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RECENT CHANGES IN THE CABINET DECISION-MAKING SYSTEM

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Ian Clark
Deputy Secretary to the Cabinet (Plans)

December 3, 1984

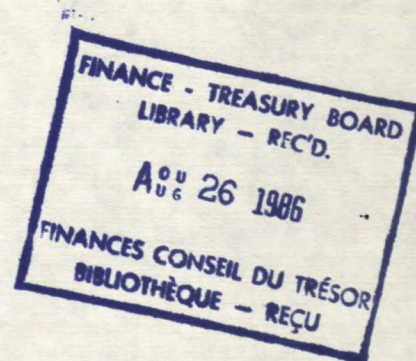
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RECENT CHANGES IN THE CABINET DECISION-MAKING SYSTEM

Background Notes for a Presentation to the
Assistant Deputy Ministers Orientation Course
at Touraine, December 3, 1984

Introduction

Much has changed in Ottawa since I spoke to the last Assistant Deputy Ministers Orientation Course in May -- that was seven months and two Prime Ministers ago. Today I would like to describe the Cabinet decision-making system instituted by Prime Minister Mulroney and some of the ways in which it differs from that of previous Governments. In the decision-making system, I include the Cabinet committee structure, the operations of the central agencies, the Cabinet paper system and the various processes and procedures for Cabinet approval.

Figure 1

OUTLINE

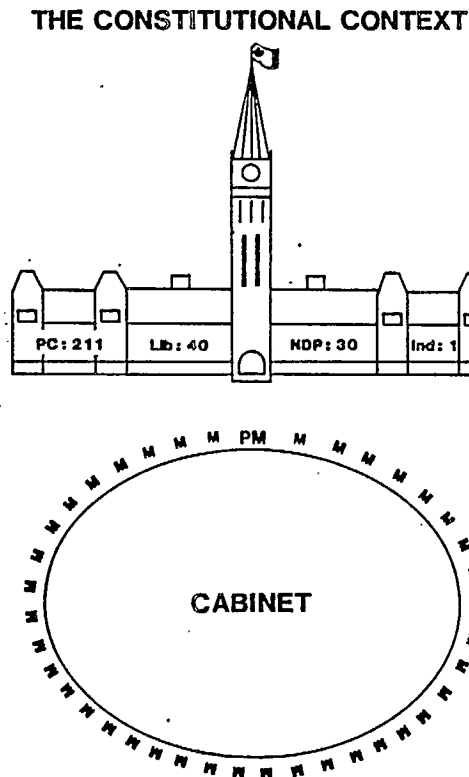
- Historical Evolution
- Cabinet Committees and Envelopes
- Roles of the Central Agencies
- Principles and Procedures of the Policy and Expenditure Management System
- Annual Priority-Setting Process
- Cabinet Papers System
- Process for Cabinet Approval
- Role of Officials

I will describe the changes which have been made to date in each of the areas noted in Figure 1, but it is important to recognize that Cabinet decision-making is a dynamic and very human process and various aspects of the system will likely evolve as Prime Minister Mulroney assesses what works best for his Government in the circumstances in which it has to operate.

Historical Evolution

Before looking at the details of Cabinet operations today, it is useful to review the historical evolution of Cabinet structures and central agencies in the Government of Canada. The constitutional role of Cabinet has been described at length elsewhere (Reference 1) and can be summarized as follows. The Ministers of the Crown (the Government) are those Privy Councillors who command the support of Parliament. The Ministry is appointed by the Governor General (the representative of the Sovereign in Canada) on the advice of the Prime Minister. It has been the Canadian practice to date that Cabinet is the same in membership as the Ministry and, as illustrated in Figure 2, there are now 40 Ministers around the Cabinet table.

Figure 2



Under the chairmanship of the Prime Minister, the Cabinet provides a means to forge and maintain the collective responsibility of the Ministers for the decisions and operations of government and for the advice that they provide to the Governor General, which she is generally bound by constitutional convention to accept.

Constitutional and political realities impose a certain number of functions on any Cabinet system. The most important of these are listed in Figure 3.

Figure 3

FUNCTIONS REQUIRED OF ANY CABINET SYSTEM

- **securing agreement on Government priorities
(e.g., on expenditures, taxation and legislation)**
- **securing agreement on parliamentary actions
required to retain the confidence of the House**
- **providing a forum for ministerial debate on
issues of general interest**
- **providing adequate information to Ministers
relative to decisions for which they will be
held responsible**
- **providing adequate information to the Prime
Minister to carry out his responsibilities and
leadership role**

Although these Cabinet functions do not differ from Government to Government, other factors obviously do. Any Prime Minister must take account of specific parliamentary, economic, regional and personnel factors in designing a Cabinet system in which Ministers can make policy and expenditure decisions in a timely fashion, in a way which ensures that the Ministry commands the support of Parliament and maintains Cabinet solidarity. The Cabinet system is, therefore, a very personal choice of the Prime Minister. No ideal system exists which would suit the needs of all Prime Ministers and all Governments.

Figure 4 summarizes the changes made in the Cabinet structure and the central agencies by successive Prime Ministers in the last half century.

Figure 4

EVOLUTION OF CABINET STRUCTURES AND CENTRAL AGENCIES

<u>Prime Minister</u>	<u>Ministry</u>	<u>Cabinet and Central Agencies</u>
King (1935-1948)	16-19	<ul style="list-style-type: none"> - several committees during War, fewer after - recorded minutes and decisions after 1940 - several Cabinet meetings weekly
St. Laurent (1948-1957)	20-21	<ul style="list-style-type: none"> - committees tasked by Cabinet - several Cabinet meetings weekly - TB delegated significant powers through FAA (1951)
Diefenbaker (1957-1963)	17-23	<ul style="list-style-type: none"> - Infrequent meetings of committees - several Cabinet meetings weekly
Pearson (1963-1968)	26-25	<ul style="list-style-type: none"> - 9 committees (1968); issues to committee before Cabinet - Cabinet meetings weekly - Priorities and Planning (1968) - TBS split from Finance (1966)
Trudeau (1968-1979)	27-33	<ul style="list-style-type: none"> - fewer committees with more authority - FPRO split from PCO (1975) - OCG split from TBS (1977) - MSED established (1979)
Clark (1979-1980)	30	<ul style="list-style-type: none"> - Inner Cabinet plus 12 committees - PEMS established - MSSD set up (proclamation 1980)
Trudeau (1980-1984)	32-37	<ul style="list-style-type: none"> - Priorities and Planning with authority to issue decisions - PEMS elaborated - Ministry of State function in External - MSERD with FEDCs (1982)
Turner (1984)	29	<ul style="list-style-type: none"> - Communications, Labour Relations and Western Affairs Committees wound up - MSERD, MSSD and similar function within External wound up; FEDCs to DRIE - "mirror committees" wound up - Cabinet papers streamlined and Assessment Notes discontinued
Mulroney (1984-)	40	<ul style="list-style-type: none"> - Foreign and Defence Policy Committee wound up - Communications Committee established - Envelopes consolidated - PEMS rules simplified - Cabinet papers further streamlined

Prime Minister King's Cabinet had 16 Ministers in 1935 and 19 in 1948. Prior to the Second World War, the only standing committees were Treasury Board and the Defence and Wheat Committees. During the War ten new committees were established, by far the most important of which was the War Committee chaired by the Prime Minister. After 1945 the use of committees was more ad hoc, with issues being referred to a committee by Cabinet and the committees coming to an end when they had finished their work. In 1940 the position of Secretary to the Cabinet was created, and a Cabinet secretariat evolved within the Privy Council Office. Written agendas, minutes and decisions came into use.

Prime Minister St. Laurent's Cabinet had 20 Ministers in 1948 and 21 in 1957. Most Cabinet committees continued to be ad hoc and designed to accomplish a particular task assigned by Cabinet. Cabinet met about three times a week and handled a good deal of detailed business (such as contracts), particularly before the Financial Administration Act of 1951 gave the Treasury Board authority over more routine financial and administrative items and gave the Governor in Council authority to delegate further powers to the Board.

Prime Minister Diefenbaker's Cabinet had 17 Ministers in 1957 and 23 in 1963. Less use was made of committees, and Cabinet met two or three times a week. The Cabinet paper system that had evolved since the War was retained but less use was made of committees of officials, and fewer officials attended Cabinet and Cabinet committee meetings.

Prime Minister Pearson's Cabinet had 26 Ministers in 1963 and 25 in 1968. The committee system was reorganized in 1964 to replace the ad hoc committees with nine standing committees. The Priorities and Planning Committee was established in 1968 to develop Government priorities in relation to the overall fiscal situation. In addition, over time, several other standing and special committees were established as the need arose. For the first time the Cabinet procedures required issues to be dealt with in committee before going to full Cabinet but a certain amount of the committee work was still tasked by Cabinet. Attendance of officials at Cabinet committee meetings increased. Following the Glassco Commission recommendations, much of the responsibility for

detailed expenditure decisions was transferred to the Treasury Board from the Minister of Finance, and, in 1966, the Treasury Board Secretariat was split off from the Department of Finance.

