possible, from city directories and other sources, the proper address. Only an infinitesimal portion of the mail finds its way into the Undeliverable Mail Office.

Cost-Service Relationships

Service in the handling of the mails depends on three factors: speed, security and cost. Better service is achieved by greater speed, stricter security and lower cost. Optimum service is obtained by achieving proper balance between these three factors.

Speed has varying degrees of importance to different classes of users of the service. The business community has a paramount interest in rapid delivery of its written communications. Equally, the resident of the small community and the publisher have an interest in the rapid delivery of a newspaper. The mail-order house and its customers are interested in the rapid delivery of parcels. These examples have in common the mutual desire of the sender and the receiver for the speedy transfer of an item. In only one class of mail, direct mail advertising, is this not the case; the mailer may have a desire for speed but the potential recipient does not share this interest, and lower priority is therefore given.

It is almost axiomatic that greater speed means greater cost. Speed within a post office requires that adequate staff be available whenever mail is deposited. Although hourly mail volumes can be forecast within acceptable limits, complete accuracy is impossible. Therefore, optimum handling speed is achieved at the expense of a degree of overstaffing, with consequent higher cost. Extra speed between post offices involves choosing the best transportation medium, which may involve the use of special couriers in ground transportation. In general, the greatest speed is achieved by using air transport. From the foregoing, it is possible to draw certain conclusions regarding an acceptable speed-cost relationship.

Inside any post office, best costs are achieved by staffing to process the expected volume of mail. If actual volumes are higher than expected, however, certain mail will be delayed. If any mail must be delayed, then mail of lower priority should be chosen. From this the principle is evolved that all mail should be processed as received, but that third class printed matter should be processed on the basis of staff availability. In transporting the mails, the best cost-speed relationship is obtained by using the ground services of the various common carriers. These move frequently and rapidly enough to provide what is generally regarded as adequate service. Only where a very small units-cost increase results should speed be increased by the use of air transport. The "all-up" system of transporting first class letter mail is based on these cost characteristics.

Another phase of service is security—the protection against loss or depredation. Proper security is achieved when the mailer can deposit mail in a post office with the reasonable certainty that it will be delivered as addressed. The sanctity of Her Majesty's Mail is traditional, and the Post Office Department maintains an unrelenting guard against potential depredators. Some degree of additional security is made available at extra cost by selection of the mode of transportation.

The characteristic of postal service is therefore that of an operation con-

ducted at a "base" level where speed and security are reasonably adequate and costs minimized. Above this base, extra service in the form of added rapidity or greater security can be obtained by the individual customer on the payment of extra fees. Finally, there is the matter of cost to the user of the service. Should charges be based on costs incurred or should they be related to the value of the service to the user? The second alternative violates the basic concept of service, and it is therefore concluded that tolls should be fixed at levels that permit recovery of the total cost of each class of service.

The dimensions of certain operating costs and the current trends therein are shown by the following listing of 1960-61 expenditures and their variation from those of the preceding year:

Parcel post deliveries in cities—cost..\$	5,010,000—up	\$ 670,000
Cost of street collection in cities	2,475,000—up	260,000
Cost of rural carriers	9,835,000—up	280,000
Highway services—cost	4,445,000—up	800,000
Payments to railways	16,080,000—down	555,000
Payments to steamships	2,780,000—down	8,000
Payments to air carriers	13,755,000—up	480,000

3

RESULTS OF OPERATION

Charged traditionally with the financial objective of living within its means, or breaking even, the Post Office has achieved its goal with remarkable consistency. The results of its operations for the years 1947 to 1961, as portrayed by government accounting methods in use, are shown in Table 1, together with volume and employment statistics. In this period modest surpluses have been earned ten times and deficits have occurred in five years: the largest surplus represented 6.6 per cent of revenue, the largest deficit 2.2 per cent. The fifteen-year period as a whole shows a net surplus of \$53 million from gross revenues of \$2,097 million.

As in all departments of government, the operating figures are incomplete and misleading, because of the omission from the accounts of a number of charges that are borne by common service agencies and not passed on to the users. The Post Office figures are more than ordinarily incomplete because substantial charges are omitted and for certain services rendered to other departments, mainly the carriage of mail, no revenues are earned. The principal expenses of the Post Office not reflected in its accounts are the cost of accommodation, 8.8 million square feet of floor space provided by the Department of Public Works and worth about \$25 million per annum, and the superannuation costs for its employees, about \$15 million, now charged to the Department of Finance. The largest omitted revenue is the value of free postal service, some \$6 million, and interest earnings on Post Office moneys arising from money order and postal bank operations (used for the general financial purposes of the government), nearly \$2 million.

Table 1—REVENUES AND EXPENDITURES, VOLUME AND EMPLOYMENT FOR THE FIFTEEN YEARS
ENDED MARCH 31, 1947-1961

Year	Total Revenue	Total Expenditures	*Surplus or Deficit (—)	Mail Volume	Number of Post Offices	Number of Employees
	(thousands of dollars)			(million pieces)		(civil servants)
1947.....	86,409	77,636	8,773	2,068	12,033	16,212
1948.....	91,626	81,799	9,827	2,425	11,982	18,289
1949.....	95,972	92,996	2,976	2,691	11,930	19,439
1950.....	101,294	99,405	1,889	2,778	12,415	20,275
1951.....	105,545	106,872	1,327—	3,013	12,390	20,245
1952.....	122,279	115,630	6,649	2,897	12,305	20,629
1953.....	129,388	122,917	6,471	2,985	12,259	21,071
1954.....	129,889	132,364	2,475—	*	12,202	22,357
1955.....	151,717	144,013	7,704	*	12,138	23,941
1956.....	158,568	148,293	10,275	3,306	11,996	24,491
1957.....	167,880	162,049	5,831	3,485	11,879	25,453
1958.....	177,493	177,893	400—	3,723	11,768	25,919
1959.....	183,381	183,554	173—	3,802	11,634	26,735
1960.....	193,660	191,823	1,837	3,983	11,497	27,621
1961.....	202,004	206,730	4,726—	4,122	11,416	29,930
	2,097,105	2,043,974	53,131			

* Reliable statistics not available.

By way of illustration, the results of the fiscal year 1958-59 (the most recent figures available) are subject to the following adjustments:

	(\$000)	(\$000)
Net deficit as shown by Table 1		173
Add: Omitted Expenditures		
Economic rental for premises occupied ..		23,300
Contributions to Superannuation Fund for Post Office employees		15,400
		38,873
Deduct: Omitted Revenues		
Value of postal services provided free to other government departments and agencies	5,700	
Interest on float—average money on hand from sale of money orders	1,300	
Interest on savings bank deposits	430	7,430
Actual net deficit		31,443

The character of the foregoing adjustments suggests that postal operations have been substantially less profitable than the figures in Table 1 suggest. In a subsequent chapter the costs and revenues of the individual postal services are analysed. The results of this analysis have a bearing on the extent to which the Post Office may properly be considered to have lived within its means.

In other reports your Commissioners recommend that all costs of operation be borne by individual departments and agencies, and that common service departments actually bill the users for the services provided. The adoption of these recommendations will have the effect of bringing into the accounts of the Post Office the principal items of expenditure presently omitted. Similarly, the Post Office will charge departments and agencies for the postal services received by them and the revenues will be increased accordingly.

The interest items require a word of explanation. The normal operation of the money order system results in a continuous "float" approximating \$32.5 million, and the savings bank operations produce an average deposit of \$28.5 million. Interest at $2\frac{1}{2}$ per cent per annum is paid on the savings deposits, but the continuous use of the money order float incurs no interest cost. Like all receipts of the Post Office, all these moneys, except for some till balances, enter the Consolidated Revenue Fund and thus become available for the general financial purposes of the government. The concept of the Post Office as an individual operating unit requires that all expenditures and revenues arising from its business be reflected in its accounts. It should, accordingly, receive credit for interest on its moneys used elsewhere in the government system, which would increase its revenues by some \$1.75 million annually.

We therefore recommend that: The accounts of the Post Office be drawn up to reflect the costs of all services received from and rendered to other departments and agencies of the government.

4

CHARGES FOR POSTAL SERVICE

The operating results of the Post Office, based on present incomplete accounting, were shown in the preceding chapter to represent slightly better than a break-even performance over the past fifteen years. A detailed examination of unit costs and revenues indicates, however, that this result has been attained only because of a surplus from first class mail operations which is large enough to offset substantial losses on other classes of service.

METHODS OF ANALYSIS

Determination of unit costs and revenues presents considerable difficulty. This arises from the mix of different classes of postal matter, common transportation, common handling of all classes and groups of services by single work forces, and other complexities. It is a problem shared by all postal administrations, and over the years certain accepted procedures have evolved which are in general use today. The usual approach is to sample the mails periodically, and to analyse costs and revenues on the basis of the samples selected. The Post Office makes very thorough investigation of samples of two one-week periods every third year. There is evidence that the samples chosen are representative.

In one area, current statistical procedures are responsible for an error of modest proportions. The analysis of international second class costs and revenues depends heavily on the theory of "balance of mails", which assumes that for every item mailed into the country there is an equivalent item

mailed out. This theory fails in the case of periodicals, where the flow is preponderantly from the United States to Canada. Total losses on second class mail include, therefore, a significant cost incurred in handling matter for which there is no compensating revenue. This appears to be of sufficient importance to justify adjustments in future sampling programmes. With this exception, the accuracy of the sample is of a high order; statistically the confidence limits are well above 96 per cent. Much depends on the assumption that the periods chosen for sampling are truly representative, and the support of existing practice with a series of random samplings of much smaller scope would increase the reliability of the cost information developed and might lead to earlier identification of important changes in trends.

RESULTS OF INDIVIDUAL SERVICES

Based on the investigations described above, the Post Office makes a complete allocation of costs and revenues to each of the various classes of mail and service. Table 2 shows the detailed results of the fiscal year 1958-59 based on the test data developed in the preceding year. The operating results, by main groups and classes, are compared in Table 3 with the surpluses and deficits which would have been shown had the omitted revenues (free mail and interest) and expenditures (accommodation and superannuation costs) been brought into account.

The most significant facts emerging from the above table are that first class mail is shown to yield a profit sufficient to carry all the other services and produce an approximate break-even. When the figures are corrected, the true loss of over \$31 million closely approximates the loss on second class mail, with other classes and services combined close to a break-even.

Postal rates for first and second class mail, (letters, newspapers and other periodicals), are fixed by Parliament. All other rates and charges are within the discretion of the Postmaster General.

