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SPECIAL STUDY No. 17

**The Progress of Budgetary Reform
in the
Government of Canada**

by
Donald Gow

*prepared for the
Economic Council of Canada*



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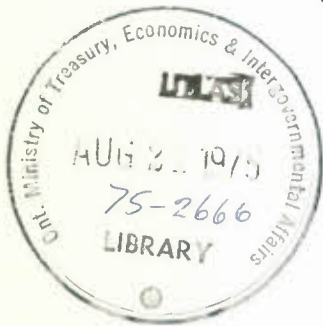
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Economic Council of Canada

1973

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CONTENTS

	Page
ACKNOWLEDGMENTS.....	v
CHAPTER 1 - BACKGROUND.....	1
CHAPTER 2 - HISTORICAL REVIEW.....	7
PERIOD 1937 TO 1947.....	7
PERIOD 1947 TO 1953.....	10
PERIOD 1953 TO 1960.....	13
PERIOD 1960 TO 1963.....	17
The Glassco Commission.....	17
Action Taken.....	20
PERIOD 1963 TO 1967.....	23
Improving Department Sub-	
missions.....	25
Revising the Form of the	
Estimates.....	27
CHAPTER 3 - PLANNING IN THE DEPARTMENT OF	
NATIONAL DEFENCE.....	31
PERIOD 1954 TO 1964.....	31
PERIOD 1964 TO 1967.....	33
PERIOD 1967 TO 1971.....	36
CHAPTER 4 - THE NEW EXPENDITURE BUDGET.....	39
INSTITUTIONS.....	41
PROCESSES.....	43
CONCEPTUAL VIEW.....	48
A CHRONOLOGY.....	51
CHAPTER 5 - AN ASSESSMENT OF THE PRESENT SYSTEM.....	55

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CHAPTER 1

BACKGROUND

To elected political leaders, the expenditure budget can be a major tool to bring about a satisfactory relationship among competing elements within a political community and to provide a conscious sense of direction to government policy. However, these aims are very difficult to achieve. In present-day western society, public bureaucracy has very great relative influence over Cabinet Ministers, both in their capacity as heads of departments and in their function as members of the Cabinet. Cabinet Ministers, on the other hand, have very few devices available through which they can control the bureaucracy, influence the quality of its management, and make it responsive to the wishes and needs of the society. Their most effective instrument of control is the expenditure budget, referred to familiarly as the Estimates.

In tracing the recent development of the expenditure budget at the federal level in Canada, this Study focuses on the three main purposes aimed at by the central executive: control, better management, and planning and policy choice. Generally speaking, preoccupation with control dominated the earlier years as it did in the United States.¹ Then there was a period (much shorter in Canada than in the United States) when heavy emphasis was placed on securing better management. More recently, much greater effort has been put into developing the expenditure budget as an instrument of planning and policy choice. However, all of these preoccupations have been present throughout the whole of the thirty-odd years under review -- 1937 to 1971.

Of the three aims, planning and policy choice has been the most difficult to achieve, mainly because of the way governmental responsibility is shared. Many federal departments either serve an industry or are part

¹See Allen Schick, "The Road to P.P.B.: The Stages of Budget Reform", *Public Administration Review* 26, no. 4 (December 1966).

Progress of Budgetary Reform

of one. Others operate in support or in control of a region or regions. The rest (apart from Defence and External Affairs) provide internal support services or collect taxes. Accordingly, Ministers are likely to consider planning to be a matter of allocating given funds among competing claims within their jurisdictions. Each department, because of its limited value frame, will propose solutions to the problems it can perceive and solve. Thus Cabinet will be swamped with incremental proposals that concentrate on the solution of old problems, whereas new problems will not be perceived and hence not solved. When the Estimates were aggregated by departments, as they were until 1968, this kind of pattern was reinforced, making broader policy issues difficult to handle.

The history of the expenditure budget over the last few decades is a record of an uneven but increasingly successful effort to secure central influence over the direction of government policy and to restore it to elected political leaders. In this Study, the successive stages of development over a span of 35 years are analysed and the differences between them are discussed in terms of the concepts, institutions, and processes peculiar to each. We will say a few words about each of these categories.

Much of the history of the Estimates has been the groping for a word or a set of words that would enable us to put a name on what was going on inside or throughout the bureaucracy. Until we can name something, we cannot think about it. Until we have developed a concept, until we know what we are looking for, we cannot perceive something; without a frame of perception, it is impossible to select a fact.

In the early part of the period, a high value was placed on "control". Control was valued because it was not clear which Minister was responsible for spending how much money. Control was also valued because there was fear in various quarters that money was being spent on the wrong things -- like civil service travel or publicity activity. The conceptual framework of the Estimates reflected this concern.