Prime Minister Trudeau's Cabinet had 27 Ministers in 1968 (after the election) and 33 in 1979. The Cabinet committee structure was reorganized so that there would be fewer standing committees (eight) with more delegated authority. Most issues went to committee before going to full Cabinet. In 1975 a branch of the Privy Council Office was split off to form a separate Federal-Provincial Relations Office. In 1977, following the recommendation of the Auditor General, the Office of the Comptroller General, reporting to the President of the Treasury Board, was established. In 1978 the Board of Economic Development Ministers and a supporting Ministry of State for Economic Development were established (proclaimed in 1979). The Secretary of this Ministry chaired a committee of deputy ministers and circulated "Assessment Notes" to all members of the Board of Economic Development Ministers on the issues coming before the Board.

Prime Minister Clark's Cabinet had 30 Ministers. An Inner Cabinet with final decision-making authority was established. The role of full Cabinet was limited to political discussion and co-ordination. The Policy and Expenditure Management System (PEMS) was instituted and four policy sectors designated -- economic development, social development, foreign and defence policy and government operations. The Ministry of State for Social Development (MSSD) was set up (although not formally proclaimed by Parliament until after the next election) and "mirror committees" of deputy ministers were established in the economic development and social development sectors. The operation of the Policy and Expenditure Management System and the various committees of Ministers and officials during the Clark Government and subsequent Trudeau Government have been described at length in previous papers (References 2a, 2b, 3).

Prime Minister Trudeau's Cabinet had 32 Ministers in 1980 and 37 in 1984. Both Cabinet and the Priorities and Planning Committee had authority to issue Records of Decision. The Policy and Expenditure Management System was retained and its procedures were spelled out in greater detail. A Policy Coordination Branch with "Ministry of State" functions was

established within the Department of External Affairs. In 1982 the intention to convert the Ministry of State for Economic Development (MSED) to the Ministry of State for Economic and Regional Development (MSERD) was announced and Federal Economic Development Coordinators (FEDCs) were established in each province.

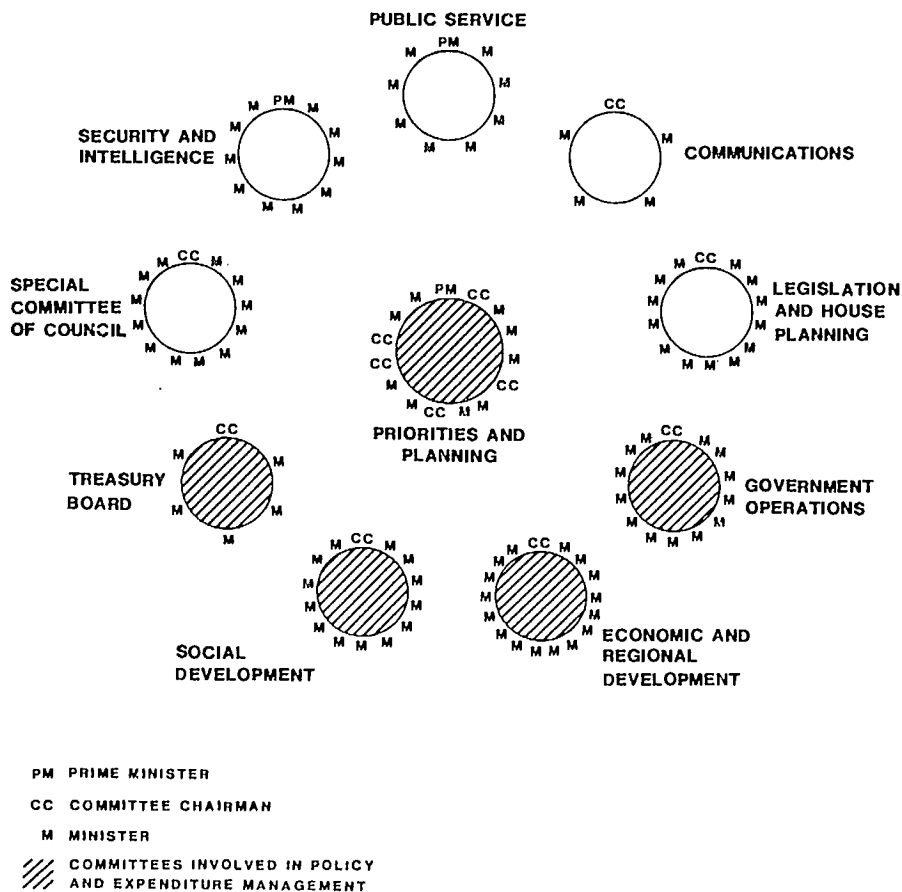
Prime Minister Turner's Cabinet had 29 Ministers. The number of Cabinet committees was reduced to 10 as the Communications, Labour Relations and Western Affairs Committees were abolished. The Ministry of State for Economic and Regional Development, the Ministry of State for Social Development and the Ministry of State functions within External Affairs were wound up, as were the "mirror committees" of deputy ministers and the practice of circulating Assessment Notes. The Federal Economic Development Coordinators were transferred to the Department of Regional Industrial Expansion.

It is apparent from this historical review that each Canadian Prime Minister has adapted the Cabinet structure to deal with the challenges he felt his Government had to meet. This pattern is also seen in other countries with Westminster-style governments. Britain's Prime Minister Thatcher manages a Cabinet system which is quite different from that of, say, Australia's Prime Minister Hawke.

An important corollary of the political and personal imperatives in Cabinet decision-making is that all Cabinet systems are designed by Prime Ministers to suit their own personal styles and the particular needs of their Cabinet. The basic Cabinet functions listed in Figure 3 can be performed with more or less involvement of officials, with more or less paper at the Cabinet table, with more or less frequent meetings of Cabinet and its committees, and with more or less reliance on formal procedures. We must recognize that while many officials prefer to see more paper, more meetings and more rules (in order to reduce the number of surprises in our work), many Ministers prefer quite the opposite.

In Prime Minister Mulroney's Government, the basic function of Cabinet committees is, as previously, to work through the financial, policy and political implications of proposals for Government initiatives, and to reach a decision which can be presented for ratification by full Cabinet or by the Priorities and Planning Committee. As Figure 5 illustrates, Prime Minister Mulroney has provided for ten Cabinet committees, three fewer than existed in the last Trudeau Government and the same number as in the Turner Government. There are four committees which, along with the Treasury Board, are involved with the Policy and Expenditure Management System.

CABINET COMMITTEES



The Priorities and Planning Committee has an overall "executive committee" role which includes setting envelope levels, ratifying committee decisions and, in general, coordinating the work of the other Cabinet committees within the context of the overall Government program. The Priorities and Planning Committee performs the policy committee function for those issues which the Prime Minister deems to be best dealt with in the Cabinet committee that he chairs -- including issues that would formerly have gone to the Cabinet Committee on Foreign and Defence Policy. In that latter connection, Priorities and Planning can be considered to be one of four policy committees, along with the Cabinet Committee on Economic and Regional Development (chaired by the Minister of Regional Industrial Expansion), the Cabinet Committee on Social Development (chaired by the Minister of National Health and Welfare) and the Cabinet Committee on Government Operations (chaired by the President of the Treasury Board).

There are five other standing committees in Prime Minister Mulroney's Cabinet system: the Cabinet Committee on Legislation and House Planning, the Cabinet Committee on Communications, the Cabinet Committee on the Public Service, the Cabinet Committee on Security and Intelligence, and the Special Committee of Council. Not reinstated are the Cabinet Committees on Foreign and Defence Policy, Labour Relations, and Western Affairs. With fewer standing committees there will likely be more use of ad hoc task forces of Ministers and of bilateral discussions to resolve issues.

The present Ministry and committee memberships are listed in Appendix B.

The expenditure envelopes have been reorganized. The new structure is illustrated in Figure 6.