SUBSIDIZATION OF SECOND CLASS MAIL

The re-statement of costs and revenues summarized in Table 3 shows, for the year 1958-59, second class mail revenues amounting to \$7.1 million, while costs totalled \$36.5 million. The deficit of \$29.5 million is thus equivalent to over four times the revenue. Stated in another way, the Post Office, in the rates allowed it by Parliament, recovers less than twenty per cent of its costs of handling second class matter. While first class mail, because of its volume, produces a surplus of similar dimensions in dollars,

Table 2 — POST OFFICE DEPARTMENT — SUMMARY OF RECEIPTS AND DISBURSEMENTS—FISCAL YEAR
ENDING MARCH 31ST, 1959 (Using 1958 Test Data)

<i>Class of Mail or Service</i>	<i>Receipts</i>	<i>Disbursements</i>	<i>Surplus</i>	<i>Deficit</i>
	\$	\$	\$	\$
First Class (Letters)—Ordinary.....	100,786,129	65,282,336	35,503,793	
Air-mail—domestic.....	683,851	534,674	149,177	
Air-mail—foreign.....	7,700,310	8,268,322		568,012
Second Class (news and periodicals)				
Transient.....	862,019	2,318,957		1,456,938
Publishers.....	6,189,125	27,879,069		21,689,944
Third Class (printed matter)				
Householders.....	4,594,709	4,554,819	39,890	
Addressed Circulars.....	17,931,015	16,424,355	1,506,660	
Other Printed Matter.....	3,338,754	4,447,186		1,108,432
Fourth Class (Parcel post)				
Domestic.....	20,860,194	21,611,473		751,279
Foreign.....	4,675,035	5,393,842		718,807
Air—Domestic.....	289,695	526,194		236,499
—Foreign.....	328,108	436,204		108,096
Free Mail.....		4,620,958		4,620,958
Services				
Registration.....	3,188,319	7,418,425		4,230,106
Special Delivery.....	329,386	760,640		431,272
C.O.D.....	779,705	1,852,728		1,073,022
Parcel Insurance.....	36,037	655,165		619,128
Financial				
Money Orders—Notched.....	3,448,117	3,917,857		469,740
—Denominative.....	3,944,044	5,024,842		1,080,798
Postal Savings Bank.....		318,753		318,753
Agency				
Unemployment Ins. Comm.....	743,981	869,537		125,556
Government Annuities.....	71,853	63,274	8,579	
Other				
Philatelic Service.....	388,238	107,010	281,228	
Lock Box Rentals.....	1,798,092	59,531	1,738,561	
Rural Mail Boxes.....	73,736	67,189	6,547	
Miscellaneous.....	340,074	140,311	199,763	
	183,380,508	183,553,651	39,434,198	39,607,341
TOTAL NET DEFICIT.....				173,143 (0.1%)

the margin of profit represents no more than twenty-two per cent of the costs. Moreover, if the losses on ancillary services such as registration and special delivery, which have special relevance to first class mail, are taken into account, the degree of profitability must be viewed as considerably lower.

The practice in Canada of carrying newspapers and periodicals for a small fraction of the cost is not unique but is a characteristic of most major postal systems. It dates from the early part of the last century when the general level of literacy improved to a point where mass media had an audience. In response to the public demand for current news, and because newspapers and magazines were the only means of reaching the public on a broad scale, governments adopted a policy of subsidizing the costs of distribution.

Table 3—SUMMARY OF OPERATING RESULTS BY MAIN CLASSES OF MAIL AND SERVICES 1958–1959

<i>Group or Class</i>	<i>As Shown by Post Office Accounts</i>		<i>Adjusted to reflect omitted revenues and expenditures</i>	
	<i>Surplus</i>	<i>Deficit</i>	<i>Surplus</i>	<i>Deficit</i>
(thousands of dollars)				
Mail				
First class.....	35,085		19,460	
Second class.....		23,147		29,504
Third class.....	439			4,922
Fourth class.....		1,815		7,716
Free.....		4,621	106	
Services (Registration, Special Delivery, C.O.D. and Insurance).....		6,353		8,608
Financial				
Money Orders.....		1,550		2,137
Savings Bank.....		319	44	
Agency.....		118		313
Other (Philatelic, Box Rentals, etc.)	2,226		2,147	
TOTAL NET DEFICIT.....		173,143		31,443,143

NOTE: Since the year 1958-59, parcel post rates have been increased and changes in rates having broad application to international mail have been made under a new Canada-United States Postal Convention which came into effect on July 1, 1961. The financial results can be assessed only after further experience.

Today, the situation is vastly different. Other media of mass communication have developed and the underwriting of publication costs by advertisers has substantially altered the economics of publishing. Publications have grown enormously in bulk in the past hundred years—the four-page newspaper of the last century appears today with mammoth editions of over one hundred pages—and the costs of the Post Office have necessarily increased very materially. The advertiser, responsible for from forty to seventy per cent of the content of many present-day publications (ninety per cent was noted in one case), has become a beneficiary of the government's policy of subsidizing distribution of second class mail. Conversely, when third class mail is used for direct advertising, the advertiser pays the full cost of the service.

These considerations are a facet of public policy and warrant no conclusions by your Commissioners. But from the point of view of constituting the Post Office as a businesslike operation and assessing its performance in terms of financial results, the imposition of an obligation to subsidize second class mail from its own pocket seems undesirable. Your Commissioners conclude, therefore, that if Parliament continues to require that over three-quarters of the cost of postal distribution of newspapers and periodicals be met from the public purse, a specific grant should be made to cover the deficits.

We therefore recommend that: An annual grant be made by Parliament in amount sufficient to cover the costs of the Post Office in handling second class mail, to the extent that such exceed postal revenues arising from the rates set by Parliament.

5

ORGANIZATION AND MANAGEMENT

As in other departments and agencies subject to the existing central controls, the Post Office operations are found by your Commissioners to be bedevilled by the intrusion of the central agencies into the field of day-to-day management. Recommendations contained in the reports on *Financial Management* and *Personnel Management* are designed to ameliorate this situation. Recommendations made in this report and elsewhere that users be charged for common services will bring the related revenues and expenditures within the ambit of departmental responsibility. These changes, together with the recommended grant in respect of second class mail, set the stage for a viable postal operation designed to render service at cost.

To facilitate the efficient management of this important enterprise and, in particular, to provide a basis for the assessment of its performance, your Commissioners believe that certain steps are necessary. In their view, the essentially operational character of the Post Office requires the adoption of financial procedures better suited to its needs than those ordinarily followed by departments of government. In the report on *Financial Management* it was pointed out that departments should develop accounting systems using the accrual basis and designed to meet their individual management needs, and this recommendation is fully applicable to the Post Office.

The Post Office, which differs from other departments in that it seeks to recover its costs through operations, lends itself to organization on a semi-autonomous basis with independent control of its financial resources. Incorporation as a Crown company has been suggested on occasion and can be supported on logical grounds, but your Commissioners do not consider this

the only or even the appropriate solution. The universality of the service and traditional public interest militate against depriving the Post Office of its constitution as a department of government. But there is no reason why the Post Office, as a continuing department, cannot operate in substantially the same manner, with similar financial practices, as a utility in the private sector. This is, in fact, the character of Post Office operations in the United Kingdom.

To bring this about, the principal changes required are of a financial nature. At present, all receipts are deposited with the Receiver General and expenses are paid from Parliamentary appropriations. By this means the moneys of the public entrusted to the Post Office on money order and banking transactions, as well as nearly all postal revenues, flow through the Consolidated Revenue Fund. The Estimates reviewed by Parliament now include about \$200 million to cover the disbursements of the department. The payment of all expenses out of revenues would be more appropriate, so that Parliament would be asked to vote only the amount of any deficit. This change would facilitate accounting and reporting procedures, permit closer management control, and more suitably reflect the operational independence of the Department. This can be accomplished by establishing a revolving fund sufficient to provide for working capital requirements, with interest on the fund charged against operations.

A second step required is to bring into account the capital assets, buildings and equipment used by the department, and to provide that operating costs include provision for the systematic amortization of their cost. This will necessitate a determination of the present value of these assets, which were written off as acquired, and acknowledgement by the Post Office of indebtedness to the government for this sum, upon which it would pay interest. While in the case of equipment no alternative exists, the buildings and premises of the Post Office could continue to be carried on the books of the Department of Public Works but rental charges to the Post Office should include all current operating costs, as well as depreciation on the buildings and interest on the capital employed.

As a result, postal operations would be charged with all the real elements of cost, and management would have the task of achieving the desired balance between postal revenues and expenditures. A statement of the position of the Post Office could be prepared periodically which would show all aspects of financial relationships with the government, closely resembling the balance sheet of a private enterprise.

Under the plan proposed, there would be a change in form but not of substance in the annual review of operations by the Treasury Board and the

Cabinet. Instead of preparing estimates on the basis of anticipated expenditures, the Post Office would submit to the Treasury Board an operating budget, including both revenues and expenditures, which would be subject to programme review similar to that applied to the programmes of other departments. In order to subject Post Office operations to annual review by Parliament, the Estimates should contain a token vote to permit questioning by members of the House of Commons. In addition, any necessary increase in the revolving fund or appropriations to meet deficits would require specific Parliamentary approval.

The proposed creation of an independent operating form raises the question of the proper relationships of the Post Office to the common service agencies of the government. While the latter must have reasonable powers of delegation, your Commissioners are in no doubt that they should be charged with responsibility for meeting the needs of the Post Office, as of other departments. The principal agencies involved will be those responsible for central purchasing and for real property management.

In the report on *Real Property* your Commissioners recommend that the Department of Public Works be given the sole duty of undertaking the management function in respect of all real property required by civil departments and agencies. The principle was there enunciated that the determination of need was primarily the responsibility of the user department and that, following senior approval and appropriation of funds, the task of the central agency was to acquire and manage the facilities required.

It should be observed in passing that in providing postal facilities the planning aspects of real property acquisition have been notably unsatisfactory. The tendency has been to make too little provision for future growth. For example, the post offices at Kitchener and London, Ontario, are currently being replaced after only twenty years' service. The Calgary post office opened last year is barely adequate for present requirements. The responsibility for this situation must, under existing conditions, be shared with the Post Office by the Department of Public Works and the Treasury Board, but the recommendations of your Commissioners would place the entire responsibility for long-term planning upon the Post Office itself.

We therefore recommend that: 1 All receipts and disbursements of the Post Office be handled through a revolving fund corresponding in amount to the working capital requirements of the Department.

- 2 The Post Office be charged with an advance equivalent to the present value of its capital equipment and all additions thereto be charged as they are incurred.
- 3 Similar procedures be followed with respect to the present value of Post Office buildings and premises or, alternatively, amortization of capital costs and interest on capital invested be included in charges by the Department of Public Works to the Post Office for the occupancy thereof.
- 4 The Post Office pay interest on the revolving fund and on the balance of the advance account at rates to be fixed by the Department of Finance.
- 5 The annual operating budget of the Post Office be submitted to the Treasury Board for approval and reviewed with the Estimates of other departments and a token Vote be included in the Main Estimates in respect of operations of the Post Office.
- 6 A system of financial reporting be adopted by the Post Office that will meet the current needs of management and demonstrate appropriately the results of operations and the financial relationship of the Post Office to the government.

Part 2 of this report which follows contains more detailed observations on certain aspects of postal operation, including the internal organization of the Department.

PART 2

1

THE POSTAL OPERATION

1 The process of collecting, sorting, transporting and delivering mail carries on every minute, every day, throughout the year. In a never-ending stream, letters are dropped through letter slots, collected, sorted, directed, transported, resorted and redirected, and finally delivered to their destination. This process is described in detail below.

Collection

2 Mail may be deposited in a post office, a street letter box or the mail box serviced by a Rural Mail Carrier. Street letter boxes are cleared at scheduled times by private contractors who carry the mail to the appropriate post office for further processing. Similarly, the Rural Mail Carrier will deposit collected mail in his post office. Meanwhile, mail order houses are posting parcels, advertisers third class matter, publishers second class matter, all literally by the truckload. Although each class of mail is handled slightly differently, the general procedure is the same.

Forward Sortation

3 Letters, as received in a post office, are sent directly to the Forward Sortation area. Here, on large tables, they are "faced up"—oriented face up with all stamps in the upper right hand corner. This orientation is maintained throughout the ensuing handling. During this process, letters for Special Delivery, Special Air Mail, and so forth, are separated. As letters are faced, they are fed through cancelling machines which postmark each letter as to date and office of origin and deface the stamps. They are then ready for primary sortation, which is the first separation or reduction.

4 Primary sortation generally takes place in a 49-pigeonhole case. The pigeonholes are labelled, for example, "Montreal", "Ontario West", "City". The pigeonhole labelled "Montreal" will gather all mail destined for that city (including 40 other designations for Montreal, such as Westmount, used by the

public). The pigeonhole "City" will collect local mail. The pigeonhole "Ontario West" will gather mail for a great many post offices in a region of Ontario. These will be further sorted in a secondary operation. Each letter sorted in the primary case could be directed to any one of over 11,000 post offices. The primary sorter must know how to sort this mail at the rate of 39 letters a minute.