Later, value was placed on effective management, and the frame of reference was altered to make managers accountable for certain levels of performance in a limited sector. This could be called a concern for tactics.

Increasingly over the years there has been a wish to use the Estimates as an aid to strategic planning, and emphasis has been placed on developing a framework that enables policy-makers to see government activity in terms of the purposes of expenditure.

Developing concepts of the purposes of government activity has been an arduous task. It is difficult enough to see what is going on inside the public service; it is even more difficult to find concepts that will enable the policy-maker to perceive the needs of the larger society and to somehow relate one to the other.

The problem is compounded, of course, by the fact that we learn a language best when we are young. And very few of us have much capacity for the imaginative leaps that are involved in the development of new concepts. Further, it is one thing to develop a concept that will enable, say, an organization's objective to be named; it is quite another to have the concept pass into the common language of an organization, particularly when the resulting clarification may shake a coalition to its foundations. Although the literature on budgeting is plentiful, little of it seems to deal with the enormous difficulty of devising an appropriate language and then having it become the common currency of an organization.²

Certainly it is easier to develop new institutions. The institutions associated with the evolution of the expenditure budget are all "political" bodies, in the sense that they either make important choices for society or contribute to the framing of the alternatives from which choice is made. They lie between the regular bureaucracy and the full Cabinet.

²However, see Allen Schick, "Systems for Analysis: PPB and Its Alternatives", *The Analysis and Evaluation of Public Expenditures: The PPB System* (Washington: Joint Economic Committee, 1969), p. 818; Sir Geoffrey Vickers, *The Art of Judgment* (London: Chapman and Hall, 1965), *passim*; Y. Dror, *Public Policymaking Reexamined* (San Francisco: Chandler, 1968), pp. 166-69; and Kenneth E. Boulding, *The Image* (Ann Arbor: University of Michigan, 1956).

Progress of Budgetary Reform

In the early part of the historical period examined in this Study, the principal institutions were the Treasury Board, the Treasury Board Secretary and his staff, and the Minister of Finance and his department. In the later years, they have been joined by the Cabinet Committee on Priorities and Planning, the Privy Council Office, and the Prime Minister's Office.

Five main tendencies have been evident since 1937:

- (1) More restricted access of a department to Cabinet with the growth in the capability and significance of functions of each of the institutions named above.
- (2) Regular meetings of subject matter committees, instead of just Treasury Board, with the Committee on Priorities and Planning playing a central role.
- (3) Focus of all departmental policy inputs at the ministerial level but below the level of full Cabinet.
- (4) Development, in three or four locations, of appointed officials with quite reasonable knowledge of the content of departmental programs.
- (5) Formalization of process links between the seven bodies, a consequent lessening of the influence of an informal network among highly placed appointed officials, and a corresponding increase in the influence of the Ministries on a collective basis.

However, the progression has by no means been smooth, and personality factors enter the picture. The degree to which the Minister of Finance, the President of the Treasury Board, and the Prime Minister pull together will vary substantially over time. And the degree to which a Cabinet is willing to exercise collective authority also shifts greatly from time to time. In addition, much depends upon the personality of the Prime Minister and on the general authority of his office.

Processes have developed more or less independently from institutions over the period under review. The most important are:

- (1) The stretching out in time of the annual Estimates cycle.
- (2) The growing practice of attempting to isolate the growth components of the budget.
- (3) The expansion of the period covered by expenditure forecasts from one year to several.
- (4) The expansion of the compass of the expenditure forecasts to consider the Crown agencies as well as the regular departments.
- (5) The meshing of the Estimates cycle with other major annual cycles, such as the preparation of the revenue budget, the legislative program, and the review of the structure and processes of government.

In the following chapters we shall expand on all these changes in the various departments as we review the history of the expenditure budget. Because the Department of Defence proceeded differently and more rapidly than most, its budget development is discussed separately, in Chapter 3. Chapter 4 is an assessment of what has been achieved, in the context of the particular difficulties a government faces in implementing a planning-programming-budgeting system (PPBS).

CHAPTER 2

HISTORICAL REVIEW¹

Only in the last few years has budgetary development resulted in a form of the Estimates that provides a useful base for policy-making. From 1937 to 1967, however, progress towards this goal was at least continuous if not rapid. In this chapter we chronicle the changes made in processes and institutions during this period throughout the civil service, leaving discussion of the last few years to a separate chapter.

PERIOD 1937 TO 1947

Prior to 1937, the votes in the Estimates had no standard principle of organization. For example, some votes² covered pensions to individuals; others covered the purchase of specific things -- e.g., books, magazines, and binders for the Supreme Court. Some votes covered a whole program, such as soldier settlement; others covered activities operating in support of a particular subindustry, such as dairying. Still others, like those in Public Works, covered building projects in a particular province.