Figure 6
EXPENDITURE ENVELOPES
(Total \$99.2 billion *)

<p>PRIORITIES AND PLANNING</p> <p>FISCAL ARRANGEMENTS \$ 5.9 billion</p> <p>EXTERNAL AFFAIRS AND AID \$ 2.7 billion</p> <ul style="list-style-type: none"> . External Affairs . Foreign Aid <p>DEFENCE \$ 8.8 billion</p> <ul style="list-style-type: none"> . National Defence <p>PUBLIC DEBT \$ 20.4 billion</p>	<p>ECONOMIC AND REGIONAL DEVELOP.</p> <p>ECONOMIC AND REGIONAL DEVELOPMENT \$ 15.3 billion</p> <ul style="list-style-type: none"> . Agriculture . Communications . Consumer and Corporate Affairs . Energy, Mines and Resources . Fisheries . Forestry . International Trade . Labour . Regional Industrial Expansion . Science and Technology . Transport 	<p>SOCIAL DEVELOPMENT</p> <p>SOCIAL DEVELOPMENT \$ 41.7 billion</p> <ul style="list-style-type: none"> . Arts & Culture . Canada Mortgage and Housing . Employment and Immigration . Environment . Fitness and Amateur Sport . Indian Affairs and Northern Development . Justice . National Health and Welfare . Secretary of State . Solicitor General . Veterans Affairs 	<p>GOVERNMENT OPERATIONS</p> <p>PARLIAMENT \$ 192 million</p> <ul style="list-style-type: none"> . House of Commons . Parliamentary Library . Senate <p>SERVICES TO GOVERNMENT \$ 4.3 billion</p> <ul style="list-style-type: none"> . Canada Post . Central Agencies . National Revenue . Public Works . Supply and Services
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* 1984-85 ESTIMATES

The responsibility for the External Affairs and Aid and the Defence Envelopes now rests with the Cabinet Committee on Priorities and Planning. The Energy Envelope has been folded into the Economic and Regional Development Envelope. The Justice and Legal Envelope and the Social Affairs Envelope have been combined to form the Social Development Envelope.

Roles and Responsibilities of the Central Agencies

While a line department is expected to focus on its own programs and its individual Minister's objectives and responsibilities, central agencies exist to support the Cabinet's corporate objectives and the collective responsibilities of Ministers. Some of the implications of the different institutional concerns of line departments and central agencies were described in the presentation I made to this course last spring (Reference 2d).

Figure 7

CORPORATE CONCERNS AND LEAD RESPONSIBILITIES

<u>Areas of Concern</u>	<u>Lead Ministers</u>	<u>Supporting Agencies</u>
policy coherence	Prime Minister, Committee Chairmen	Privy Council Office
resource limits	Min. of Finance, President of TB	Dept. of Finance, TB Secretariat
administrative practices	Treasury Board	TB Secretariat
legislative program	Prime Minister, House Leader	Privy Council Office
decision-making process	Prime Minister	Privy Council Office
international relations	Sec. of State for External Affairs	Dept. of External Affairs
federal-provincial relations	Prime Minister	Federal-Provincial Relations Office
legal interpretation	Attorney General	Department of Justice
science policy	Min. of State for Science and Technology	Min. of State for Science and Technology
financial practices	President of TB	Off. of Compt. Gen.

Figure 7 lists a number of the corporate concerns for which a lead Minister and a supporting central agency have been assigned coordinating responsibility. These include the areas supported by the three "traditional" central agencies -- the Privy Council Office, the Department of Finance and the Treasury Board Secretariat, as well as the areas of international relations, federal-provincial relations, legal interpretation, science policy, and financial practices. The coordination of activities in each of these latter areas is supported by separate agencies -- the Department of External Affairs, the Federal-Provincial Relations Office, the Department of Justice, the Ministry of State for Science and Technology, and the Office of the Comptroller General.

In addition to the central agencies noted in Figure 7, there are a number of "common service agencies" providing services for other government departments. Examples include Public Works Canada, Supply and Services Canada and Statistics Canada. As well, almost all departments have coordinating or lead responsibilities within their sectors. The Department of Regional Industrial Expansion retains special responsibilities for regional development through its responsibilities for the Economic and Regional Development Agreements and the Federal Economic Development Coordinators.

The wind-up of the Ministries of State for Social Development and Economic and Regional Development, and the Ministry of State function within External Affairs, has been accompanied by a realignment of the roles and responsibilities of the three traditional central agencies. The revised responsibilities of the Privy Council Office, the Department of Finance and the Treasury Board Secretariat are summarized in Figure 8.

Figure 8
ROLES OF THE THREE TRADITIONAL
CENTRAL AGENCIES

<u>Privy Council Office</u>	<u>Treasury Board Secretariat</u>	<u>Department of Finance</u>
<ul style="list-style-type: none"> ○ support for Prime Minister on prerogatives of government organization, ministerial mandates and senior personnel ○ secretariat support for Cabinet operations ○ briefing of committee chairmen (including Prime Minister) on relationship of new proposals to priorities and to other activities ○ preparation of summaries of Strategic Memoranda 	<ul style="list-style-type: none"> ○ support for Minister and Treasury Board on statutory responsibilities, monitoring of delegated authorities, Estimates process ○ government's chief accountant (including reports on policy reserves) ○ advice on resource implications and management aspects of proposals and of effectiveness of existing programs (to Minister, Treasury Board and, through PCO, to committee chairmen) ○ advice to Treasury Board on management of Operating Reserve 	<ul style="list-style-type: none"> ○ support for Minister of Finance on statutory responsibilities ○ government's chief economist (including preparation of fiscal plan and economic outlook) ○ advice on economic impacts of proposals and their relationship to macro-economic framework (to Minister and, through PCO, to committee chairmen) ○ advice to Minister on envelope-setting

In operational terms, the wind-up of the Ministries of State means that the Department of Finance will have increased responsibilities for analyzing the economic effectiveness of new proposals. Of the central agencies, the Department of Finance maintains the broadest socio-economic analytical capability. The Department advises both the Minister of Finance and, through the Privy Council Office, the chairmen of the policy committees on the overall economic impacts of proposals coming to Cabinet.

The Treasury Board Secretariat's "chief accountant" responsibilities include regular reporting to the Cabinet committees on the status of their envelope reserves as well as advice to the Treasury Board and, through the Privy Council Office, to the committee chairmen on the efficiency and management aspects of new proposals and on the effectiveness of existing programs. The Secretariat needs to be highly knowledgeable about departmental A bases (activities within reference levels) so that new proposals can be assessed in light of current operations.

The Privy Council Office has an increased responsibility to communicate with departments on items destined for Cabinet and to prepare briefing notes for policy committee chairmen. It has a continuing responsibility to analyze issues in relation to prime ministerial and governmental priorities and in relation to the Prime Minister's prerogatives for governmental organization and ministerial mandates. It also has a "due process" responsibility for ensuring that adequate information is available for Ministers when they consider an item and that Ministers receive adequate notice of items to be discussed. The chief focus of the Privy Council Office is on "process facilitation" and "advice on policy" rather than "policy development". Its activities have not changed much from those described last year (Reference 2c) and, indeed, they are not significantly different from those described by Gordon Robertson in 1971 (Reference 4).

Policy development takes place in departments under the direction of the Minister with statutory responsibility and the onus is on departments to ensure that appropriate consultation occurs. Where interdepartmental meetings are required, they should usually be convened by officials reporting to the responsible Minister. Only in rare cases -- usually when another Minister or department is not satisfied with the degree of consultation undertaken by the

sponsoring department -- would an official from the Privy Council Office (or the Department of Finance or Treasury Board Secretariat) convene an interdepartmental meeting relative to an item sponsored by another Minister.

The principal function previously performed by the Ministries of State which is not being replaced is the ongoing provision of a "sectoral" analytical perspective in the economic development, social development, or foreign and defence policy sectors. There will no longer be regular sectoral deputies meetings, regular Assessment Notes and Assessment Reports, or annual articulations of sectoral strategies in Sectoral Overview papers -- although comparable analysis and meetings may, of course, be initiated on an ad hoc basis as specific needs arise.

One major former capacity of the Ministry of State for Economic and Regional Development that remains intact is the provincial network of Federal Economic Development Coordinators (FEDCs) supported by an associate deputy and an Office of Regional Development in Ottawa. These groups have been transferred to the Department of Regional Industrial Expansion where they operate as a distinct unit within the department. The coordinators retain their provincial overview role, including the coordination of activities under the recently signed federal-provincial Economic and Regional Development Agreements. The coordinators and the Office of Regional Development provide support to Cabinet committee deliberations through their Minister, who is chairman of the Cabinet Committee on Economic and Regional Development.

In summary, the new alignment of responsibilities following the wind-up of the Ministries of State is likely to continue to evolve in response to the emerging requirements of Cabinet decision-making. Most but not all of the activities formerly undertaken by the Ministries of State will be performed by the three traditional central agencies which, between them, are responsible for providing Ministers with most of the necessary corporate analytical and secretariat support for Cabinet decision-making. The interdepartmental consultation process should be simplified by the reduction in the number of central agencies.

Principles and Procedures of the Policy and Expenditure Management System

The principles and procedures associated with the revised Policy and Expenditure Management System were issued on the Prime Minister's instructions on September 18, 1984, and are attached as Appendix C.

The underlying principles of the Policy and Expenditure Management System have not changed. Sectoral envelopes have been retained, and the integration of policy and expenditure decisions remains a central feature of the system. The new description of the principles places an even greater emphasis on the need to review existing expenditure priorities and reallocate resources within departments and envelopes in order to generate resources for new initiatives. The procedures have been streamlined, and can now be described in seven pages rather than in the twenty-odd pages of text in the previous documents.