5 The products of primary sortation are twofold. First is the "Straight" which is a letter separated directly for final destination. Second is that destined for further sortation either locally or at some other post office. Secondary sortation is carried on in a similar manner but for a smaller area. Thus, "Ontario West" mail will be sorted to various destinations in that district. It is obvious that "Straights" in the primary case represent sortation economy. By judicious use of this principle, the Post Office is able to maintain a ratio of 1.4 to 1.6 sorts per letter for all forward sortation. As mail is sorted into pigeonholes, it is periodically being gathered and tied into bundles ("tied off") ready for dispatch.

Transportation

6 "Tie-offs" are continually going out on various transportation dispatches. These are carefully organized to take advantage of every regular carrier that moves. Thus, mail for Brandon may go via Winnipeg at noon or by way of Regina a few hours later, because of carriers' schedules. Transport networks are extremely complicated.

City Sortation

7 As sorted mail is received in a city post office for local delivery, it is subjected to a process called city sortation. The first step is again a primary sortation. This time the mail must be separated by postal zone (whether included in the address or not) and also by "straights". This time "straights" are

addresses which receive large volumes of mail (such as mail order houses, insurance companies and the like). Postal zone mail is sorted in a secondary case to the letter carrier's walk.

8 City sortation requires very extensive knowledge for its successful completion. For example, in Toronto there are about 3,000 street names, some distinguished only by the designation "St.", "Ave.", or "Rd." Some of the streets run through several postal zones, so the city sorter must know the street number at which the zone "breaks". Additionally, a significant amount of mail is addressed to firms without the appropriate street address, or a "corner" designation, may be substituted e.g., "corner of King and Yonge". It is estimated that a primary sorter must know upwards of 5,000 "points of information" to sort the Toronto City primary case. Nonetheless the sortation rate is again approximately 39 letters per minute. Another method of city sortation, called the ABC method, requires a minimum of specialized knowledge because it involves merely an alphabetic distribution by street name. This system is used by temporary help for forward sortation to handle Christmas mails.

Letter Carrier Delivery

9 As mail is sorted to the letter carrier's walk, it is given a final sortation by the letter carrier, who merely arranges the letters in order of delivery. When sortation is complete delivery is made. Letter carrier walks may be all residential, mixed residential and business, or all business. Some walks are contained entirely within one building; indeed at least one large office building contains two complete postal walks. For certain types of suburban delivery, the Post Office has recently concluded successful experiments with "mail-mobiles". These are lightweight vehicles which eliminate much of the walking and at the same time permit the letter carrier to deliver some parcel post.

2

INTERNAL ORGANIZATION

PRESENT ORGANIZATION

1 The existing organization is the result of a partial implementation of recommendations made in 1952 by a firm of management consultants with certain evolutionary changes. It is presented diagrammatically in Chart 1. Functionally, the organization is described below.

Headquarters

2 The departmental organization is headed by the Deputy Postmaster General, who reports directly to the Postmaster General.

3 The Deputy's staff includes a special assistant, an emergency planning officer, a public relations division, and seven major branches with the following duties:

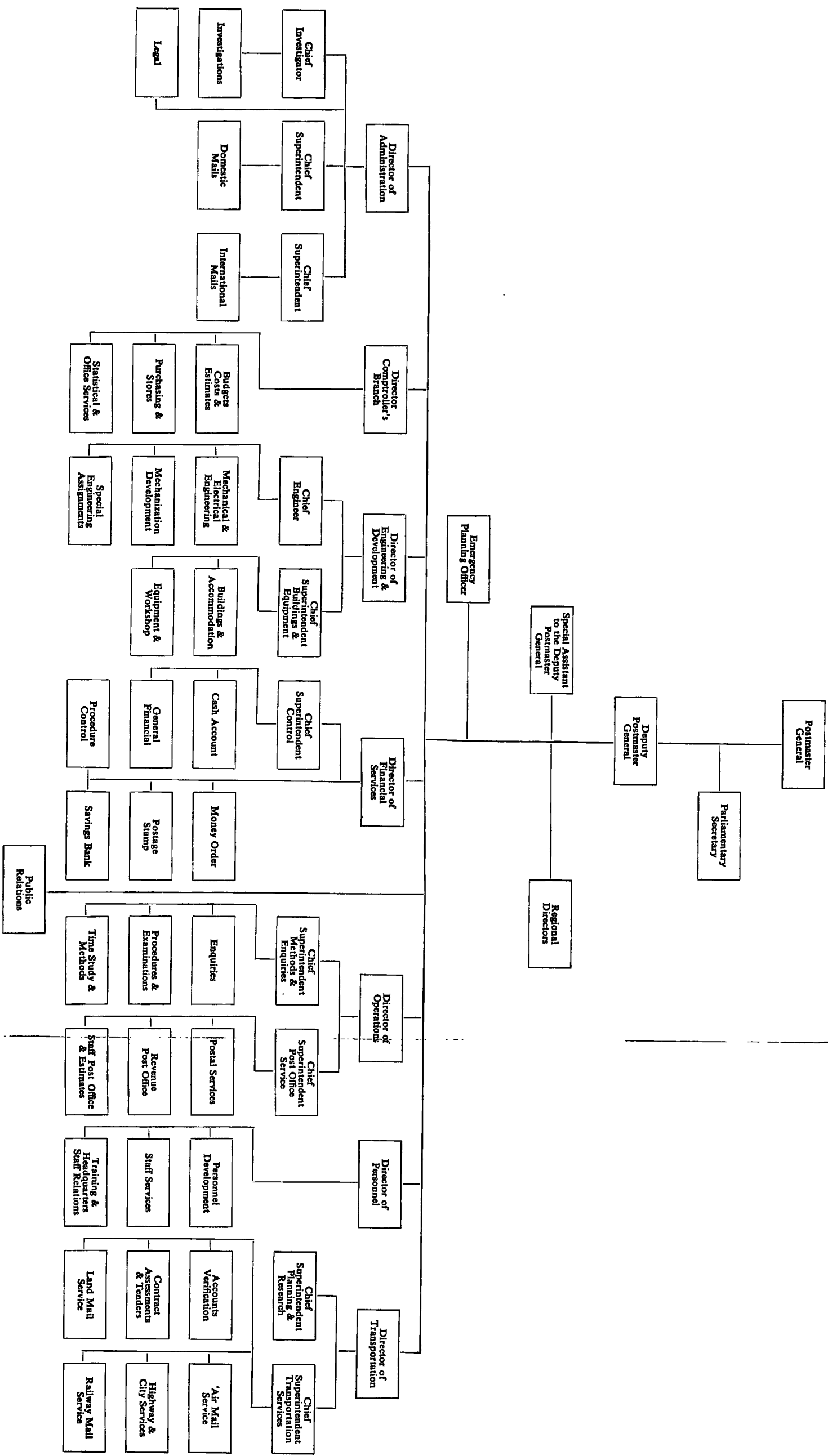
ADMINISTRATION—Preparation and interpretation of domestic and international postal laws and regulations; negotiation of international postal rates and international transportation contracts; disposal of undelivered mail; and investigations and legal matters.

COMPTROLLER—Co-ordination of branch estimates into Departmental over-all estimates; establishment and maintenance of a budget system for certain post offices; establishment and maintenance of cost ascertainment and work measurement systems; establishment and maintenance of payroll audits; direction and control of the purchasing and stores function; and centralized office services.

ENGINEERING AND DEVELOPMENT—Provision of buildings and equipment; systems studies and installation of new and modified mechanical mail handling devices, including the control of maintenance on such installations; research, development and design of electronic mail processing equipment and standard post office equipment.

FINANCIAL—Establishment and maintenance of accounting and auditing procedures in connection with receipts and disbursements from revenue; operating savings bank and money order systems; design, purchase and control of postage stamps and other values; and provisions of electronic and automatic data processing services.

Chart 1—POST OFFICE DEPARTMENT-HEADQUARTERS



OPERATIONS—Establishment and maintenance of post offices, including staffing; establishment and maintenance of enquiries procedures; development of mail handling work standards and improvement of mail processing methods; and the conduct of a staff examinations system.

PERSONNEL—Formulation of personnel policy for Headquarters and Staff Post Office employees; formulation and operation of personnel development and safety programmes.

TRANSPORTATION—Negotiation of contracts for the conveyance of domestic mails.

The Field Organization

4 The field organization is charged with the provision of the daily postal service and is scattered across Canada. For this purpose Canada is divided into fourteen postal districts, each headed by a District Director. Each District Director, reporting directly to the Deputy, is responsible for the operation of all post offices and mail services in his district. Responsibility is delegated to Area Superintendents for the complete operations in a segment of each district. In addition, the District Director has a small staff to deal with operations, transportation, administration, personnel and public relations on a local level, along the same general lines as their Headquarters counterparts.

5 Several Headquarters functions are performed in the field by personnel reporting directly to Ottawa. Thus there are four Regional Directors, each of whom represents the Deputy Postmaster General in a particular region. All time-study men, no matter where resident, report directly to Headquarters. Similarly, certain transportation officers (designated Transportation Research Officers) are actually field representatives of Headquarters.

6 In addition to the fourteen postal dis-

tricts, four District Post Offices have been designated. They are Montreal, Toronto, Winnipeg and Vancouver, the largest post offices in the country. The Postmaster of each reports directly to the Deputy and, like the District Directors, maintains certain supporting staff functions.

ORGANIZATIONAL WEAKNESSES

7 Preliminary investigation of the existing organization suggested several important points of criticism. These stemmed from three sources: the lack of clear functional definition, the lack of authority commensurate with delegated or implied responsibility, and unwieldy spans of control in several supervisory positions.

8 As an example of lack of functional definition, there is no real separation of the planning function from the performance function. Each Headquarters branch is required to perform in its own area and also to formulate its future plans. This places the Deputy in the position of having to co-ordinate not only the performance but also the planning efforts of the organization. In an enterprise of the size and scope of the Post Office, this task is beyond the capabilities of any senior executive. The result has been that performance co-ordination has largely gone by the board because of the heavy (and more important) planning load.

9 Since each branch enjoys equal authority in its own sphere, the result has been performance management of the field organization by committee. Additionally, the branches are so compartmentalized that, unless complete unanimity exists in every instance, decision-making may be seriously delayed.

10 The field organization has felt this defect keenly. For example, a new mail service might conceivably involve separate approaches to Operations, Personnel, Transportation and the Comptroller. Except in clear-cut issues,

decisions may be inordinately delayed and are generally made only after voluminous interchanges of correspondence between the units involved.

11 The functions of the Regional Directors are not clearly defined. In the absence of direction, each of these four officers has established his position in accordance with his own concepts and in response to local conditions. There is uncertainty in everyone's mind as to the duties and responsibilities of these positions.

12 The position of Area Superintendent deserves comment. On average a superintendent is responsible for 175 offices. He is required to inspect each office to ensure adequate postal operation, to make periodic cash audits, to search for ways of improving the service and so forth. As cash audits alone take from sixty per cent to seventy-five per cent of the superintendent's time, many of his other duties receive scant attention. Many small local problems are thus left unsolved.

13 The field organizations of the metropolitan districts of Montreal and Toronto present certain problems. In each district the central post office is responsible for the operation of all perimeter (suburban) offices. However, during the last decade populations and mail volumes have increased very rapidly in these centres, and the perimeter offices have grown until they are now larger and more important than many self-contained offices in towns and small cities. Supervision by a central city post office is no longer practicable.