In the details of the Estimates, or rather in the "details of civil government", there was a listing on every continuous position in the government service. Also, each department had an item called "contingencies", which often was a very mixed bag indeed. For example, under the Secretary of State it covered clerical assistance, postage and stationery, the administration of the Companies Act, sundries, and the Patent and Copyright Office. That is to say, the details were broken down partly into things on which money was spent and partly into particular organizations or purposes.

¹The material for the historical review was drawn from records filed in the Public Archives of Canada (including the working papers of the Glassco Commission), from the files of the Treasury Board and the Department of Finance, from interviews with some of the officials involved, and from personal recollections.

²A "vote" is a discrete legislative authority to undertake some particular task. It has legal force, whereas the supporting detail does not.

Progress of Budgetary Reform

During the 1937-47 period, the departments greatly changed their conception of their own roles. While government had previously been regarded as passive and had taken relatively few initiatives, towards the end of the period the departments began to see themselves as playing a more positive role.

However, there was no reflection of this change in the form of the Estimates or, in general, in the manner in which the Estimates were used within the departments. They were simply a means through which organizations obtained sustenance. It seems probable that very few departments took steps to use the Estimates for purposes of more effective management or for strategic planning. They did, of course, use the Estimates categories for purposes of control, through the accounts kept by departments and the Comptroller of the Treasury.

By 1937, the central executive³ realized that it was faced with a difficult problem. Not only was financial provision for one service often spread over several votes, but a single vote often provided for several quite different and distinct activities. As well, items were assembled under obsolete captions and without any regard to the existing allocation of departmental responsibilities.

To secure better control over the departments, a new format was adopted for the Estimates of 1938-39. The submission for the Order in Council that authorized these changes pointed to structural defects that "have made impossible the presentation to Parliament of intelligible details of the costs of services. The present arrangement is not only lacking in essentials but is actually misleading. For instance, a definite sum being provided in the sums for a specific purpose, it is a fair assumption that such amount is the cost of that service. In fact this is rarely true, for in the majority of instances further provision is made in Civil Government or from some other general item. Only an experienced accounting officer, with ample time at his disposal, can compute the real cost of most services."⁴

³The "central executive" encompasses the Cabinet, its Committees, and the committee secretaries.

⁴Quoted in the April 19, 1941 submission by Treasury Board to the Public Accounts Committee.

Accordingly, the following new principles were adopted:

- (1) There was to be an item for each distinct project, service, or grant.
- (2) Items of a general character were to be eliminated.
- (3) Items were to be assembled, by and large, under the responsible departments.
- (4) Statutory items, which should be subject to annual review, were to be put in the Estimates.
- (5) An effort was to be made to furnish the total cost of construction projects that would not be finished during the year covered by the Estimates.

However, in practice, there was some dilution of these major principles. While, for example, the National Research Council and the Veterans' Land Act were each covered by separate votes, the Department of National Revenue operated under 12 votes, and the Marine Service of the Department of Transport under 19 votes. At the same time that the rationalization of the whole structure took place, an effort was made to present the details of the cost of particular functions in a more regular way. Here there emerged a rudimentary form of what were later to become the Standard Objects of Expenditure. In addition, there was a move towards greater accountability to Parliament by displaying in one place all the votes under the control of a particular Minister.

While the form of the Estimates was being changed, another step was taken to acquire central control. The Comptroller of the Treasury⁵ set up a system of commitment control, designed mainly to see that money was spent only for those purposes for which it had been voted. Very significant improvements were made in the way the government kept its accounts.

⁵See H. R. Balls, "Budgetary and Fiscal Accounting in the Government of Canada", *Canadian Tax Journal*, January-February and March-April, 1956, pp. 14-23 and 132-40, respectively. See also H. R. Balls, "Some Aspects of Canadian Government Accounting", *Public Administration*, Spring 1947.

Progress of Budgetary Reform

The result was that, for the first time, the government had prepared for itself a fairly clear statement of the programs it was carrying on. It knew how much it was spending on each, although their descriptions were often far from precise. It also knew in fairly specific terms the objects or services that were being purchased with the money.

During the latter years of this period, the Treasury Board staff concentrated a fair amount of attention on the capital program of the Department of Public Works and that of expanding departments such as Agriculture. In this way it was able to exert some degree of influence over the expansion of government services. However, on the operating side, its performance was less impressive. The staff was preoccupied to a remarkable extent with securing almost absolute accuracy in the costing of the goods and services within the various votes. An examination of the records of the day indicates, for example, that for each individual position, the Board's staff was required to check the accuracy of calculations down to the last dollar -- the cost of a sick leave replacement, the cost of retirement leave, and so on.