The key changes in the principles and procedures are listed in Figure 9.

Figure 9

KEY CHANGES TO THE PEMS PROCEDURES

- o greater ministerial discretion
- o limited access to policy reserves
- o fewer rules but more rulings
- o consolidation of envelopes
- o Reserve for Statutory Overruns
- o a single Operating Reserve

Individual Ministers now have greater discretion to make expenditure decisions within their approved departmental resources without Cabinet approval, where they judge that the policy or political implications of the decision are not sufficient to warrant collective Cabinet examination. This is intended to simplify decision-making and increase the

ability of individual Ministers to exercise their discretionary authority within broad corporate management standards. At the same time, the access to the policy reserves is intended to be more limited and Ministers are encouraged to look to their own budgets rather than to "the centre" to finance new proposals. Minor expenditure initiatives are expected to be financed out of internal resources rather than the policy reserves. This does not, of course, imply that no proposals with low cost should come to Cabinet for policy approval. Clearly, there are many proposals with little or no immediate financial implications which could have substantial policy and political implications and for which Ministers would want to ensure they had the collective support of their colleagues.

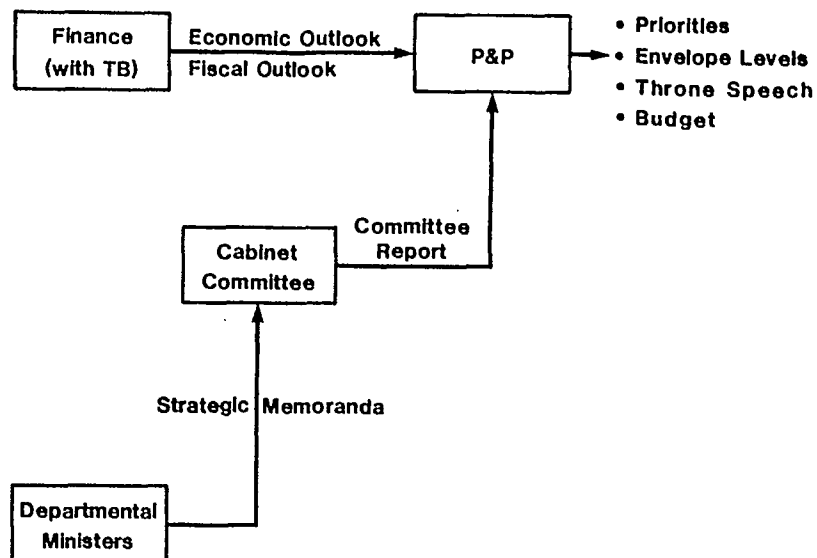
Because the procedures have been simplified (in effect, there are fewer rules), more "rulings" may be required based on the principles set out in the document. Thus, the Minister of Finance and the President of the Treasury Board (and in some cases the Prime Minister) will exercise more discretion in determining the envelope accounting impacts of proposals involving "non-standard" expenditures and revenues -- such as loans, loan guarantees, tax changes and cost-recovery initiatives. As before, any proposals for tax changes must be discussed with the Minister of Finance before being submitted to Cabinet committee.

The changes in the envelope structure were noted earlier. There have also been two changes in the structure of the reserves. In order to emphasize its purpose, what was formerly called the "Central Reserve" is now called the "Reserve for Statutory Overruns". In addition, there will now be a single Operating Reserve managed by the Treasury Board rather than separate operating reserves for each envelope.

The Annual Priority-Setting Process

It is intended that in normal years the annual priority-setting process will be quite similar to the process followed since 1979. It is illustrated in Figure 10.

Figure 10
PROCESS FOR ANNUAL PRIORITY SETTING



Priorities will be reviewed once a year by the Priorities and Planning Committee which will also set the fiscal framework on the basis of the recommendation of the Minister of Finance. The policy committees of Cabinet will not, however, be asked to approve lengthy "sectoral overviews" or "overviews of strategic overviews". Rather, the Prime Minister may ask each Minister to submit a "Strategic Memorandum" which would describe the changes in the policy direction that each Minister would like to see in the planning period, without seeking specific approval for new resources. Submissions from Ministers with broad corporate responsibilities (e.g., international relations, science and technology policy) could be fairly general in scope, describing the issues and trends in the environment which bear on the Government's policy options and providing a framework for consideration of specific initiatives by departmental Ministers.

Like other Cabinet papers, Strategic Memoranda would be distributed to all Ministers. Under the direction of the committee chairmen, committee-wide summaries of these Memoranda would be prepared by the Privy Council Office, also for distribution to all Ministers. The policy committees would review the Strategic Memoranda and the committee-wide summaries and produce a Committee Report for review by the Priorities and Planning Committee.

This fall, the process of setting priorities leading to the Speech from the Throne and the Economic Statement was, in fact, fairly similar to that just described. The major difference was that, given the lack of time, the Prime Minister asked Ministers for a letter to him rather than a Strategic Memorandum. Ministers prepared these letters in 10 days, taking account of presentations made to them by the Minister of Finance on the fiscal and economic outlook. The precise nature of the submissions required for the priority-setting process for fiscal year 1986-87 will be decided closer to the time that decisions have to be made.

Cabinet Papers System

There have been a number of recent changes in the Cabinet papers system. These are summarized in Figure 11.

Figure 11

RECENT CHANGES IN CABINET PAPERS

- o **Executive Summary of the Memorandum**
 - three pages maximum
 - the primary decision-making document
 - recommendations at front
 - Possible Adverse Consequences section
 - Departmental Positions section
 - accompanied by one-page Communications Synopsis
- o **Assessment Notes (and Reports) dropped**
 - more reliance on Departmental Positions section of Executive Summary
 - more reliance on chairman's briefing note
- o **Fewer Records of Decision**
 - "process" decisions issued less frequently
- o **Strategic Memoranda**
 - to replace ministerial Strategic Overview
 - committee-wide summaries to be prepared by PCO
 - Committee Report prepared

The new Executive Summaries of Memoranda to Cabinet and the new, slimmed-down form of the Memoranda attached to the Summary are the key features of the streamlined papers system. The three-page Executive Summary now serves as the main reference document for Ministers at Cabinet and Cabinet committee meetings. As such, it has replaced, as the focus for ministerial discussion, the Assessment Note (or Assessment Report) formerly produced by a Ministry of State. It is clearly preferable that the key paper on the Cabinet committee table is one signed by a Minister and focussing on the Minister's specific recommendations, rather than one signed by a central agency official.

Any department or agency with a clear interest in the issue must be consulted sufficiently in advance of finalizing a Memorandum to Cabinet to ensure that the considered views of their senior management on the proposal can be obtained. In all cases, the Department of Finance and the Treasury Board Secretariat will need to be consulted and their views on financial resource requirements included. An item which is brought to Ministers' attention without adequate consultation will be returned by the Privy Council Office to be reworked.

The Departmental Positions sections of the Executive Summary is intended to indicate that departments were consulted and that substantive concerns related to the recommendations are identified. Prior consultation should normally resolve outstanding concerns, but where disagreements remain, these should be indicated. Normally a department should be identified as the source of the concern, although it is not always necessary to attribute a specific position to a particular department so long as the concern itself is identified. This section is not intended to reflect a Minister's position on a proposal although, particularly where a major policy initiative is being proposed, officials may choose to seek direction from their Minister. The substantive concerns should reflect policy, program, or resource implications that affect the mandate responsibility of the department raising the concern and which are of an official, as opposed to a political, nature.

The Departmental Positions section of the document will generally be the main indication to the Cabinet committee chairman and members of the issues which need discussion at the meeting. In addition, the Privy Council Office, with the assistance of the Treasury Board and the Department of Finance, provides the chairman with a briefing note on each issue. The chairman can use the notes to raise questions about the proposal if he feels it appropriate. The Departmental Positions section of the Memorandum, supplemented by the chairman's briefing note, can therefore provide most of the functions previously performed by the Assessment Notes and Assessment Reports.

Where issues are highly complex and require significant interdepartmental coordination, departments should produce analytical "departmental papers" to facilitate interdepartmental consultations.

A further aspect of the changes in the overall Cabinet papers system has involved the naming of Cabinet Liaison Officers in all departments.

We may see the volume of Cabinet submissions decline from the 600-800 Memoranda and associated Discussion Papers per year that have been typical of the last decade. There are two main reasons. First, departmental Discussion Papers which are now only to be produced as part of a larger communications strategy, are no longer submitted separately as Cabinet papers. Second, the low levels of the policy reserves may well have the effect of reducing the number of submissions, although this will depend on how the chairmen of the policy committees choose to handle the process of allocating the policy reserves. (For example, a general "request for proposals" to Ministers associated with the envelope would produce more paper than a discussion leading to a decision to direct the limited funds to a few high priority areas.)