14 Throughout the entire field organization there is evidence that only limited authority has been delegated from Headquarters. District Directors, for example, must obtain permission from various Headquarters branches for such matters as the inauguration, extension or curtailment of service, disciplinary

action, and so forth, which delays field implementation. Consequently Headquarters branches have retained large staffs to process the myriad requests and directives that result from centralized authority. This preoccupation with operational matters renders branches ineffective in discharging the primary responsibility to establish criteria and develop policy and regulations.

15 The foregoing examples of organizational faults are merely illustrative and they are not intended as an exhaustive portrayal.

16 Organizational faults do not prevent an enterprise from attaining its major objectives. Rather, they result in other less obvious deficiencies. For instance, excessive costs are generated by imperfect delegation, due to the great amount of communication that must take place between the area of operation and the area of authority. Certainly poor organization will prevent many desirable secondary objectives being attained, if only for the reason that no one in particular has been charged with their attainment. Also, poor organization impedes the development of employees for more important posts. How can an aspiring employee prepare himself for a more senior position if its exact duties and responsibilities are unclear? Finally, in an unsatisfactory organization, so much executive energy is consumed on inconsequential matters that the performance of normal routine becomes a difficult and time-consuming task.

17 Fortunately, counterbalancing the organizational faults, the Post Office staff is conscientious, hard-working and dedicated, and morale is very high. This has enabled the service to function in a highly commendable manner. Nonetheless, at this critical time, when retirements and volume increases are creating an urgent need for managerial talent, energy and dedication may not in themselves be sufficient.

REORGANIZATION EFFORTS

18 The organizational difficulties of the Post Office were recognized in June 1961, when the retirement of several key postal officers was imminent. It was therefore decided that the organization be studied immediately and that, because of the nature and extent of the problem, a mere repair of the existing organization would not be sufficient. Accordingly the Deputy Postmaster General established a Joint Organization Study Group comprising representatives of the Royal Commission on Government Organization, the Civil Service Commission and the Post Office Department to develop a completely new plan oriented specifically to the needs of the Department.

19 The terms of reference to the Joint Study Group were:

To review the organization of the Post Office Department and recommend any changes that would improve that department's ability to achieve its objectives.

20 The Study Group elected to divide the programme into three parts:

Part 1—Organization

Part 2—Detailed organization at headquarters

Part 3—Detailed organization in the field.

21 It was further agreed that representatives of your Commissioners would participate only in Part 1 of the programme, and that Part 2 and Part 3 would be conducted by the Civil Service Commission and the Post Office Department.

22 Part 1 of the programme was completed by mid-November 1961. Reports were presented to, and accepted by, the Postmaster General and are now in process of implementation. The estimate is that, when this plan is fully implemented and working, there will be a reduction of some \$1.6 million in annual operating costs.

23 The new organization has been designed to achieve the following more important objectives:

- Consolidation of allied and complementary functions into specific areas.
- Clear differentiation between line and staff relationships.
- Provision of necessary functions.
- A realistic span of control for each executive.
- Delegation of the proper degree of authority commensurate with responsibility.
- An organization in which managers can grow and develop.
- A proper and clearly understood chain of command in every function.

24 It is suggested that these objectives, when achieved, will result in more efficient use of managerial talent and reduced operating costs, and, most importantly, will provide a framework within which future changes can be made, as the need arises, logically and with a minimum of disruption.

3

ADDITIONAL SERVICES REQUIRED

1 The addition of four functions to the Post Office organization would be of material benefit in the continued quest for reduced costs and improved service. Specifically these are: a Statistical Information Service, a Postal Rate Planning function, a drastic expansion of Time Study activities and Operational Research.

STATISTICAL INFORMATION SERVICE

2 The Post Office collects many items of statistical information. This is done, generally, for specific purposes, and no further use is made of the information when it has served its special purpose. A great deal of information is accumulated at individual post offices with regard to the distribution of mail originating in that office, but these data are not centrally assembled and the general characteristics of mail-flow cannot be readily studied.

3 No forecasts are made of metropolitan or national growth trends, and patterns and plans cannot be made until these emerge. Too often such plans are made with undue haste and have to be revised. In Metropolitan Tor-

onto, certain postal zones have been changed three times in less than five years.

4 There is, therefore, a need for a central statistical bureau within the postal organization to collect and analyze operating data. Specifically, more mail-flow information is needed. Knowledge of volume by type, point of origin, point of destination, and so forth, would be of real help in solving some of the mail system problems which presently exist. Equally, the Post Office requires better information than it has at present on population trends. This knowledge will facilitate the anticipation of service requirements and will allow an improved job of planning. The assistance of the Dominion Bureau of Statistics should be enlisted in developing this activity, and specially trained personnel will be required for its management.

POSTAL RATE PLANNING

5 The Post Office has the right to establish the rates to be charged for third class mail (printed matter) and fourth class mail (parcel post). It also has the right to enter into inter-

national agreements with regard to the rates charged for all classes of mail. As the costs of postal service have risen, it has been found necessary, from time to time, to adjust rates, so that revenues will remain commensurate with the costs. Normally, adjustments have been made to achieve direct objectives, and too little attention may have been paid to the indirect implications.

6 Indirect results flow from the interrelationship that exists between certain classes of service and the rates charged. For example, parcel post (fourth class mail) is the standard service, provided at what might be termed the "base" price. Extra service (faster service) is provided by air parcel post at a higher rate. If parcel post rates are raised and approach those charged for air parcel post, there will be a diversion of volume from regular to air parcel post. Similar problems are encountered when domestic and international mail services overlap. United States publishers are encouraged to mail in Canada by a device known as the "mail-in-Canada" rate for newspapers and periodicals. If this rate is too high, the publisher may mail in the United States and Canada receives no revenue; alternatively, the material may be deposited with newsdealers in Canada, who enjoy special rate privileges under second class mail provisions.

7 The foregoing are examples of what has occasionally happened in the past when rates were revised. The problem stems from two sources. In the past, international rates have been handled separately from domestic rates, and rate adjustments have been made without consideration of possible indirect effects. The subject of rate levels is one which, because of its sensitivity, requires continuous and careful scrutiny. This function should be carried out in the proposed Postal Rate Planning section and would round out the ability of the Post Office to consider future plans and the effect of proposed rate changes on those plans.

TIME STUDY

8 The Post Office has had a Time Study programme since 1953, which has been used to establish proper work quotas for certain operations in some of the major post offices. At the present time, a staff of 27 men are engaged in this work. To date, their efforts have resulted in the installation of programmes in the 18 largest offices in Canada. Attention has been directed primarily to the handling of first and third class mail, with less attention to the second and fourth classes. Some 8,000 people now work to the standards established, and savings conservatively estimated at over \$2 million annually were realized in the fiscal year 1959-60. The standards in use have been audited and found to be well within 5% of the output range that would be required by industry, which speaks well for the quality of work done to date. The supervisory staff, generally, have supported such programmes and have learned to appreciate the advantages to be gained.

9 There is, however, a large amount of work yet to be done. In addition to present coverage, the programme could be extended to second and fourth class mail. Apart from the eighteen post offices already covered, the programme could be advantageously installed in every office down to and including Grade 13. Similar programmes could be designed for mail handlers and letter carriers in all offices.

10 The over-all effect of such extensions would be to bring a further 12,000 employees into the programme; a very conservative estimate of the resultant savings is \$7.5 million a year. To achieve these savings, an enlarged time-study staff and improved training are required. The present establishment is barely sufficient to maintain the current programme, and without further time-study training personnel are ill-equipped to meet the technical challenges of an extended programme.

11 At present, a staff of 27 time-study men maintain coverage on some 8,000 employees—a ratio of about 300 employees per time-study man. The same ratio applied to a further 12,000 employees indicates the need of an additional 40 time-study men, and 8 men would be required as trainees and supervisors, raising the establishment to 75.

12 All the time-study men depend today on a predetermined time-standard system to measure work. This is a sound and well-accepted method which is adequate to measure the work in the present programme. However, as the programme is extended, the staff will find great need for other industrial engineering techniques. These could well include:

- Stop-watch time study.
- Work sampling.
- Methods engineering.
- Certain operational research techniques.
- Elementary statistical mathematics.

13 Additional training in these subjects would enable present staff to meet the challenges that they will undoubtedly encounter in the new areas of investigation.

14 At present, all training is undertaken personally by the Superintendent-Time Study. With an augmented staff, the development of one or two people as instructors would be justified. Many large industries have adopted this approach, with outstanding success in terms both of cost and quality of training.

15 The Post Office now recruits all time-study men from the ranks, and their training and experience are usually gained only in the department. Although this policy has been reasonably successful, a programme of more general development would be beneficial. Memberships in industrial engineering and

management societies would be extremely advantageous, as well as subscriptions to relevant technical publications. Certain individuals should be afforded the opportunity to attend seminars in their general field of interest from time to time. Experience in industry has amply demonstrated the value of programmes for manpower development.

OPERATIONAL RESEARCH

16 The Post Office has many problems that can be solved by the use of operational research techniques. This fact was established by a series of tests designed to show whether these techniques could be effective in specific areas.

17 Operational research involves the application of scientific method to the solution of operational problems in complex organizations. The objective is to provide quantitative bases to guide executive decisions towards improved operations. The problems are those of management, and the approach to their solution is related to the over-all objectives of the organization rather than to the objectives of one particular part. The test areas and results are described briefly hereunder.

The Cost-Service Relationship at Wickets

18 Wicket service is given in post offices for the sale of stamps and money orders, the registration of material, acceptance of parcel post, and similar functions. The number of wicket attendants required depends upon the intensity of demand by the public for these services. Obviously, a large number of attendants will provide a standard of service where the customer will very seldom have to wait. Conversely, a small number of attendants will adversely affect the time the customer will have to wait. Thus, high cost is associated with good service; low cost with poor service. While operational research techniques cannot establish either the proper service level or the proper cost level, both can

be related mathematically as an aid to management in finding the optimum compromise.

19 The technique of "queuing theory" was used in one of the major post offices to investigate this problem. A relationship between cost and customer waiting-time was obtained by establishing, as an arbitrary standard, that the level of service was adequate when the waiting-time did not exceed two minutes each of ninety per cent of the customers. On this assumption, it was found that wicket staffs could be reduced by roughly half. If the wickets studied are indicative of service generally throughout the system, and casual observation indicates that they are, potential savings are in the order of \$2.8 million a year.

Forecasting Mail Volumes

20 The volume of mail deposited in any post office varies from day to day, and from hour to hour throughout any given day. If good service is to be maintained, staff must be available to process all mail almost as it is received but overstaffing results in excess cost. If staffing be related to mail volumes forecast within reasonable limits, adequate service can be maintained at minimum cost. Forecasts based on statistical analyses of mail volumes at one of the major post offices were made and the results tested. The study showed that sufficient accuracy could be attained to justify using the forecast as a basis for determining labour requirements.

Marginal Analysis of Cost-Service Relationships in Sortation

21 Marginal analysis may be described as a technique whereby a system is analyzed mathematically in a series of steps. Each step involves the theoretical addition (or deduction)

of a fixed increment of cost and the ascertainment of the resultant change in the level of service. In this study, the measure of service was expressed in terms of "day-late letters" or letters which might be delayed one day. By combining the marginal analysis results with those of mail volume forecasts, it was determined that service could be slightly improved and costs significantly reduced. The test indicated that an extension of this analysis, coupled with mail volume forecasts, would yield annual savings of \$4.8 million.

Marginal Analysis Evaluation of Highway Transportation Services

22 Marginal analysis studies of several truck routes were conducted to determine the relationship of cost and service. Again the "day-late letter" was used as the measure of service. Unfortunately, the value of marginal analysis is limited by the great complexity of the present system. It would seem advisable to redesign the highway routes and simultaneously to evaluate the possibility of replacing certain rail services with highway trucks where true cost-savings will result. Preliminary estimates indicate that a comprehensive study of this nature would yield savings of \$1.2 million annually.