PERIOD 1947 TO 1953

During the second main period of change, it seems unlikely that departments used the Estimates as anything more than a means of securing physical and financial support from their environment, although there were some exceptions. For example, the Department of Veterans Affairs had begun to develop an information system that reported levels of operation within the various activities and major functions. The different types of work done by the Department's welfare officers were given "standard times" and, using these, measures of productivity were developed. At the same time, the Department began to develop a fairly sophisticated system of financial accounts, and the two sets of information -- operating and financial -- tended to be brought together to a reasonable extent at the time of Estimates preparation.

Other departments initiated the same sort of thing, but efforts were spotty. Major decisions on policy choice were being made throughout the government service, but the Estimates information framework and processes

were not used as a means of securing these decisions. They simply reflected some aspects of the decisions after they had been made.

While very little advance was made at the department level, considerable improvements were made at the Treasury Board. The first major change was to bring the preparation and consideration of Estimates into a much closer relationship with the rest of the policy-making machinery of the government. One of the most influential figures in the bureaucracy, R. B. Bryce, was appointed Treasury Board Secretary. This was an extremely significant move, for, as an Assistant Deputy Minister of Finance, he was closely in touch with policy initiatives in the departments. He also was well aware of the views of influential Ministers on policy matters. Thus when Estimates were being prepared and considered, he could bring to bear his wide knowledge of the general direction of government policy. Accordingly, when material was being prepared for consideration of the Treasury Board, he was able to focus attention on the things he knew to be significant.

Throughout his tenure of office he conducted a vigorous campaign to revise the framework within which the Estimates were presented. He secured major improvements in the clarity and precision of vote wording and effected some rationalization in vote structure with the amalgamation of small votes into larger ones that represented major programs. In addition, capital costs were separated from operating costs and put into different votes.

Another major change was the formulation and introduction of the Standard Objects of Expenditure. The Secretary of the Board came under extreme pressure from Ministers and the Public Accounts Committee to lay out the Estimates in such a way that there was a display of the goods and services on which money was to be spent. In particular, some Opposition members of the Committee were particularly interested in the travel costs of civil servants and in the public relations activities of the various departments.⁶ They doubted the value of much of the civil service travel, and they suspected that Ministers were using departmental publicity organizations to further the interests of the political party in office.

⁶Government of Canada, *Proceedings of the Standing Committee on Public Accounts*, May 4 and 5, 1950, pp. 195-262.

Progress of Budgetary Reform

As a result, the staff of the Board and of the Comptroller of the Treasury went to considerable pains to devise some 30 Objects of Expenditure, which classified and codified the things on which money was being spent. This development was consistent with what was being done in public expenditure budgets elsewhere in the western world. It gave Parliament a better indication, on a government-wide basis, of what was being spent on civil service travel, on publicity, or on postage or telephones. However, it did distract the attention of Parliament from the functions that were being performed and delayed the day when the Estimates could be used as a vehicle for planning within the executive.

Unfortunately, it distracted the attention of the Treasury Board staff in a similar way. Working within this information frame, the Board and staff, and Ministers themselves, tended to be preoccupied with proposed increases and did not pay nearly enough attention to the purposes of government expenditure.

It should be mentioned that during this period the Auditor General called for further amalgamation of votes and for more explicit vote wordings. He also asked for the replacement of the Estimates detail with a narrative along activity lines. In addition he pressed for appropriation in net.⁷ However, the Public Accounts Committee decided it needed more and not less detail in the detail section of the Estimates. It did not agree on an extensive consolidation of votes. And it decided that voting in gross should continue and that user departments should not be allocated the cost of services provided by the service departments.

Despite some setbacks, the process of reform went on within Treasury Board. The Estimates instructions were rewritten so that the departments prepared the material in the form in which it was eventually to be placed before the Treasury Board, so that the Estimates officers would not have to waste so much time massaging material. In addition, their checking on numerical accuracy was hived off into a separate section. Thus they had more time to devote to examining the substance of programs.

⁷That is, he urged that Parliament should cease to vote the total of expenditures made through a vote, and only vote for amount required, once revenues relating to the vote had been deducted.

The staff of the Board was strengthened considerably during the 1947-53 period. Officers were brought in from other government departments and from the universities, and the overall level of analytical capacity was raised considerably.

Another significant step reduced the flow of paper to the Board. The Defence budget expanded greatly during the years 1950-51 and 1951-52, but an agreement was reached that much greater autonomy should rest with the Deputy Minister of National Defence. One of the Treasury Board's key officials was transferred to Defence, and that department began handling more of its own affairs.

The real beginning of the use of the Estimates to secure better management, though, was the Board's development of "Organization and Methods" units, both centrally and in a number of the departments. At the same time the Estimates were used less for purposes of "control", at least in those departments that were improving their management practices. The result was success in encouraging greater attention to better methods of management and greater confidence in the Estimates of departments that followed the recommendations of such units.