These factors are expected to ease the day-to-day workload of the Cabinet committees and lessen the number of Memoranda, Committee Reports, and Records of Decision generated in the process. They might result in more surprises for officials than we have been used to, since there could well be more discussion between Ministers outside the Cabinet room without the sort of documentation prepared previously.

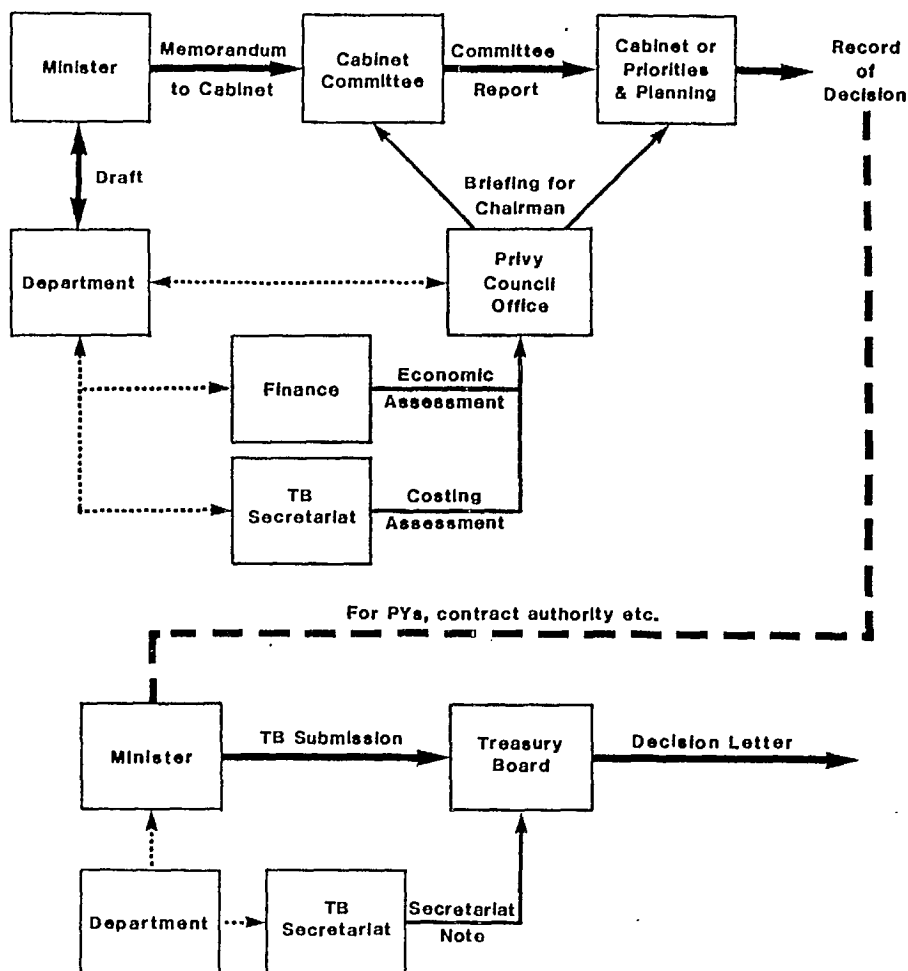
I might also note that the Privy Council Office is trying to avoid issuing non-essential Records of Decision. We are endeavouring to limit the use of Records of Decision to decisions where instructions to officials for implementation are required, or where confirmation of policy approval is required to enable other ministerial bodies to perform their functions (e.g., to enable Treasury Board to approve financial authorities or to enable the Legislation and House Planning Committee to approve draft legislation). This means that Records of Decision which merely call for a Minister to do further work or to consult with colleagues will be issued less frequently. Such process decisions are recorded in the minutes of the meeting and the Privy Council Office has the responsibility to ensure that the appropriate Ministers and officials are informed.

As noted earlier, there has also been a change in the Cabinet papers that will be required for future annual priority-setting exercises. Although comprehensive Strategic Overviews will no longer be requested by committee chairmen for analysis by a Ministry of State, it is expected that departments will continue to produce internal overviews in whatever form is most useful to the Minister and his senior officials in order to consolidate departmental objectives and plans. These could serve as a reference document for the Minister in the preparation of the Strategic Memorandum -- even though these internal overviews will not have to be submitted to the central agencies.

Process for Cabinet Approval

The process for approval of a specific item in the course of the regular business of Cabinet is illustrated in Figure 12.

Figure 12
PROCESS OF CABINET APPROVAL



Despite the number of dotted lines and boxes in Figure 12, the process of Cabinet approval is straightforward. The process is based on two principles. The first is that all Ministers have the untrammelled right to bring to their colleagues proposals for Government action in their area of policy responsibility; the second is that all Ministers should have the opportunity to express an informed view within the Cabinet room on a proposal for which they will share collective responsibility.

The existence of the central agencies and the dotted interdepartmental consultation lines in Figure 12 do not compromise the first principle. A Minister can sign a Memorandum whose recommendations

completely ignore the comments made by officials reporting to other Ministers. The second principle, however, requires that those aspects of the proposal which could be of concern to other Ministers be brought to their attention in time for them to express their views to their colleagues. As noted earlier, the essential role of the three central agencies is to help ensure that Ministers collectively have the appropriate information before them. It is the task of the chairmen of the Cabinet committees and of the Prime Minister to ensure that all relevant views are expressed before the Government's position is finalized.

There are several Cabinet procedures designed specifically to support the second principle. One is the "72-hour rule": the requirement that a Memorandum to Cabinet be signed early enough so that the Privy Council Office can circulate it to all Ministers three working days before the Cabinet meeting. There is an additional "7-day rule": a requirement that the Assistant Secretary to the Cabinet committee be made aware of a Minister's intention to bring a subject to the committee a week before the meeting. There is also the provision that all Ministers receive all Memoranda to Cabinet (except in the rare instances, usually pursuant to interim negotiating positions, where Memoranda may be restricted to Ministers on the Priorities and Planning Committee) and all committee agendas and that any Minister can attend any meeting of the Economic and Regional Development Committee, the Social Development Committee, the Government Operations Committee, the Communications Committee, the Legislation and House Planning Committee or the Special Committee of Council. (Invitations from the chairmen are required for non-members to attend the Treasury Board and the Priorities and Planning Committee.)

Even though the Priorities and Planning Committee has the authority to make final decisions, most items of general interest (e.g., Throne Speech preparation, foreign policy initiatives) that are brought initially to Priorities and Planning, will subsequently be taken to Cabinet for discussion. These provisions ensure that all Ministers have a chance to express their views on virtually all matters of general interest.

In most cases, where all the relevant views have been expressed in Cabinet committee, the Committee Reports can be ratified with little or no discussion in Cabinet or Priorities and Planning. The resultant Record of Decision is not a legal document, it merely expresses the collective will of the Ministry to undertake a particular course of action. Where a statutory instrument is involved, a separate Order in Council is prepared which, after signature by the Governor General, becomes legally binding.

In contrast to other Cabinet committees, the Treasury Board is a statutory body created under the Financial Administration Act. Members are appointed by Order in Council. Treasury Board authorization is required for many departmental actions pursuant to Cabinet decisions (e.g., to spend under particular legislation, to enter into certain contracts, to increase the use of public service resources). Although separate Treasury Board submissions are usually required, efforts are currently being made to have the information required by Treasury Board worked out concurrently with the preparation of the Cabinet submission so that the Memorandum to Cabinet and Record of Decision can also serve as the Treasury Board Submission, thus reducing the time and paperwork necessary for a Minister to secure authority to act.

Role of Officials

The rules for attendance at Cabinet and Cabinet committee meetings have been revised to place stricter limits on which officials may attend and for what purpose. The wind-up of sectoral "mirror committees" of deputy ministers means that there is no regular review of Cabinet committee items by officials collectively in advance of ministerial discussion. This will require more reliance to be placed on ad hoc meetings between representatives of the concerned departments. In particular, departments should ensure that they consult External Affairs where international relations may be affected, the Federal-Provincial Relations Office where federal-provincial relations could be implicated and the Ministry of State for Science and Technology where science and technology policy issues are at stake in order that the relevant Minister can be apprised of the proposal at an early point in the process.

Where there is a perceived need for interdepartmental consultation at the level of officials, meetings should be called by the lead department or requested by another department concerned with the issue. This puts more responsibility on all of us to consult with other concerned departments and to pay close attention to proposals being developed in other departments in order to ensure that Ministers are made aware of any issues that will affect their portfolio responsibilities.

Most of the previous committees of senior officials other than the mirror committees continue to operate. Some of these are listed in Figure 13.