23 Based on the foregoing tests, which indicate potential annual savings of \$8.8 million in the areas investigated, there is no doubt that operational research would be of the greatest help to the management of the Post Office. This function should be added to the engineering division, with a senior operational-research analyst attached to the Headquarters group. Training certain field personnel of the Methods and Standards group in selected techniques of operational research would be necessary.

4

SEVERAL OPERATIONAL PROBLEMS

CLASSIFICATION OF POSTAL MATTER

1 The postal regulations are published in a 456-page book entitled "The Postal Guide". Although a great part of this volume deals with rates of postage, there is also a large portion devoted to rules and regulations covering the classification of the mails. It will be evident that strict classification is necessary due to the price differentials between the various classes. For instance, 200 pieces of mail, each weighing eight ounces, can be sent as second class mail for two dollars; as third class mail, the charge would be ten dollars, an increase of 400 per cent.

2 All classification is based on the content of the mail matter. Thus a personal message is classified as a first class letter. Similarly, any matter published under specified conditions, containing 30 per cent or more "news and information" and addressed to a bona fide subscriber, is second class. Printed matter is third class, and so forth. Certainly first class mail must be classified by content and, under the present rate structure, second class mail must be classified in the same way. Unfor-

tunately, the great preoccupation with content has meant that very little thought has been given to the physical handling properties of the item which have a profound influence on the operating costs of the service.

3 Both mailers and postal officials are frequently in a quandary as to how certain material should be classified. A page in a magazine may simply be advertising if printed on paper. The same message printed on aluminum foil may be classified as a sample subject to third class rates (if the advertiser is in the aluminum foil business), or as an advertisement if the foil has been used for its eye-catching qualities only. A cake of soap may be a parcel (fourth class) or a sample (third class), depending on packaging and the purpose of the shipment. These are but two examples of the many problems encountered in mail classification. Simplification is needed. It would be of value to many large mailers and would resolve some very trying administrative problems.

4 The approach to greater simplification

lies in classifying mail, wherever possible, on the basis of the cost of handling. Thus, the aluminum page in the magazine will remain unnoticed as long as the magazine can be handled in a normal manner. Similarly, the cake of soap will always be parcel post. In general, the measure of relief to mailers and authorities will be large, the adverse effect on postal revenues small.

5 Further, it would be advantageous to create a sub-class of parcel post. The non-addressed or "householder" classification, presently only third class, should also be available in the fourth. This would permit a complete distinction between printed matter and samples, and would greatly simplify the application of correct rates.

FORWARD SORTATION

6 The Post Office presents a unique statistical anomaly. Of the 11,416 post offices in Canada, a mere 80 originate eighty per cent of the total mail handled and employ some eighty per cent of postal employees. It is suggested that complete recognition of these facts could lead to certain highly significant advances in postal operations, particularly in the areas of sortation and transportation.

7 Forward sortation is the process whereby mail deposited in a post office is separated for forwarding to the office of address. It is normally carried out in two stages—primary and final.

8 Primary sortation is carried out in a "case" or series of pigeonholes. Each pigeonhole is labelled either for an office of destination (a "straight") or for another "case" where final sortation will take place. In actual operation a primary "case" normally has 49 pigeonholes. The sorter who handles the "case" must know how to distribute anywhere from 1,000 to 5,000 different addresses into these pigeonholes. This requires a high degree of knowledge which is difficult to

acquire. The learning time on one "case" is generally upwards of 12 months to attain an expected rate of 39 letters per minute. While it is not unusual to find clerks who can process two or three "cases", it will be appreciated that the training is expensive, and that the trained postal clerk is relatively inflexible in his sortation capabilities.

9 "Straights" require no knowledge. However, every pigeonhole that feeds a final "case" requires a great deal of knowledge. Although all primary "cases" are uniform in a post office, there are many different "finals". There will be, as a minimum, one final "case" for every province of Canada, and within every major post office there must be a knowledge of every post office in Canada.

10 Recognition of the principle of the "80 major post offices" could well eliminate the need for much of this knowledge. It is suggested that the following procedure be given serious consideration:

- Replace the 49-pigeonhole case with an 80-winged case.
- Divide the case as follows:
 - 55 pigeonholes for the most strategic selection from the 80 major offices;
 - 5 pigeonholes for various classes of foreign mail;
 - 10 pigeonholes for important nearby offices;
 - 10 pigeonholes for the 10 provinces.(This case could be sorted with no geographic knowledge whatsoever. Learning time could thus be reduced to two weeks. It is estimated that up to eighty per cent of the mail could be sorted to its final destination in this manner.)
- Mail from the 5 foreign pigeonholes and the home province of the office could proceed to final sortation.
- The mail in the remaining nine "province" pigeonholes would be bulked direct to the nearest office in that province.

11 These steps would eliminate the need for geographic knowledge except for the "home" province.

12 The over-all advantages of the proposal are as follows:

- A great proportion of the mail could be sorted by relatively untrained personnel. This would lead to a more flexible staff and lowered training costs. In addition, this type of sortation is normally carried out with higher efficiency.
- There will be a saving of floor space when final cases for other provinces are no longer required.
- "De-skilling" of the operation may permit the employment of a larger proportion of operators in the lower paid categories.

TRANSPORTATION

13 Two areas in this phase of the postal operation require some special comment. They are highway transport services and the contracting procedures for city transportation.

Highway Transport

14 Examination of several of the present truck transport systems discloses a degree of overlapping and, in some cases, redundancy. The reasons are two-fold. First, there is the extreme complication of establishing a network to meet pick-up and delivery requirements commensurate with good service. This may be illustrated by the fact that to interlink only 15 points in a system there are, mathematically, over 1,300 billion (1,300,000,000,000) ways of doing so. Second, during the past two or three years there has been a fairly rapid curtailment of branch line railroad passenger service which was formerly used to carry mail. This has necessitated the selection of other means of transport.

15 In the solution of this problem, adher-

ence to certain principles can lead to reduced transport cost without loss of service. These general principles, applicable to the entire transportation network, are as follows:

- There is only one important daily dispatch from one post office to another. This dispatch will take place as late as possible, but still in time to ensure next day delivery at the post office of destination.
- Any dispatches other than this are auxiliary and have no value save to reduce possible excess volumes.
- No dispatch should be considered which will not improve the speed of service.

16 At present an appreciable number of dispatches are made merely because transport is available. As an example, the Montreal post office meets a dispatch time of mid-afternoon to use a carrier destined non-stop to Halifax. An early evening dispatch catches a later plane for the same destination. As the earlier dispatch arrives too late for evening processing, both dispatches are processed together. Thus the earlier dispatch contributes nothing to the speed of the service but merely doubles the number of "tie-offs" required; it adds appreciably to bulk handling costs, paperwork costs, and so forth.

17 The foregoing principles should be applied with proper regard for the anomaly of the eighty most important post offices. Using first class mail as an example, the primary objective would be to establish a major network connecting these offices. The objective of this network should be to achieve next day delivery between every pair of points. Distances and time differentials will make this difficult, but the objective should be a constant target. The next objective should be to link the remaining staff offices by equally adequate direct transport. It is important to recognize that the two networks suggested above should not be jeopardized by side-tracking them to improve service to smaller

communities. Rather, these should be serviced by the equivalent of short "side services" as required. Auxiliary dispatches should only be added after appraisal by means of marginal analysis methods previously described, in order to ensure a reasonable balance between service and cost.

City Services

18 City transportation services are required to make collections from street letter boxes, deliver parcel post, distribute letter carrier bundles, shuttle mail between central and perimeter post offices, and so forth. These services are generally contracted out, and investigation has shown serious differences in prices paid contractors in different centres. Parcel post delivery rates vary from 8 to 14½ cents per unit. Hourly rates for trucks on shuttle service vary from \$2.20 to \$4.20 for similar vehicles. The handling charges for special delivery items run from 19 cents to 33 cents in different cities. These variations are greater than can be explained by operating conditions in the different centres.

19 The principal reason for these disparities appears to lie, not in climatic and operating differences, but in the contracting procedures of the Post Office. Present contracting procedures often fail to reap the benefits available from active competition. Although original contracts are let on a tender basis for a period of four years, these contracts may,

under the *Postal Act*, be renewed for further periods of four years at a time, providing the contractor has given satisfactory service, at prices renegotiated to take care of increased costs. Moreover, there has also been a strong tendency for the scale of contracts to grow as service needs have increased. Some contractors presently employ upwards of 100 vehicles on a regular basis, and have therefore made a sizeable capital investment. This fact, coupled with satisfactory performance, has led the Post Office to renegotiate renewal contracts instead of calling for fresh bids.

20 The cumulative effect of this practice is that certain contracts now require so large a capital investment that little effort is made by competitors to dislodge the entrenched contractor. In such cases, there may be no alternative but to renew. Toronto and Vancouver are each serviced by a single contractor, while several contractors share the task in Winnipeg. The price advantages in Winnipeg are greater than can be explained by variations in operating costs and conditions alone.

21 It is concluded that more active competition for this business would benefit post office costs. A programme of gradually reducing the size of contracts in order to attract more bidders should be instituted. Protection against excessive charges would be secured if contract renewals involving increased prices were made only after examination of the contractor's costs by a qualified accountant.

18 MISCELLANEOUS SERVICES

SERVICES FOR THE PUBLIC

REPORT 18: MISCELLANEOUS
SERVICES

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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

Previous reports of your Commissioners in this section, dealing with services for the public have covered the major individual services, the scale of which makes them in most cases a principal activity of the departments and agencies concerned. Scattered across the whole range of government operation, however, are a host of additional services, some substantial but many of them of minor proportions and merely incidental to the main programmes of the departments. These are offered to the public, or special segments of it, in various forms; some are charged for, others are free; some are familiar as the postman, others quite new and strange. The range and diversity of these services are broad indeed; they run from the issue of a passport to refining gold, from fumigation of plants to the granting of patents, from the operation of golf courses to providing dry dock facilities, and from testing the butcher's scale to keeping track of the milk production of cows. Over one hundred have been identified and there are many more.

Two important aspects of these activities have engaged the attention of your Commissioners: the revenues they yield and the adequacy of their management. These services in the aggregate have a substantial revenue potential. Because an increase in revenues is as effective in reducing the cost of government as a reduction in expenditure, one would hope to find in the public service an awareness of the need to collect all the revenues fairly chargeable to users. Unhappily, this is not the case and it must be concluded that development of this important revenue source leaves much to be desired. Preoccupation with the minutiae of expenditure is the order of the day and

has induced a casual disregard of revenue possibilities throughout the government.

The quality of management not only bears on the efficiency with which services are supplied but determines the responsiveness of departments to changing public needs. No valid objection to current practice can be raised on the grounds that the public need is neglected—rather is it oversupplied. But the failure to curtail or discontinue services as need declines, a tendency generally evident, constitutes bad management of a most expensive kind. While a fair degree of efficiency is found in the manner in which many services are provided, the range of present activities includes a number of questionable efforts. For example, some programmes initiated years ago as pioneering efforts have been continued, until to-day they compete with well-established private industry; others, set up to meet national emergencies, and involving non-federal responsibilities, have been carried on at an ever increasing scale long after the emergency has passed; still others, originally instituted to meet a vital economic need, have ignored the march of events and degenerated to mere vacation conveniences.

The inadequacies of the government's management methods, discussed in earlier reports, are to blame for the lack of responsiveness to changing need. The method of preparation of the Estimates concentrates attention on new and bigger programmes and pays scant attention to activities previously authorized. Within departments no incentive exists to curtail activity; rather the tendency is to resist any reduction. Accounting and Treasury methods deprive departments of any interest in the revenues. In some cases the promotion of the use of government services means for the department only an increased financial burden, even where resulting revenues may exceed the added costs.