PERIOD 1953 TO 1960

By and large, the preparation of Estimates was not integrated in any way with the policy-making processes of the departments, although there were some exceptions. One outstanding example on the capital side was in the Department of Public Works. An Accommodation Review Committee was formed to provide for liaison between the Department of Public Works, Treasury Board, and the various user departments. A fair amount of long-range accommodation planning was carried on, and this was integrated with Estimates preparation.

There were, of course, other departments where long-range capital planning was taking place -- for example, Veterans Affairs, Agriculture, Mines and Technical Surveys, and Transport. But the Estimates did not provide the frame within which this planning proceeded; the planning took place, but its results were simply reflected later in the Estimates presentation.

Progress of Budgetary Reform

On the operating side, the Estimates review by the Deputy Ministers constituted an annual review of policy for some departments. Branch and division chiefs were called upon to state what they were doing, and real decisions as to priorities were made within an Estimates context.

Particular note should be made of the Post Office. Beginning about 1954, this department began to go to considerable trouble to identify the cost of performing particular operations within major activities. A fair amount of progress was made in the development of work standards and, to a fair extent, these data were used in Estimates preparation.

Gradually, the Treasury Board staff developed a systematic means of relating incremental changes in the programs of civil departments to broad government policy and to policies for specific sectors of the society and the economy. An attempt was made to isolate programs of declining significance to the country and to cut back their size, or at least to taper off their rate of growth. At the same time, government activities that favoured sectors of economic growth were allowed to go forward at a rate exceeding the norm.

An effort was also made to judge whether certain activities, particularly in the area of research, might not be carried on more appropriately in the private sector. As in the preceding period, the criteria that came into play in program evaluation were questions of constitutional responsibility, the length of time that deserving programs had been in the queue, and the human and material consequences that would follow if programs did not go forward.

However, the application of this approach was far from mechanical. Judgments were made as to how fast the favoured sectors of government activity could reasonably expand, given the difficulty of recruiting and training new staffs. At the same time, in the case of programs of declining significance, care was taken to see that the cuts were not so severe as to do serious damage to morale.⁸

⁸See G. W. Stead, "Patterns of Government Expenditure", *Canadian Public Administration* 1, no. 1 (1958): pp. 1-13.

Historical Review

The Establishment Review Procedure was a major step forward in developing the Estimates as a means of planning, both by the central executive and by the departments. In the mid-fifties, recommendations were being made to the Board by the Civil Service Commission, which had no real knowledge of government policy in particular areas. The departments were submitting their requests bit by bit, asking for new staff members in areas of increasing or new activity. The Commission would go and look at these areas, and if a department made a reasonable case, the Commission would recommend the staff additions to the Treasury Board. In effect, the recommendations were made in a vacuum.

Another problem was that additions to departmental budgets could be made at any point in the year. When the time came for preparation of the formal Estimates proposal, the departments prepared a list of all the positions that, up to that point, had been approved by the Treasury Board. Accordingly, the annual Estimates submission tended to be a photograph of the "establishment" taken at one point in time. Positions that came along later were simply financed through Supplementary Estimates.

The major difficulty with this process was that, as staff were added, program commitments were actually being made by the departments. By the time the Program Branch was faced with the Estimates, effective decisions had already been made and were beyond recall.

To avoid this situation, the Treasury Board decided that the positions listed in the printed Estimates should constitute a department's establishment for the coming year. The resulting Establishment Review required departments to make a complete proposal early in the summer concerning their staff requirements for the coming fiscal year. This establishment proposal was reviewed by a committee composed of representatives of the Civil Service Commission, a department, the Program Branch of the Treasury Board staff and, in some cases, the Personnel Policy Branch. At this time the Program Branch could discern whether significant shifts in policy were taking place, either in the form of new programs or in the intensification of old ones.

Progress of Budgetary Reform

The Establishment Review also encouraged consideration of the relationship of input to output. The departments began to develop workload statistics with which to justify staff changes. For example, the Unemployment Insurance Commission continued to develop its practice of assigning "weights" to various standard actions. In many of the departments, the measures were very rough and rudimentary but, considering the very real difficulty in developing such indications of output, this was a reasonable enough beginning.

As part of the process, an important internal procedure was instituted at Treasury Board itself. Once the departmental establishment proposals had been received, and before they were examined, a quick total was run so that the dimensions of the proposed increases could be seen. In consultation with Ministers, general judgments were made as to the overall size of the staff increase that was tolerable. At the same time, decisions were made to allow expansion in some sectors, but to put pressure on others to cut back.

The main significance of this procedure was that it greatly increased the time during which the Treasury Board staff could consider major shifts in the proposed policy of the departments, and also the time available for consideration of the Estimates. As a result, it was possible to make much better judgments on priorities, even though these were taken only in the context of one of the major inputs -- personnel effort. Another significant feature of this reform was that, for the first time, a conscious and widespread effort was made to relate the scale and scope of a function to its resources.