Figure 13

PRINCIPAL COMMITTEES OF OFFICIALS

COORDINATING COMMITTEE OF DEPUTY MINISTERS

- chaired by Secretary to the Cabinet
- Deputies from Finance, TBS, External Affairs, Justice, FPRO
- information exchange among central agencies

DEPUTY MINISTERS' LUNCHEON

- Deputies and Associate Deputies
- informal discussion of issues of general interest

COMMITTEE OF SENIOR OFFICIALS ON EXECUTIVE PERSONNEL IN THE PUBLIC SERVICE (COSO)

- chaired by Secretary to the Cabinet
- advice on management of Governor in Council appointments

SENIOR PERSONNEL ADVISORY COMMITTEE (SPAC)

- chaired by Chairman of the Public Service Commission
- advice on staffing issues, including appointments to ADM positions

TREASURY BOARD SENIOR ADVISORY COMMITTEE (TBSAC)

- chaired by Secretary to the Treasury Board
- advice on management issues

The Coordinating Committee of Deputy Ministers is chaired by the Secretary to the Cabinet and includes the deputies from Finance, the Treasury Board Secretariat, External Affairs, Justice, and the Federal-Provincial Relations Office. Its purpose is to keep the heads of the central agencies informed of the collective concerns of the Government. Another regular forum is the monthly Deputy Ministers' Luncheon hosted by the Secretary to the Cabinet. This provides an opportunity for deputies to conduct informal business and discuss issues of general interest. There are also two committees dealing with senior personnel matters -- the Committee of Senior Officials on Executive Personnel in the Public Service (COSO) and the Senior Personnel Advisory Committee (SPAC) -- as well as the Treasury Board Senior Advisory Committee (TBSAC). Their functions remain as described earlier (Reference 2b).

Finally, it is worth noting that the responsibilities of officials may be affected by the evolving role of Members of Parliament. As you know, the Prime Minister has indicated his concern that members of parliamentary committees should be involved more intensively in the consideration of the Government's policies and in policy development. The Prime Minister has confirmed the procedures for factual briefings of parliamentary caucuses and party spokesmen by government officials (Reference 5). When requested, and with the permission of their Ministers, officials are expected to provide factual briefings on such subjects as departmental organization and functions and the operation and content of programs. With a new emphasis being placed on the role of Parliamentarians, we may expect an increase in the number of requests for such briefings.

Conclusions

The Cabinet system has been changed significantly in 1984: there are fewer Cabinet committees; several envelopes have been consolidated; Ministries of State have been wound up; the roles of the three traditional central agencies have been realigned; the PEMS procedures have been simplified; the Cabinet papers system has been streamlined; the mirror committees of officials have been discontinued; and the role of Parliamentarians has begun to change.

It is our responsibility as officials to adapt quickly to the new system and to remember that its basic purpose is the same as that of any Cabinet system -- to reach timely decisions in a way that will satisfy the Government's priorities while maintaining the collective responsibility of the Cabinet Ministers.

Thank you.

APPENDIX A

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THE MINISTRY AND CABINET COMMITTEE MEMBERSHIP

THE MINISTRY

According to precedence

The Right Hon. Martin Brian Mulroney	Prime Minister
The Hon. George Harris Hees	Minister of Veterans Affairs
The Hon. Duff Roblin	Leader of the Government in the Senate
The Right Hon. Charles Joseph Clark	Secretary of State for External Affairs
The Hon. Flora Isabel MacDonald	Minister of Employment and Immigration
The Hon. Erik H. Nielsen	Deputy Prime Minister and President of the Queen's Privy Council
The Hon. John Carnell Crosbie	Minister of Justice and Attorney General of Canada
The Hon. Roch La Salle	Minister of Public Works
The Hon. Donald Frank Mazankowski	Minister of Transport
The Hon. Elmer MacIntosh MacKay	Solicitor General of Canada
The Hon. Jake Epp	Minister of National Health and Welfare
The Hon. John Allen Fraser	Minister of Fisheries and Oceans
The Hon. Sinclair McKnight Stevens	Minister of Regional Industrial Expansion
The Hon. John Wise	Minister of Agriculture
The Hon. Ramon John Hnatyshyn	Minister of State (Government House Leader)
The Hon. David Edward Crombie	Minister of Indian Affairs and Northern Development
The Hon. Robert R. de Cotret	President of the Treasury Board
The Hon. Henry Perrin Beatty	Minister of National Revenue
The Hon. Michael Halcombe Wilson	Minister of Finance
The Hon. Robert Carman Coates	Minister of National Defence
The Hon. Jack Burnett Murta	Minister of State (Multiculturalism)
The Hon. Harvie Andre	Minister of Supply and Services
The Hon. Otto John Jelinek	Minister of State (Fitness and Amateur Sport)
The Hon. Thomas Edward Siddon	Minister of State for Science and Technology
The Hon. Charles James Mayer	Minister of State (Canadian Wheat Board)
The Hon. William Hunter McKnight	Minister of Labour
The Hon. Walter Franklin McLean	Secretary of State of Canada
The Hon. Thomas Michael McMillan	Minister of State (Tourism)
The Hon. Patricia Carney	Minister of Energy, Mines and Resources
The Hon. André Bissonnette	Minister of State (Small Businesses)
The Hon. Suzanne Blais-Grenier	Minister of the Environment
The Hon. Benoît Bouchard	Minister of State (Transport)
The Hon. Andrée Champagne	Minister of State (Youth)
The Hon. Michel Côté	Minister of Consumer and Corporate Affairs
The Hon. James Francis Kelleher	Minister for International Trade
The Hon. Robert E. Layton	Minister of State (Mines)
The Hon. Marcel Masse	Minister of Communications
The Hon. Barbara Jean McDougall	Minister of State (Finance)
The Hon. Gerald S. Merrithew	Minister of State (Forestry)
The Hon. Monique Vézina	Minister of External Relations

CABINET COMMITTEE MEMBERSHIP*

Communications

Chairman	Mr. Hnatyshyn
Vice-Chairman	Mr. Beatty
Members	Mr. Andre
	Mr. McMillan
	Mr. Masse

Economic and Regional Development

Chairman	Mr. Stevens
Vice-Chairman	Miss Carney
Members	Miss MacDonald
	Mr. Mazankowski
	Mr. Fraser
	Mr. Wise
	Mr. Siddon
	Mr. Mayer
	Mr. McKnight
	Mr. McMillan
	Mr. Bissonnette
	Mr. Bouchard
	Mr. Côté
	Mr. Kelleher
	Mr. Layton
	Mr. Masse
	Mr. Merrithew

Government Operations

Chairman	Mr. de Cotret
Vice-Chairman	Mr. Hnatyshyn
Members	Mr. Hees
	Mr. Roblin
	Mr. La Salle
	Mr. Beatty
	Mr. Coates
	Mr. Andre
	Mr. McKnight
	Mr. McLean

Government Operations (cont.)

Mr. Bissonnette
Mrs. McDougall
Mr. Merrithew
Mme Vézina

Legislation and House Planning

Chairman	Mr. Hnatyshyn
Vice-Chairman	Mr. Roblin
Members	Mr. Hees
	Mr. Nielsen
	Mr. Crosbie
	Mr. La Salle
	Mr. MacKay
	Mr. Fraser
	Mr. Crombie
	Mr. Murta
	Mr. Bouchard
	Mme Champagne
	Mr. Kelleher
	Mr. Layton

Priorities and Planning

Chairman	Mr. Mulroney
Vice-Chairman	Mr. Nielsen
Members	Mr. Clark
	Miss MacDonald
	Mr. Crosbie
	Mr. Mazankowski
	Mr. Epp
	Mr. Fraser
	Mr. Stevens
	Mr. Hnatyshyn
	Mr. de Cotret
	Mr. Wilson
	Mr. Coates
	Miss Carney
	Mr. Masse

* The Deputy Prime Minister, President of the Treasury Board and Minister of Finance are ex officio members of the Cabinet Committees on Economic and Regional Development, Government Operations and Social Development. All Ministers are free to attend meetings of these three policy committees as well as the Cabinet Committee on Communications, the Cabinet Committee on Legislation on House Planning and the Special Committee of Council.