The prescription, then, is more objective management—to exploit properly the revenue opportunities in a fair and equitable manner and to keep under review the various programmes offering services to the public, to the end that they are varied in character and intensity as the public needs change. This is not an activity to be pursued by central management—the programmes are so diverse that officials of each department must be made responsible for their own operations of this type. In the matter of charges made to users, in particular, there is no possible uniform pattern. In some cases free services are appropriate, in others a surplus of revenue over expense should be deliberately attempted. A prerequisite, however, to the management of charges is a knowledge of the true costs of services provided. At present this scarcely exists, but recommendations in the report on *Financial Management* are designed to remedy this deficiency. Other recommendations in the same

report, that revenues be taken into account and Parliamentary Votes be on a net basis, should provide an effective financial incentive which is sorely needed.

It must be recognized that departments are not entirely free to manage many of these services without regard to an over-riding duty to conform to public policy. Thus, considerations of a political nature may intervene when a need for changes in the scope or character of particular services becomes evident. Public policy, as such, is beyond the terms of reference of your Commissioners but they are bound to observe that the general inertia characterizing these activities cannot be excused on the grounds that necessary changes would have been politically unpalatable. In the absence of any real evidence of management initiative to keep programmes in balance with need, it must be assumed that the bugbear of political unpopularity is no more than a handy excuse for this failure.

No attempt is made in this report to submit a complete listing of the services identified and examined. In the following Chapter the principal classes are described, with particular services, chosen at random, described as illustrations.

2

MAIN CLASSES OF SERVICES

SERVICES IN THE FIELD OF TRANSPORT

Over twenty out of the one hundred services identified are related to the government's activities in the field of transport. The history of the development of the nation's transport facilities is replete with instances of promotion and assistance by the federal government. Marine, rail and air transport have each reached their present state only through massive government intervention, although the pattern of assistance has been by no means uniform. Today, in each field the federal government remains to regulate, to subsidize and to assist in various ways.

MARINE SERVICES

In the field of transport by water, a wide variety of services is provided, with responsibility for their management shared by a group of departments and agencies. This group comprises the Departments of Transport and Public Works, the St. Lawrence Seaway Authority and the National Harbours Board. They dredge navigable waterways and harbours; construct and operate canals; provide buoys, lights and other navigation aids; operate ice breakers; and build harbours, wharves and piers. To facilitate the handling of cargoes they operate terminal railways, cold storage and other warehouses, and grain elevators. The Department of Transport registers shipping and boats, inspects steamships, certifies masters and mates, and provides marine search and rescue services. It also operates ships to supply the far North, while another government agency, Northern Transportation Company Limited, operates as a

public carrier on the Mackenzie River. The supply of maps, charts and ice and weather information is carried out by several departments.

As a result of the long historical background of many of these services and the division of responsibility for their performance among different departments and agencies, the charges to users present a somewhat chaotic pattern. By way of illustration, your Commissioners describe hereunder the practices followed in the management of harbours, wharves and piers and of grain elevators.

Harbours, Wharves and Piers

The federal government is involved, directly or indirectly, in the management of all public harbours in Canada. Eight major harbours are administered by the National Harbours Board; eleven others, some of substantial size, are operated by local commissions having federal representation on their boards; and the Department of Transport operates directly 313 other public harbours.

The National Harbours Board, operating Halifax, Saint John, Chicoutimi, Quebec, Three Rivers, Montreal, Churchill and Vancouver, was formed before the last war and took over these harbours with the exception of Churchill from local commissions. In 1960, with gross operating revenues of \$14.8 million, the Board suffered a loss, after providing for interest and depreciation, of approximately \$1.7 million, equivalent to 11.4 per cent of revenues. Among the individual harbours, however, the results varied widely, ranging from a loss of 110 per cent of revenue at Saint John to a profit of 37 per cent of revenue at Three Rivers. The fee structure is complex and quite different on the west coast from that used in the east. Changes in tolls and other charges to shipping require approval by the Governor in Council but attempts to overcome operating losses are rendered difficult in certain cases by unreasonably high capital debt and the danger of losing traffic if charges become non-competitive.

The most appropriate and businesslike group of tolls and charges are those levied by the eleven commission harbours which include Toronto, Hamilton and Victoria. These commissions generally manage to meet their costs from revenue and considerable flexibility was noted in the manner in which charges were set. Because the government has provided many capital facilities at no cost to the commissions, operating costs shown are not all-inclusive.

The Department of Transport employs harbour masters at only 115 of the 313 harbours under its control. It is also responsible for over 2,000 wharves located across the country, on seacoasts, navigable waterways and inland lakes; departmental officers are stationed at less than twenty per cent of these. The charging of fees or tolls for the use of these facilities is limited

to the manned locations and harbour masters and wharfingers look to the revenues they collect for their remuneration. The unmanned harbours and wharves come under the general supervision of District Marine Agents but no attempt is made to secure revenue therefrom.

The *Canada Shipping Act* specifies moorage and anchorage fees at these harbours, exempts certain types of vessels, and stipulates that no vessel may be charged a harbour fee more than twice in any year. Most other charges can be set or altered by the Department with the approval of the Governor in Council. At most harbours, the scale of charges has remained unaltered since 1954 and is generally lower than that of the National Harbours Board or commission harbours. In the past few years revenues have increased steadily and now cover direct operating costs as shown by the accounts. They fall short, however, of meeting maintenance or capital costs or the indirect administrative expense.

One reason why maintenance and capital costs are not taken into account is that they are the responsibility of the Department of Public Works and paid from its appropriations. Furthermore, the initiative in creating new harbour facilities lies with Public Works. The Department of Transport is expected to take over the operation of uneconomic facilities after completion, without having any part in the decision to construct them. In the report on *Real Property Management* your Commissioners suggest a solution in the recommendation that the Department of Public Works be deprived of any authority to initiate works and henceforth act as a construction and real property agent, charging the departments and agencies for all services rendered to them.

The main value of these changes and those resulting from other recommendations for programme budgeting and full allocation of costs will consist of the provision of accurate information as to the cost of operating the various harbour facilities. While the attainment of a break-even operation is a sound objective generally, it is recognized that national economic policy may call for the continued operation of certain harbours at a loss. The position of isolated communities cannot be ignored; international competition will affect some decisions. All that can be asked is that within established policies, tolls and charges be kept realistic and every effort be made to recover applicable costs. A knowledge of such costs is, obviously, fundamental to this purpose.

A considerable effort will be required to meet this prescription and bring order to the present haphazard pattern. The fees structure of the Department of Transport, built on no consistent principles and unrelated to the objective of cost recovery, can divert shipping from harbours operated by other

authorities seeking a more business-like operation. Review of the true financial aspects of the many harbours operated by the Department will disclose situations so bad that further federal operation of the harbours cannot be justified. In certain cases, the indicated solution may well consist of consolidating small marginal ports into more efficient central harbour facilities. The net result should be a reduction in the cost to the government, accompanied by an improvement in the over-all efficiency of the system of water transport. In another report dealing with organization your Commissioners suggest a more clear-cut division of responsibility among the departments and agencies engaged in this field. The removal of competition among agencies and overlapping of their services should facilitate the achievement of the objectives set out above.

Grain Elevators

The government owns and operates grain elevators at various points in Canada to facilitate the movement to world markets of the grain crops of the prairies. Some are operated by the National Harbours Board, some by the Board of Grain Commissioners. A third agency, the Canadian Wheat Board, with responsibility for marketing much of Canada's grain production, influences elevator operations through its ability to control, in large part, the volume of wheat passing through the various elevators.

The National Harbours Board owns fourteen elevators at eight different locations. Six of these are harbours operated by the Board, the other two being Prescott and Port Colborne (a consistent money maker). Some of the elevators are rented to private operators and at Three Rivers, one of the Board's harbours, elevators are owned and operated by private interests. The Board has not the authority to set its own rates. These are fixed by the Board of Grain Commissioners and have remained unchanged since 1951. Thus, with its tariffs governed by one independent agency and its volume largely influenced by another, the National Harbours Board is hard put to make ends meet in this operation. In 1960, with revenues of \$7,118,000, the Board's elevators lost \$1,886,000 after depreciation and interest charges.

The Board of Grain Commissioners itself owns elevators at Prince Rupert, Port Arthur and five inland points in western Canada, some of which it leases to private operators. Operating and maintenance costs are met from parliamentary appropriations and revenues deposited in the Consolidated Revenue Fund. At present, revenues cover direct operating costs but fall far short of meeting the substantial charges represented by interest and depreciation. As noted, this Board has authority to fix the tariffs chargeable by not only its own elevators but also those of the National Harbours Board.

AIR SERVICES

The growth of transport by air in the post-war period has been spectacular. In the settled parts of the country it has taken its place among the major transport services. In Canada's north it has a special significance, often being the only means of transport. Because of sparse populations and great distances, government assistance on a broad scale is needed to provide air transport to the more isolated communities.

Leaving aside the activities of Trans-Canada Air Lines, not reviewed by your Commissioners, the government provides across Canada a wide range of services, largely through the Department of Transport. Its Civil Aviation Branch is mainly responsible for the major airports and their supporting services; it also registers aircraft, issues airworthiness certificates, examines pilots, controls air traffic and provides aeronautical information. Its Meteorological Services provide weather information. Through the Telecommunications and Electronics Branch, essential facilities for communications are supplied, including teletype and radio circuits, radio beacons and instrument-landing systems. It participates in international control of airways and makes its facilities available to inter-continental aircraft flying over Canada.

There are almost 1300 airfields and seaplane bases in Canada of which 80 are considered part of a main-line system of airports. The Department of Transport operates 60 of the main-line airports, all but 18 of which possess passenger facilities; it also operates 74 other airfields used for supplementary or local purposes. The Departments of National Defence and Northern Affairs and National Resources and certain corporate agencies also operate airfields for their own purposes but make no services generally available to the public.

The Department of Transport provides airfield services and air terminal facilities. The former embrace landing, take-off and taxi facilities, including fire protection, lighting and snow removal; also, aircraft parking and handling facilities, such as fuelling. Terminal facilities include various types of buildings and parking areas to accommodate the airlines, the travelling public and concessionaires providing amenities and service. These services exist primarily for the benefit of the air carriers but are also available to government aircraft used on public business and private aircraft used for business or recreational purposes.

The investment in airports of the Department of Transport totals \$334 million, over half of which is concentrated in fifteen major locations. New terminals under construction or in the planning stage will call for the expenditure of \$74 million more. Revenues from the operation of these airports now

exceed \$10 million annually but fall far short of covering direct operating costs including interest on investment. Based on long-range traffic projections, the large programme of expansion undertaken in recent years will, the Department believes, ultimately produce revenue in reasonable relation to investment. But it will be some considerable time before revenues from airlines, concessionaires and the public are sufficient to cover operating and capital costs.

In sharp contrast to most government programmes, the Department, in the operation of its major airports, has developed reliable cost information. It knows what the various services are costing but its ability to recover these costs is limited by factors other than the need merely to await the development of adequate traffic. Almost half the present facilities were built during the war and were acquired because they were surplus to military need at the conclusion of hostilities. After twenty years, many of these structures—hangars, living accommodation, and other buildings—are unsuitable, inefficient or worn-out. Some have been abandoned but others, including whole airports, are still operated though they have virtually no utility for any purpose. Further limitations of revenues arise from the necessity of providing free service to other government departments and observing a provision of the *Trans-Canada Air Lines Act* prohibiting charges higher than those made in the United States to “similar competing coast-to-coast services.” A realistic review of the charges made by the Department is at present under way and from this some improvement in revenues may be expected. The charging of other departments for services rendered, a recommendation already made by your Commissioners, should afford some further relief, and consideration should be given to the appropriateness, under today’s conditions, of the *Trans-Canada Air Lines* legislation to which reference is made above.