When the Glassco Commission submitted its report at the end of the decade, it seemed to view the Establishment Review procedure as being of little consequence. However, the Commission came on the scene some years after the process had been started. Accordingly, it had little appreciation of its very great significance as a device through which the central executive could obtain some control over the direction of the activities of a booming bureaucracy.

PERIOD 1960 TO 1963

The major event of the next period of development was the effect of the Glassco Commission. This section will briefly sum up the results of its works that had to do with the Estimates and then discuss the action taken by Treasury Board on its recommendations.

The Glassco Commission

The initiative for setting up the Commission came from Cabinet Ministers, the Prime Minister among them. There was pressure from the Progressive Conservative Party and from various parts of the business community to follow the American example and establish a Hoover-type commission. Ministers were also worried about the growth of the civil service, the series of heavy defects, and the decline in economic activity.

Since the Commission worked in very close co-operation with officials of the departments and of the Treasury Board, it picked up ideas from all sorts of people, thereby bringing to light many good notions that had perhaps been smothered within the hierarchy. Its staff members were quite frank in speaking about their tentative conclusions, and there was a tendency to actually move to make changes before the formal report came out.

The Commission's principal recommendations with respect to the Estimates were as follows:⁹

- (1) Votes should be reduced in number and more clearly describe the purposes of expenditure.
- (2) All cost elements of individual programs should be consolidated within one vote.
- (3) Estimates should be prepared on the basis of programs of activity rather than by Standard Objects of Expenditure.
- (4) The costs of major common services should be charged to user departments.

⁹Report of the Royal Commission on Government Organization, vol. 1 (Ottawa: Queen's Printer, 1962), pp. 96-113.

Progress of Budgetary Reform

- (5) Where appropriate, revenue should be offset against related expenditures, and votes should be displayed, voted, and controlled on a net basis.
- (6) All fees charged for services should be reviewed periodically to relate revenues and expenditures.
- (7) The Establishment Review Procedure should be undertaken as part of the overall Estimates review and not as a separate exercise.
- (8) All departments and agencies should submit long-term expenditure forecasts.
- (9) Overall forecasts of government expenditures and projected revenues should be prepared annually, covering a five-year period.
- (10) More objective standards for the analysis of Estimates should be developed and employed, both by senior departmental management and by Treasury Board during the review process.
- (11) Departments and agencies should be given the necessary financial authority and be held accountable for the effective management of the financial resources placed at their disposal.
- (12) Departments and agencies should adopt modern management reporting techniques.

The major contribution of the Glassco Commission was the creation of a climate for change. Throughout the service there was a willingness to stand back and take a look at existing procedures, with a readiness to scrap them altogether or to replace them with new ones more adequate to achieve stated aims.

When the final report was published, its mass of detailed recommendations made it difficult to perceive its basic thrust. In perspective, however, we can discern some underlying principles that may not be

altogether suitable for our governing system. The first of these is the fairly strong bias against a high level of government activity. To quote from the report: "Government in modern society is often burdensome and restrictive. Consequently, it will seldom be viewed as better than a necessary evil -- and it is a sign of national vigour that this should be so."¹⁰ Looking at things in this way, the Commission hoped that the expansion in the level of government activity could be restrained or perhaps even cut back through the market mechanism. Charges for a government service would be directly related to the cost of that service, and common support services should be financed by those who actually use them. The result would be better decision-making on the general level of support activities. The Commission failed to see that, given the nature of modern government, it was quite unrealistic to expect widespread use of charges for services closely geared to cost. Nevertheless, in principle, it did see the necessity for the government to exercise allocative choice. "To assess the financial, the administrative and organizational implications, both immediate and long term, of existing and proposed programs, including the costs and benefits of each and their relationship to other programs, and to define priorities, and to allocate the resources available within the limits of the total financial plan"¹¹ is of overriding concern to the government. Apparently good management techniques were supposed to sort out the problem of allocation. What the Commission failed to see, or at least failed to say, was that decisions on the allocation of resources are really ethical decisions that governments take on behalf of society.

No recommendations were made for the reform of the machinery of the central executive -- e.g., to resolve the conflict between the Treasury Board and other Cabinet Committees. The Commission did not seem to recognize that, in part at least, this conflict arose because the Treasury Board was acting as arbiter in the struggle for resources among the industrial and social sectors that the departments represented. Thus its solution, which was to put experienced "managers" on the Treasury Board staff, did not attack the root of the problem.

¹⁰*Ibid.*, p. 25.

¹¹*Ibid.*, p. 52.