Public Service

Chairman	Mr. Mulroney
Vice-Chairman	Mr. Nielsen
Members	Mr. Clark
	Miss MacDonald
	Mr. Wise
	Mr. de Cotret
	Mr. Wilson
	Mr. McKnight
	Mr. McLean

Security and Intelligence

Chairman	Mr. Mulroney
Vice-Chairman	Mr. Clark
Members	Miss MacDonald
	Mr. Crosbie
	Mr. MacKay
	Mr. Hnatyshyn
	Mr. de Cotret
	Mr. Beatty
	Mr. Wilson
	Mr. Coates
	Miss Carney

Social Development

Chairman	Mr. Epp
Vice-Chairman	Mr. Crosbie
Members	Mr. Hees
	Miss MacDonald
	Mr. MacKay
	Mr. Crombie
	Mr. Murta
	Mr. Jelinek
	Mr. McKnight
	Mr. McLean
	Mme Blais-Grenier
	Mme Champagne
	Mr. Masse
	Mme Vézina

Special Committee of Council

Chairman	Mr. Nielsen
Vice-Chairman	Mr. Hnatyshyn
Members	Mr. Roblin
	Mr. Crosbie
	Mr. MacKay
	Mr. Coates
	Mr. Jelinek
	Mr. Bissonnette
	Mme Blais-Grenier
	Mr. Côté
	Mrs. McDougall
	Mr. Merrithew
	Mme Vézina

Treasury Board

Chairman	Mr. de Cotret
Vice-Chairman	Mr. Wilson
Members	Mr. Beatty
	Mr. Siddon
	Mr. Côté
	Mr. Merrithew

Alternates

Mrs. McDougall
Mr. Wise
Mr. McMillan
Mme Vézina
Mr. Andre
Mr. Mayer

APPENDIX C

**POLICY AND EXPENDITURE MANAGEMENT SYSTEM:
PRINCIPLES AND PROCEDURES**

Privy Council Office
September 18, 1984

**POLICY AND EXPENDITURE MANAGEMENT SYSTEM:
PRINCIPLES AND PROCEDURES**

GENERAL PRINCIPLES AND RESPONSIBILITIES

1. The policy and expenditure management system is intended to facilitate the development of policies consistent with the Government's overall priorities and its fiscal framework while encouraging the evaluation of existing programs and the assessment of resource requirements for policy changes. Although it is necessary to establish a set of principles and procedures which will serve as guidelines for managing the system, it would be neither possible nor desirable to attempt to design a rule to respond to every eventuality. In the present guidelines, which replace those issued in 1981 and 1982, rules have been kept to a minimum. The objective is to ensure compliance with a number of underlying principles.

2. The principles and responsibilities underlying the system are:

- (a) the integration of policy and expenditure decision-making to ensure that policy decisions are taken in the context of expenditure limits with full consideration of the cost implications and that, in turn, expenditure decisions are taken in the context of the Government's priorities;
- (b) the establishment of expenditure limits (i.e., "envelopes") for broad policy areas consistent with the fiscal framework and the Government's priorities;
- (c) the responsibility of the Minister of Finance for macro-economic and tax policy, to recommend the fiscal framework and the annual envelope levels and to advise on the economic effectiveness of new proposals;
- (d) the responsibility of chairmen of policy committees to ensure that committees review existing expenditure priorities and, where appropriate, re-allocate resources within the envelope;

- (e) the responsibility of the Treasury Board for the overall integrity of the financial and other resource systems, the maintenance of the envelope accounts and provision of reports on the status of reserves, the accuracy of costing of present and proposed policies put before Ministers and Parliament, as well as for timely advice to Ministers on the efficient and effective management of public resources generally; and
- (f) the discretion of individual Ministers to make expenditure decisions below certain thresholds without Cabinet approval where they judge that the policy or political implications of the decision are not sufficient to warrant collective Cabinet examination.

ENVELOPES AND RESERVES

Composition of Envelopes

3. Each envelope is an authorized expenditure limit expressed in current dollars. It is composed of a reference level and, if available, a policy reserve. The reference level consists of the forecast cost of existing programs outlined in the departmental operational plans approved by Treasury Board and ratified by the Cabinet Committee on Priorities and Planning. During the annual review of the fiscal framework, a policy reserve may be provided within an envelope to allow for the financing of new or enriched programs. In other instances it may be that no such reserve is provided, but rather certain reductions are to be achieved, through changes to existing programs or policies, in the level of commitments in the operational plan. The policy committees are responsible for allocations from the policy reserve for new or enriched programs, and can supplement the initial reserve by reducing or eliminating existing programs. The list of envelopes (and Cabinet committees responsible for each of them) is attached as Annex A.

Access to Policy Reserve

4. Below a certain dollar level, initiatives will be financed out of departmental resources rather than the policy reserve. Therefore, before approaching a policy committee for new funds, the department should consult with the Treasury Board Secretariat or, as appropriate, the Department of Finance, for their

assessment of the departmental capacity to absorb the cost of the proposal. It should then be made clear to the Minister what advice the Treasury Board Secretariat or the Department of Finance will give to the committee in the event that the Minister proceeds to Cabinet with the proposal. The Treasury Board Secretariat's assessment of the department's capacity to absorb the cost should normally be noted in the Memorandum to Cabinet. The criteria used to assess the departmental capacity to absorb will be similar to those used to assess requests for supplementary operating costs presented to Treasury Board. Factors such as the dollar value of the item, the size of departmental appropriations and the cumulative value of items already absorbed will be considered. The criteria will be revised from time to time to reflect changing pressures on the Government's fiscal position, the policy reserve and Government priorities in general.

Operating Reserve

5. Cost increases associated with programs in approved operational plans (except for those programs described in paragraph 6) can be funded by the operating reserve. The amount required for the operating reserve is determined by the Treasury Board, which controls allocations from the reserve through the year and identifies program management savings in existing programs to avoid a net overrun of the operating reserve. Policy committees do not have access to the operating reserve to finance new or enriched programs. The Treasury Board will develop criteria for assessing departmental capacity to absorb workload increases as indicated in paragraph 4. Generally, the Treasury Board will not entertain requests for minor workload adjustments during the year.

Reserve for Statutory Overruns

6. The federal government is obligated to meet certain commitments of a statutory or quasi-statutory nature. The amount of expenditures required for these programs is determined by the Minister of Finance and is sensitive to, and in some cases tied to, certain economic variables such as the rates of unemployment and inflation. Expenditure forecasts are often subject

to substantial uncertainty in these areas and management of cash flows under these programs is not at the discretion of policy committees or of departments in the short run.

7. The reserve for statutory overruns is to be used solely to cover cost overruns resulting from changes such as revisions in the underlying economic or demographic assumptions in these statutory and quasi-statutory programs. The envelopes will be insulated from the consequences of these changes by addition or subtraction of an amount equal to the overrun or under-run to the original envelope level. The reserve for statutory overruns is not available to cover cost overruns resulting from changes in policy or program design. A list of those programs with access to the reserve for statutory overruns is attached as Annex B.

PROCEDURES

Annual Priority-Setting Process

8. The Government's priorities will normally be reviewed once a year by the Cabinet Committee on Priorities and Planning. For this purpose, the Prime Minister may ask individual Ministers to submit a "Strategic Memorandum", based on strategic overviews prepared by their departments. Summaries, by envelope, of the Strategic Memoranda would be prepared by the Privy Council Office under the direction of the committee chairmen. The summaries would be put on the agenda of the policy committee and a Committee Report prepared. The summaries, the Committee Report and the Strategic Memoranda would be circulated to all Ministers and form part of the reference material for the consideration of the Cabinet Committee on Priorities and Planning.

9. The Minister of Finance will recommend a fiscal framework to the Cabinet Committee on Priorities and Planning after consultation with the President of the Treasury Board. This recommendation may include expenditure re-allocation proposals. The Priorities and Planning Committee will then determine the fiscal framework, overall priorities (including specific directions to policy committees), major policy initiatives (with their associated expenditure commitments) and envelope levels.

Treasury Board and Policy Committee Consideration
throughout the Fiscal Year

10. Throughout the fiscal year the envelope system is predicated on the Treasury Board and policy committees considering those proposals which are within the scope of their respective responsibilities. Policy committees will consider proposals which involve policy and program changes to the existing base of current programs. The Treasury Board will consider proposals which involve cost adjustments to current programs. More generally, the Treasury Board concerns itself with the overall efficiency and effectiveness of programs and with the validation of costs and resource availability for both existing programs and for the new programs approved by policy committees.

11. The annual corporate plans of Crown corporations which do not raise major policy issues will be submitted to Treasury Board (the borrowing plans of Crown corporations will have to be approved by the Minister of Finance) while those that do will be submitted to policy committees.

Ministerial Authority and Treasury Board Approvals

12. Individual Ministers may generally approve spending from their departmental reference levels without further Cabinet approval where the policy change is relatively minor and where spending authority has previously been provided by Parliament or by the Treasury Board. The Treasury Board will develop guidelines to ensure that such approvals are consistent with the mandate of the department, the government-wide controls over use of public service resources, the capacity of the department to fund the downstream costs and the maintenance of essential capital expenditures.

Year-End Adjustments

13. The general principle is that unspent policy reserve funds carry over into the next fiscal year, subject to any adjustment that the Minister of Finance might deem to be required. Lapses in reference levels, however, will not be carried over since the fiscal framework already includes an assumption about such lapses.

PRINCIPLES GOVERNING NON-STANDARD
EXPENDITURES AND SAVINGS

14. It is not possible to anticipate all potential questions relating to envelope accounting. As the regular envelope accounting system is based on outlays, the system can generally deal most readily with proposals whose costs are fully reflected in recorded outlays. The situation is less straightforward for proposals involving tax changes, loans, loan guarantees and the like where the impact on the fiscal position can be greater than on recorded outlays. Such proposals should not be used to circumvent the expenditure framework and they should be considered in light of the general objective of matching policy and expenditure decisions. The following guidelines are intended to support this objective.