The wisdom must be questioned of continued operation by the federal government of a number of local airports where revenues are completely out of scale with costs. No doubt local pride and interest are involved, but it can be pointed out that in other countries the trend is away from federal operation of secondary airports, leaving their continued maintenance to local initiative. Moreover, studies have shown that municipal operation generally results in more effective utilization of manpower and lower administrative costs. Decisions in this area will be facilitated by the adoption of your Commissioners’ recommendation, made elsewhere, for programme budgeting and taking revenues into account when making appropriations. Parliament should, as a result, have before it the costs of maintaining uneconomic airport operations, on an individual basis.

Unfavourable aspects of services rendered in the field of air transport are

susceptible of correction without any major upset or reorganization. This circumstance owes much to the fact that responsibility is contained in a single department and the development of positive and cohesive policy becomes possible, a situation very different to that in the area of marine services.

RECREATIONAL SERVICES

A number of services extended to the public by the federal government contribute to the recreational activities of the people, but two in particular have as their principal object the direct provision of facilities to the vacationing public.

Non-Commercial Canals and Marine Facilities

Used today almost entirely by pleasure craft are a number of canal systems, the origins of which stretch back many years to a time when they formed important highways for the movement of goods. The interest of government, first colonial and then federal, in the development of transportation as a spur to economic development, accounts for the spending of public money to build and operate these canals. While they have long since ceased to possess any economic significance or commercial utility, their operation as toll-free facilities has been continued by the federal government.

These canal systems, all in east-central Canada, are the St. Ours and Chambly canals on the Richelieu River connecting the St. Lawrence River and Lake Champlain; the Ste. Anne, Carillon and Rideau canals connecting Montreal, Ottawa and Kingston; and the Murray and Trent Canals connecting Lake Ontario with Georgian Bay. They are expensive anachronisms from the federal viewpoint, although some regard the link to Lake Champlain as still having a commercial potential. Operating costs exceed \$2.3 million a year and the repairing and replacement of locks required from time to time, involves substantial sums. For example the lock at Fenelon Falls on the Trent canal is presently being reconditioned at an estimated cost of \$900,000. Pleasure traffic through parts of these systems is substantial and the charging of tolls sufficient to cover direct costs should be considered. Ideally, the transfer of these works to provincial operation would place control in the level of government most directly interested and permit the Department of Transport, which now operates them, to attend to matters of greater federal significance.

At many wharves supervised by the Department of Transport the increasing population of pleasure craft is taxing existing facilities, once used mainly by fishing vessels. The government, as a result, is being pressed to provide

additional wharfage. No fees are charged for the use of these facilities and in the view of your Commissioners this revenue prospect should be explored. At least, departmental officials should not proceed on the assumption that the provision of free facilities for recreational purposes is a continuing federal responsibility.

National Parks

In the report on *Real Property Management* your Commissioners consider the organization and management of the national parks and submit an analysis of park areas, financial results and patronage received, for each park. The government's purposes are to preserve unspoiled certain areas of natural beauty and interest for the benefit of future generations and, as well, to provide playgrounds and vacation retreats for the present population and foreign visitors. Within the parks, therefore, are found various sporting facilities—golf courses, swimming pools and ski lifts; concessionaires supply services of all kinds; and townsites in the larger parks offer the visitor food and lodging and the goods and services normally procurable in a small city.

Your Commissioners conclude that the revenue aspects of parks' operation are indifferently managed and recommend changes designed to provide for the receipt of more equitable and consistent rentals from residents and concessionaires. Fees charged for the use of golf courses are generally below going rates elsewhere. The nominal fee for park entry, good for all parks for twelve months, seems particularly inappropriate.

SERVICES TO BUSINESS AND INDUSTRY

Within this category fall a large number of variegated services, many of them highly specialized and developed for the benefit of very small groups of users. They are not less important on that account, but being virtually independent of other programmes, the cost is more directly chargeable to beneficiaries and the tariffs covering their use should generally be designed to at least recover the costs involved.

Business Privilege

Two government activities in this group, the incorporation of companies and the granting of patents, constitute the extension of a privilege limited liability in one case and exclusive use of inventions in another. For this reason, the pricing policy of these services may properly take into account the recovery of more than the bare costs of dealing with the paper involved; while any failure to recover direct costs appears inexcusable. Because of the significance of these activities to the business life of the country, there should be special

concern for the efficiency with which they are performed. Each of the two programmes fails in meeting one or both of the above tests.

PATENTS. The Patent and Copyright Office under the Secretary of State grants patents to protect the rights in inventions for a seventeen-year period. The fee for a patent is \$60, unchanged since 1906. Revenues in the year 1960-61 totalled \$1,834,000 while estimated costs were \$3,119,000. Several investigations have been made of this unsatisfactory condition, but solutions propounded have not been carried into effect. The imposition of an annual renewal fee would have certain advantages. As a matter of equity, the holders of patents which continue to be valuable would then contribute more heavily than those whose patents become worthless long before the seventeen-year period elapses. Regardless of the method, however, an increase in the fee structure to permit full recovery of costs would leave Canadian charges still low in comparison to the fees of many other countries. The subsidy implicit in the existing arrangement is enjoyed principally by foreigners as only six per cent of the patentees are Canadian.

In the matter of service, the situation is equally unsatisfactory. The Office issues something over 20,000 patents each year. It has a backlog of 70,000 applications pending.

- We therefore recommend that:*
- 1 Sufficient additional patent examiners be employed to permit the Office to keep abreast of demand and render efficient service.
 - 2 Patent fees be increased to a point where revenues therefrom will cover at least the total of all costs, direct and indirect, incurred in performing the service.

INCORPORATION OF COMPANIES. The federal government and the several provinces have all enacted legislation covering the formation and supervision of limited liability companies. The Companies Division under the Secretary of State issues Letters Patent and reviews annual returns submitted by the companies incorporated under *The Companies Act*. Its revenues in 1960-61 were \$580,000 and total costs were estimated to be \$165,000. With this satisfactory margin there is little excuse for inferior service to applicants. Yet one section of the Division is below strength and the backlog of work is of serious proportions, occasioning almost universal and merited complaint by those affected.

We therefore recommend that: The staff of the Companies Division be brought up to strength and vigorous steps be taken to dispose of existing arrears and render prompt and efficient service to applicants.

Aids to Operation

Selected as illustrative of the large number of services extended to business and industry are the following seven widely differing activities:

LABORATORY SERVICES. Throughout the many research and inspection facilities of the government, a number of laboratories exist which are equipped to carry out testing work of various kinds. Many of these undertake testing work in their field of interest at the request of individual companies. Generally, an effort is made to avoid competing with independent testing establishments although there is complaint that some competition in fact exists.

Beneficiaries are sometimes charged for such work, with the object of recovering cost. Unfortunately the laboratories have no reliable cost information. Their records are incomplete and they do not usually follow the general practice in like establishments outside the government of keeping record of the time spent on each project. There is no way of ascertaining whether charges to users are adequate, but there is an overwhelming presumption that they are not.

RACE TRACK BETTING. Pursuant to its interest in the improvement of the breeding of horses, the Livestock Division of the Production and Marketing Branch of the Department of Agriculture is required to inspect public betting at race tracks. Happily, the Royal Canadian Mounted Police has been called in to assist in what is basically a police function. By statute the government receives one-half of one per cent of the amounts wagered. The supervisory programme is geared each year to the revenues received in the preceding one. While the connection between breeding improvement and the suppression of crime is a somewhat tenuous one, the police service rendered has utility to those engaged in the business of horse racing. The linking of charges to the volume of betting and rendering service in proportion thereto, represents a logical pattern. There seem no reason, however, why the Department of Agriculture should have any administrative responsibility in what is basically law enforcement.

COLD STORAGE WAREHOUSES. The National Harbours Board operates cold storage warehouses at Halifax, Quebec, Montreal and Vancouver. Originally government owned facilities were the only ones available but today all these

warehouses compete with privately owned establishments and generally meet their tariffs. In 1960 revenues of \$1,078,000 were no more than two-thirds of costs (including depreciation and interest). The problem is compounded by the fact that under the *Cold Storage Act* the government subsidizes its competitors. In these circumstances, there seems no possibility of avoiding continuing losses. No compelling reasons exist for the government to continue to render this service and consideration might well be given to the disposal of the existing plants.

PLANT FUMIGATION. Imported plant products are inspected by the Department of Agriculture upon arrival in Canada and those found to be infested must either be refused entry or fumigated. Commercial fumigation services do this work at all ports with the exception of Montreal and Saint John where, because of dissatisfaction with the commercial services available, the Department itself provided the service. Costs, including overhead, are estimated at \$33,000 annually, while revenues approximate \$10,000. So long as the government performs this service at a third of cost, the development of satisfactory private facilities is unlikely.

UTILITY SERVICES. While heat, water, steam and electricity are sold to individuals and industries by a number of departments, as a by-product of arrangements for their own supply, the government through the Northern Canada Power Commission is itself in the utility business. The main purpose of the Commission was to supply power to mining operations outside the service areas of established power companies. Its activities have been expanded to serve certain needs of departments of government and it has recently installed a small municipal generating station far to the south, at Field, B.C., ostensibly to serve the needs of national parks in the area.

Hydro-electric plants at Snare Rapids and Mayo were built to supply two mining companies and tariffs are designed to recover costs. Contrary to general practice in the utility business, the companies have not been required to enter into commitments which would protect the government should mining operations cease and there be no alternative market for the power.

FILM MONITORING. The Department of National Health and Welfare operates a service for industries using radioactive substances. Workers in these plants wear a small film clip attached to their clothing. Periodic examination of the clips indicates the degree to which the wearer has been exposed to radiation. In 1954 a rate of fifteen cents per film was established and is still in effect. Current revenue therefrom is approximately half the \$85,000 spent annually by the government. The industrial employers are the involuntary beneficiaries of this subsidy.

DRY DOCKS. The Department of Public Works operates three dry docks for the benefit of the shipbuilding and ship repair industry. Two are near Quebec, the other at Esquimalt, British Columbia. They have four principal users, two on each coast. These establishments recover only 50 per cent of operating costs, so the \$350,000 operating deficit, in the circumstances, must be viewed as part of the broad assistance given to Canadian shipbuilding and repair. Under continued government operation, no prospect exists of recovering costs without prohibitive increases in charges. In all probability the cost to the government could be reduced by turning operation over to the users and paying such cash subsidies as might be considered appropriate.

PERSONAL SERVICES

Familiar to many Canadians are the passport services operated as part of the Department of External Affairs. The issue of a passport constitutes an exercise of the prerogative of the Crown and citizens have no statutory entitlement thereto. The Department provides some collective travel documents for members of the public travelling in groups and, in addition, issues Certificates of Identity to stateless persons.

Fees charged for passports have remained unchanged for over thirty years. The number of Canadians travelling abroad has increased materially and the great rise in volume in the Passport Office has permitted this service to continue to yield a handsome margin in spite of cost increases. Revenues currently exceed \$725,000 and estimated direct expense totals \$425,000.