Progress of Budgetary Reform

The Commission's great reliance on the system of management by goals showed a similar failing. Proposals to bring, from industry, techniques for managerial control would have been extremely useful if the objectives of policy had been well defined. However, the Commission did not see that a proposed budget consisting of an aggregation of requests, built from the bottom up and based on goals defined by managers themselves, could not provide Ministers with a framework within which they could make allocative choice. Even though objectives set by individual managers might be reached with efficiency, the real issue was not analysed -- that is, whether the programs should be going on in the first place.

In addition, the Commission did not foresee the immense difficulties that lay ahead in getting departmental coalitions to be specific about their policies. It was quite possible to get statements that, say, certain payments should be made to hog-breeders with a certain product. However, it was quite another matter to state the purposes of such payments in terms that would enable Ministers to make a choice from among major programs.

The Glassco Commission went a very long way at the time, and it cannot be said that anyone in government service was able to come up with anything better. Unfortunately, however, it launched the Treasury Board into a program of reform that was lopsided and incomplete. It was believed that really significant savings in government could be made through "better management". Insufficient attention was paid to the problem of allocation among and within major program sectors. It was not understood that allocation could not be carried out without clear definitions of policy objectives, nor was it seen how difficult it would be to enunciate these objectives, least of all in such a way that the Cabinet could steer the course of government policy.

Action Taken

It is probable that there was not much change in the budget-making practices of the departments between 1960 and 1963. Although a good deal of change took place in other areas that were being investigated by the Glassco Commission, the departments took relatively little action in the budget-making area, perhaps anticipating that major changes in the form of the Estimates would be recommended by the Commission.

In the spring of 1961, the Board's staff went to the Public Accounts Committee¹² with general proposals that were designed to give a clearer idea of the nature of major functions and a more accurate picture of their real cost. As a result of its appearance before the Committee, it got clearance to begin reducing the number of votes so that each one would be associated with a major program. Also, it secured approval for a much more summary presentation of staff detail -- one that would organize the material around the major occupational clusters. As well, approval was given to present information on the cost of supporting activities provided by the other departments. However, it was decided that, for the time being at least, their cost should not be included in the vote of the user department. There was also discussion of voting on a net basis, but the decision was taken not to move on this at this time.

In 1963, after the first report of the Glassco Commission was published, the Treasury Board staff again appeared before the Public Accounts Committee and made a number of proposals with respect to the 1964-65 Estimates.¹³ The major proposed changes approved were that: (1) the number of votes should be reduced from 550 to about 220; (2) vote wordings should be greatly clarified so that objectives could be expressed as clearly as possible; (3) there should be a complete segregation in different votes of capital and operating costs. Moreover, general blessing was given to the proposition that, ultimately, there should be interdepartmental billing for support devices.

These initiatives, taken by the Treasury Board staff and approved by the Public Accounts Committee, laid the groundwork on which PPBS was ultimately built.

Another major step taken at this time was to break out of the pattern of estimating for only one year and to look much further ahead. The Treasury Board staff began to consider techniques of forecasting over a five-year period. Early in 1961 the Treasury Board did its

¹²Government of Canada, *Proceedings of the Public Accounts Committee*, April 19, 1961, pp. 214-40.

¹³Government of Canada, *Proceedings of the Standing Committee on Public Accounts*, December 16, 1963 (Ottawa: Queen's Printer, 1963), pp. 273-74.

Progress of Budgetary Reform

own forecast of probable expenditure in 1962-63. In 1962 the Treasury Board asked the departments for five-year forecasts, to be used in conjunction with the consideration of the Estimates for 1963-64. The forecasts were to indicate minimum and maximum levels of activity, expressed in financial terms. Forecasts are now made only on a three-year basis, and efforts to forecast minimum and maximum levels during the second and third years have been dropped.

Another major step forward was the Board's preparation of a "highlight" memorandum on each department for the Minutes. Previously, information that came from the departments in support of the Estimates proposals -- e.g., from a complex and large department like Transport -- could run into hundreds of pages, and it was simply beyond the capacity of busy Ministers to absorb it all and determine the real issues. The Board's staff began to devote great effort to the preparation of these highlight memoranda, presenting a summary picture of a department's major programs and their relation to programs in other departments. Major issues were pointed out in terms of program content and costing.

Following the report of the Glassco Commission, the government set up a new institution -- the Bureau of Government Organization (BOGO). It was headed by a senior Deputy Minister, with wide experience, and received active support from the responsible Minister (who had extensive experience in industrial and commercial life). This Bureau co-ordinated the implementation of many of the Glassco proposals by means of a set of special senior interdepartmental committees. A high degree of co-ordination between the work of BOGO and of the Treasury Board was secured through the later joint appointment of the head of BOGO as Treasury Board Secretary.