Indirect Effects

15. The charge or credit against the policy reserve will be the gross level of outlays exclusive of the possible indirect effect on tax or other revenue of the Government (see, however, paragraph 16 below on tax expenditures). For example, an outlay for a program which will have the indirect effect of increasing tax revenue will be recorded at the gross amount of the outlay and not at the amount net of the increase in tax revenue.

Tax Expenditures

16. There are a large number of tax measures, often called tax expenditures, which in some sense provide preferential tax treatment to a particular group (e.g., the elderly, families with children, persons who make charitable donations) or to particular activities (e.g., investment, research and development), and may thus be seen as alternatives to direct expenditure programs. Proposals for tax expenditures (including "tariff expenditures" such as remission orders) would be made to the Minister of Finance by an individual Minister or by a policy committee during the pre-Budget period. The Minister of Finance would then recommend to the Priorities and Planning Committee what effect, if any, the introduction of a tax expenditure, (or the reduction of a tax expenditure) should have on the level of the relevant envelope.

Loans, Equity Infusions and Debt Write-Offs

17. These and other non-standard forms of expenditure will be treated as expenditures from envelopes and will result in downward adjustments while revenues arising out of such financing (e.g., loan repayments, dividends) would return to the Consolidated Revenue Fund. Use of these instruments would require the approval of the Minister of Finance who may in some circumstances agree to credit revenues to envelopes.

Revenue-Generating Proposals

18. Proposals for generating revenues for new initiatives from non-standard sources (e.g., reductions in tax expenditures, sales of assets, increases in user fees and shifts to off-budget borrowing) will require the approval of the Minister of Finance (and, in the case of sales of assets and increases in user fees, that of the President of the Treasury Board) who would determine the extent to which these revenues could be used to finance new initiatives. If such proposals result in changes to the level of total outlays, they would require the approval of the Cabinet Committee on Priorities and Planning.

Contingent Liabilities

19. Committee decisions to incur contingent liabilities, such as offering loan guarantees, require the approval of the Minister of Finance who would recommend to the Priorities and Planning Committee what effect, if any, a particular case should have on an envelope. Defaults relating to specific, one-time loan guarantees, provided by Parliament prior to the establishment of the envelope system, but not part of a continuing program, will be charged against the reserve for statutory overruns.

COMMITTEES AND ENVELOPES*

Cabinet Committee on Priorities and Planning

(Chairman: Prime Minister)

1. Fiscal Arrangements Envelope

Finance: Subsidies under the Constitution
Acts, 1867 to 1982, Federal-Provincial
Fiscal Arrangements, Public Utilities
Income Tax Transfers, Reciprocal Taxation

Public Works: Municipal Grants

2. Public Debt Envelope

Finance: Public Debt Charges

3. External Affairs and Aid Envelope

Energy, Mines and Resources: Petro-Canada
International Assistance Corporation

External Affairs: Department, Canadian
Institute for International Peace and
Security, Canadian International
Development Agency, International
Development Research Centre, International
Joint Commission

Finance: Official Development Assistance
(Loans and Investments)

4. Defence Envelope

National Defence: Department, Search and
Rescue

* In addition to the four committees responsible for the envelopes, there are five other committees of Cabinet: the Treasury Board (chaired by the President of the Treasury Board); the Special Committee of Council (chaired by the President of the Privy Council); Cabinet Committee on the Public Service (chaired by the Prime Minister); the Cabinet Committee on Legislation and House Planning (chaired by the Minister of State (Government House Leader)); and the Cabinet Committee on Security and Intelligence (chaired by the Prime Minister). (N.B. The Cabinet Committee on Communications chaired by the Minister of State (Government House Leader) was created in December, 1984.)

Cabinet Committee on Economic and Regional Development

(Chairman: Minister of Regional Industrial
Expansion)

5. Economic and Regional Development Envelope

Agriculture: Department, Canadian Dairy
Commission, Canadian Livestock Feed Board,
Farm Credit Corporation, Canagrex

Communications: Department (except Arts and
Culture)

Consumer and Corporate Affairs: Department,
Restrictive Trade Practices Commission,
Standards Council of Canada

Energy, Mines and Resources: Department,
Atomic Energy Control Board, Atomic Energy
of Canada Limited, National Energy Board,
Petro-Canada

External Affairs: Export Development
Corporation, Grains and Oilseeds, Program
for Export Market Development, Canadian
Commercial Corporation

Fisheries and Oceans: Department

Labour: Department, Canada Labour Relations
Board

Regional Industrial Expansion: Department,
Cape Breton Development Corporation,
Federal Business Development Bank, Foreign
Investment Review Agency, Canada
Development Investment Corporation

Science and Technology: Department, National
Research Council, Natural Sciences and
Engineering Research Council, Science
Council of Canada

Supply and Services: Unsolicited Proposals
for Research and Development, Source
Development Fund

Transport: Department, Canada Harbour Place
Corporation, Canadian Transport
Commission, Northern Pipeline Agency

Cabinet Committee on Social Development

(Chairman: Minister of National Health and Welfare)

6. Social Development Envelope

Communications: Arts and Culture, Canada Council, Canadian Broadcasting Corporation, Canadian Film Development Corporation (Telefilm Canada), Canadian Radio-Television and Telecommunications Commission, National Arts Centre Corporation, National Film Board, National Library, National Museums of Canada, Public Archives

Employment and Immigration: Department, Canadian Employment and Immigration Commission, Immigration Appeal Board

Environment: Department

Indian Affairs and Northern Development: Department, Northern Canada Power Commission

Justice: Department, Canadian Human Rights Commission, Commissioner for Federal Judicial Affairs, Federal Court of Canada, Law Reform Commission of Canada, Offices of the Information and Privacy Commissioners, Supreme Court of Canada, Tax Court of Canada

Labour: Canadian Centre for Occupational Health and Safety, Canada Mortgage and Housing Corporation

National Health and Welfare: Department, Fitness and Amateur Sport, Medical Research Council

Secretary of State: Department, Social Sciences and Humanities Research Council, Advisory Council on Status of Women, Status of Women (Office of the Co-ordinator)

Solicitor General: Department, Canadian Security Intelligence Service, Correctional Service, National Parole Board, Royal Canadian Mounted Police

Treasury Board: Employment Initiatives

Veterans Affairs: Department

Cabinet Committee on Government Operations

(Chairman: President of the Treasury Board)

7. Parliament Envelope

Parliament: The Senate, House of Commons,
Library of Parliament

8. Services to Government Envelope

Finance: Department, Auditor General,
Department of Insurance, Tariff Board

Governor General

National Defence: Emergency Planning

National Revenue: Department, Canada Post
Corporation

Privy Council: Department, Canadian
Intergovernmental Conference Secretariat,
Chief Electoral Officer, Commissioner of
Official Languages, Economic Council of
Canada, Public Service Staff Relations
Board

Public Works: Department, National Capital
Commission

Secretary of State: Public Service Commission

Supply and Services: Department, Statistics
Canada

Treasury Board: Secretariat, Comptroller
General

**PROGRAMS WITH ACCESS TO THE
RESERVE FOR STATUTORY OVERRUNS**

AGRICULTURE

- Crop Insurance
- Prairie Grain Advance Payments Act
- Western Grain Stabilization Act

EMPLOYMENT AND IMMIGRATION

- Government's Contribution to Unemployment Insurance Account including Fishermen's Benefits

ENERGY, MINES AND RESOURCES

- Oil Compensation Payments

EXTERNAL AFFAIRS

- Variation in the drawdowns in the encashment schedule for notes to the International Financial Institutions

FINANCE

- Fiscal Transfer Payments

INDIAN AND NORTHERN AFFAIRS

- Payments to Territories

LABOUR

- Compensation Payments respecting Public Service and Merchant Seamen

NATIONAL DEFENCE

- Pension Payment Adjustments

NATIONAL HEALTH AND WELFARE

- Hospital Insurance
- Medical Care
- Extended Health Care
- Canada Assistance Plan
- Family Allowances
- Old Age Security/Guaranteed Income Supplement
- Spouse's Allowance

PRIVY COUNCIL OFFICE

- Disaster Financial Assistance Arrangements

ROYAL CANADIAN MOUNTED POLICE

- Pension Payment Adjustments

SECRETARY OF STATE

- Post-Secondary Education
- Student Loans

TRANSPORT

- Atlantic Freight and Maritime Freight Assistance Acts
- Western Grain Transportation Act
- Railway Act Payments

VETERANS AFFAIRS

- War Veterans' Allowances
- Disability Pensions

GENERAL

- Pension and Insurance Payment Adjustments