A passport on its face is no more than a request by the Sovereign to grant the bearer safe passage through foreign states. It does not purport to be a certificate of identity but is often viewed as such. Certain precautions are taken to prevent improper issue of passports but they fall far short of what is needed to justify responsible certification of the nationality of the bearer. The gathering of the necessary evidence to authenticate statements made by applicants would entail additional expense and give rise to delays seriously inconveniencing the travelling public. If, therefore, the avoidance of improper passport use should be considered of sufficient consequence to warrant a more effective scrutiny of the applicant's entitlement, it would probably become necessary to issue temporary or "one-time" travel documents to those who could not conveniently await completion of the verification. Your Commissioners offer no opinion on this subject but point out that under present conditions it is inevitable, in Canada as in other countries, that some passports will be issued on the basis of fraudulent representations. This subject is further discussed in the report on *External Affairs*.

AGRICULTURAL SERVICES

Federal support of agriculture, particularly of prairie agriculture, encompasses a broad sweep of subsidies, loans, transport subventions, import restrictions, premiums, crop support schemes, marketing services, scientific research, as well as the provision of many services to individual farmers. The programmes referred to hereunder, while providing assistance to individuals, have the common characteristic of conferring a benefit upon the people as a whole.

Records of Livestock Performance

The Production and Marketing Branch of the Department of Agriculture operates several programmes designed to permit the issue of official records of performance of purebred livestock. The field work is carried out by departmental inspectors and from their reports the data are processed and analyzed in Ottawa. The resulting official records identify the superior individuals and contribute to better management of breeding herds. To the farmer this service is of great value, not only in guiding his own programme, but because the commercial value of his stock is enhanced when its performance is attested. Costs of the programme in 1960-61 were estimated at \$1.5 million and revenues from fees charged for this service covered less than 20 per cent of this sum.

Trees for Shelter Belts

At the turn of the century the federal government set out to demonstrate to prairie farmers the advantages of creating shelter belts around their farms. Seedling trees are provided free to enable farmers to establish these plantations. Since 1901, enough trees have been so distributed to twice girdle the earth. Current annual costs are approximately \$450,000 and the cost per seedling is less than ten cents. It appears to your Commissioners that the original purposes of this programme—to demonstrate that certain trees will grow on the prairies and that shelter belts are advantageous—were achieved many years ago. In their view, the programme might appropriately have been discontinued or placed on a self-sustaining basis through making fair charges for the trees supplied.

Community Pastures

As part of the federal response to the emergency created in the 1930's by prolonged drought in the prairie provinces, community pastures were established. Their purpose was to enable farmers engaged in grain production to diversify their operations by pasturing livestock on lands not suitable for

cultivation. While, happily, moisture returned to the prairies many years ago, this programme has been continued, and today parallels at least one similar provincial programme.

Fees charged for pasturage, breeding, dehorning and inoculation are designed to recover direct operating costs and are adjusted from time to time as costs change. Generally, this objective is gained but indirect costs of some \$300,000 annually are not recovered. Federal charges are generally lower than those made for similar services by the Government of Saskatchewan.

This operation has a strong provincial flavour and the only conceivable justification for spending federal money for such purposes would appear to be a major emergency beyond the capacity of the provinces to meet. No such emergency has existed for many years.

We therefore recommend that: The various services extended to individuals and businesses by the Department of Agriculture and associated agencies be surveyed for the purpose of establishing:

- a. the propriety of the tolls, fees and charges for the services rendered, and
- b. the need and utility of the several services and the extent of present federal responsibility for their provision.

3

FINANCIAL CONSIDERATIONS

A BASIC PRINCIPLE

There is no statutory provision of general application which requires that a charge be made for a service rendered to an individual or business. The *Financial Administration Act* grants a broad discretion to the Executive to decide for what services charges should be made and how far they should seek to recover the government's cost, as follows:

18. Where a service is provided by Her Majesty to any person and the Governor in Council is of opinion that the whole or part of the cost of the service should be borne by the person to whom it is provided, the Governor in Council may, subject to the provisions of any Act relating to that service, by regulation prescribe the fee that may be charged for the service.

Other legislation is more specific. Some statutes specify the amounts to be charged; others lay down the basis on which charges are to be computed. For example, the *Electricity Inspection Act* provides:

21. The fees for the inspection and testing of meters, lamps and other electrical instruments and appliances, shall be determined from time to time by the Governor in Council, and such fees shall be regulated so that they will, as nearly as may be, meet the cost of carrying this Act into effect . . .

Provisions of the latter type depend for their observance on business like management by departmental officers but under present conditions there is no effective overseeing of their performance in this regard.

The principal weakness, then, in the statutory framework is that while power to levy charges is reposed in the Cabinet, there is no general require-

ment upon departmental officials to bring the various programmes forward for consideration of the Cabinet.

Your Commissioners believe a more appropriate procedure would be to lay down the general principle that services must be charged for at rates designed to effect complete recovery of costs, save those in respect of which the Governor in Council grants specific exemption in whole or in part. As a result, services rendered free or below cost would require executive sanction, while departments would be under obligation to make proper charges for all others. That exceptions will have to be made is quite evident. For example, services to relieve distress in an emergency are usually provided free of charge. Services conferring privileges, on the other hand, may be charged for at rates which produce a margin over cost. Services which compete with outside suppliers may have to adopt commercial type scales of competitive charges, whether or not they result in full recovery of costs. One further alternative is always available, and in certain cases the preferable course, namely, paying or subsidizing an outside organization to render the service required.

COSTS OF SERVICES

Regardless of the policy adopted, a fundamental requirement is that accurate cost information be developed on a continuing basis. Such information is needed for purposes of management control of programmes as well as for the assessment of the adequacy of charges to the public where they are made. For a number of reasons, the practice of all departments and agencies should be uniform in the elements of cost taken into account; and the aim should be to develop all-inclusive costs, embracing indirect overheads, depreciation, and interest where applicable. Charges for competing services offered by different agencies should not, as at present, be influenced by varying accounting practices used for cost determination. The National Harbours Board now includes depreciation (although called "a reserve fund for the replacement of fixed assets" in the statute) in its costs; the Department of Transport which manages other harbours does not.

In the report on *Financial Management* your Commissioners recommended the adoption by departments of accrual accounting and the inclusion in operating expenses of non-cash charges such as depreciation. Design of departmental accounting systems to meet the needs of management will thus provide the necessary framework; and subdivisions of costs and revenues according to programmes should yield the information required for every purpose. So long as the cost information is provided by these regular departmental ac-

counts, instead of requiring periodic investigation, there should no longer be the danger of unawareness of changing cost-revenue relationships, and management should be in a position to move promptly to correct developing imbalances.

In most cases services extended are of a uniform character and susceptible of being priced at a single figure to all. Some programmes—laboratory testing for example—render services involving varying costs, depending on the nature and extent of the work and the time required to perform it. In such cases, the determination of cost necessitates for each job keeping records of time spent and supplies consumed, as well as having available current information as to direct and indirect overheads.

THE DETERMINATION OF CHARGES

Charges to the public are fixed today in three different ways—by statute, by order in council or by the minister at his discretion. Fees and tolls fixed by the relevant legislation represent a minority of present charges but they constitute a troublesome class because of their relative rigidity. Some such fees have remained unchanged for fifty years or more and it is idle to expect that Parliament will be prepared to complicate a busy legislative programme by amending statutes, merely to vary charges made for individual services.

Most of the more important services have their charges authorized by order in council. The initiative rests with departmental officers and their recommendations are generally accepted. Discretionary charges may be made pursuant to a general statutory direction as to principles to be followed, or they may simply be put into effect on the sole responsibility of the minister concerned.

If the objective is, as it must be, to establish charges on some systematic basis and to provide for their revision as needed, the fixing of charges by statute should be avoided and guide-lines of general government policy laid down to indicate acceptable practice to departmental officials. The adoption of a general requirement that charges be made and that the level thereof be such as will recover the total cost of services provided would, as previously suggested, permit many of these matters to be settled within departments without resort to Cabinet approval. Exceptions for services to be rendered other than on a break-even basis should, however, require approval by order in council when rates are initially established and upon their periodic revision. In all cases, the responsibility for initiating changes in rates, consistent with established policy, should rest exclusively upon the ministers individually guided by senior administrative officers of the departments and agencies.

In a few cases, in an effort to discourage abuse by the public, nominal charges have been established for services which might otherwise have been rendered free of charge. Where correspondence with users is required in order to collect the charge, there is danger that the cost of the necessary accounting and paperwork will exceed the revenue. No general rule can be laid down to govern the use of deterrent charges, but cost considerations and the convenience of legitimate users should be borne in mind when charges are imposed for deterrent purposes alone.

METHODS OF COLLECTION

Various methods of accepting payment for services are found in the different programmes. Cash, certified cheques, uncertified cheques, postal and express orders are all accepted. Credit is extended to certain users, sometimes with an advance deposit, sometimes without one. Instances were noted, the Patent Office for example, of cumbersome and expensive procedures in the issue of receipts. Again, no standards can be established because of differing circumstances, but the two principal attributes of each system of charge and collection should be that it reflects a proper regard for the convenience of the users and prudence in the handling of public money. Thus, various cash and accounting procedures will be appropriate, from cash register operation to the extension of credit along the lines of commercial concerns. The development of systems of internal control within departments, previously recommended, will necessarily take into account the precautions needed to protect these revenues.

4

CHANGES IN PROGRAMMES

If services are to be kept truly responsive to the public need, something more than existing practices will be necessary. Changes of various sorts exert continual pressures which render particular services of greater or lesser benefit. Economic development, technological advance, scientific discoveries, changes in the work and play habits of the people—these and many other influences bear upon many of the government's programmes and render them, as time goes on, of greater or lesser utility. The development of similar services by provinces or private organizations can convert the role of the federal government from that of a pioneer to that of a competitor. Programmes launched with high hopes may, because of faulty conception, attract a steadily declining degree of patronage.

But these changes do not often occur suddenly. Usually the transition of a service from a state of high utility to the point where results hardly justify its continuance takes place over a period of years. An example is the gradual loss of utility as a transport facility of our earlier canals. The point at which emergency services cease to be necessary is more quickly reached as a rule, but even these may have useful lives extending over a few years.

The adjustment of these services to such changes is, therefore, a matter of considerable difficulty, even without taking into account the possible political consequences. Yet if the attempt is not made, it is inevitable that programmes will be carried on well beyond the point at which they cease to be justifiable. Probably the best single safeguard is to insist on charges sufficiently high to cover costs. Where this is done, the users will themselves

impel programmes out of existence when the value of the service ceases to exceed what they have to pay for it. Such a policy may well be more valuable as a means of identifying obsolete programmes and forcing corrective action than as a device merely to supplement revenue. Apart from this, however, there is need of periodic assessment of all programmes by the administering departments. Programme review conducted by the Treasury Board will be a further protection. Only by these means can the costs of inertia and empire building be avoided and the various programmes kept properly responsive to need.

The circumstances which will call for programme changes may be briefly summarized as follows:

- Reductions in scale or scope will be appropriate,
 - when similar services are offered by other public or private bodies,
 - as public need declines or the purpose for which the service was initiated is fulfilled by other means,
 - as emergencies are being overcome.
- Discontinuance of the service will be appropriate,
 - when other facilities are firmly established,
 - when facilities become obsolete or the public need has ceased,
 - when emergencies have passed (a statutory expiry date for such services would be helpful),
 - where a demonstration service has secured its objective,
 - where, except in the cases of services specifically exempted from the obligation to recover their costs from charges, revenues cease to cover the total costs of services,
 - where, in the case of assistance to special groups, e.g., dry dock operation, inability to establish any consistent cost-revenue relationship may lead to the payment of grants or subsidies as an alternative to continued operation by the government.

We therefore recommend that: 1 Except where the Governor in Council decides otherwise, charges be made for all services rendered to the public and the amounts thereof be so established as to recover the full cost to the government of the service supplied.

- 2 Departments and agencies annually assess the operation of all services to the public under their administration and make changes or submit recommendations therefor, as may be required to maintain the proper responsiveness of services to the public need.

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