During this period at the Treasury Board, the Estimates system came under close and continuous examination. A weekly seminar was begun for senior members of the Program Branch. This group met continuously for a year, incorporating the new ideas with ongoing operations. Also a small research unit was created that concentrated on long-range change in the budgeting system. As well, the Personnel Policy Branch organized training courses for the Branch's staff, familiarizing them with work study, work measurement, and identification of units of output and input.

Finally, a "study group" was formed. It consisted of three senior officers who were detached from regular duties for a year so that they might redesign the Estimates system and monitor pilot studies of new forms of budgeting and financial management in four departments. The pilot departments were: Agriculture, Northern Affairs and National Resources, Transport, and Veterans Affairs. Consultants were engaged to work with departmental officers in defining the programs and activities of the departments and designing an organization for financial control, processes of financial planning, systems of financial control, accounting systems, management control and reporting systems, and systems of internal audit.

In retrospect, it can be seen that during this period there was an earnest search for appropriate concepts by members of the Treasury Board staff. But the search did not lead to the development of completely clear ideas of direction.

PERIOD 1963 TO 1967

During all of the last development period there was an intensive re-examination of the Estimates system in the four pilot departments. As the work went on, it seemed that substantial progress was being made, and five other agencies joined in the "new wave". They were Indian Affairs, Immigration, the Dominion Bureau of Statistics, the Post Office, and the Royal Canadian Mounted Police.

The first effort at reform was to prepare the 1966-67 Estimates in a more useful form on a trial basis. They were so prepared but were never published. The alternate form was again prepared in 1967-68 and was circulated to the appropriate Parliamentary committees as an example of what was to come. However, for the purpose of securing Parliamentary approval and for purposes of internal control, the Estimates were tabled in the traditional form.

It can now be seen that it was a very wise move to start with a relatively small number of departments. If all the Civil Service had been involved, confusion might well have obstructed progress, for two main reasons:

- (1) The Glassco Commission had recommended program budgeting but had not defined it in very precise terms. A climate for change had been created, but a very

Progress of Budgetary Reform

great deal of work had to be done before a new system could be set in place.

- (2) The Glassco Commission had not distinguished clearly between program budgeting and responsibility accounting. Program budgeting makes it easier for those closer to the centre to make choices among programs and ways of implementing them (strategy and choice of tactics), while responsibility accounting makes it possible, at many levels, to measure actual performance against targets. In practice, it took several years before the difference was clearly appreciated and the two concepts could be worked into the system.

The confusion being what it was, the consultants who went into the departments were none too clear on what it was they were expected to do. Their previous experience had not accustomed them to deal with problems of value choice. Lacking this sort of background, they tended to come down rather heavily on the side of a budget that would be suitable for responsibility accounting. Another difficulty was that they tended to develop their own unique terminology and methodology. This was not surprising, for there was a good deal of diversity in approach in the literature on PPBS (as there still is).

Among the civil departments it was perhaps only in the Post Office that there was a strong desire to stress the program budget concepts. Indeed it was easier for the Post Office to develop such concepts, for its tasks were quite clear. Moreover, during the previous 10 years the Department had instituted a system for ascertaining costs and had developed work standards. Thus the infrastructure enabling responsibility accounting to be put in place had already been developed, whereas it had not in other departments.

The most serious problem in all of the test departments was to get a definition of program objectives. Much of the experience of the consultants was with private business, where the make-up of organizational coalitions was different and where the definition of objectives was perhaps somewhat simpler. Certainly, at that stage, the Treasury Board staff did not fully appreciate the immense

difficulty that a department had in being specific about its goals. Other difficulties existed because the activity structure sometimes did not correspond to the organizational structure, and it was sometimes very hard to distinguish the various activities. In addition, the support costs of activities were carried in many places and it was difficult to allocate them to a particular activity. And finally, some sections of the test departments saw little value in the new exercise and were not ready to change their ways.

Improving Department Submissions

When the time came to write a fresh manual of instructions for the new systems of Estimates, the Treasury Board staff found that it still had a good distance to go before its own thinking could become clear. Here there were severe problems. In the first place, the Board's staff had not seen clearly that it would be necessary to define objectives on several levels -- for example, the levels of what are now called "functions", "subfunctions", and "functional programs". Neither had it appreciated fully that there were two types of data that had to be gathered -- financial data and (nonfinancial) operating data -- and that an adequate system would have to provide for relating them to each other.

Another difficulty had arisen because of the complexity of the task of co-ordinating the activities of the four departments in the first stage of the "new wave". As the pilot studies advanced, the degree of co-ordination exercised by the Treasury Board diminished. As a result, the lessons learned in one department were not transferred to others, and each department evolved its own conceptual frame, its own terminology, its own view as to priorities, and its own unique procedures. As a result the Treasury Board staff were not in a position to work out a common approach that could be applied to the whole of the government service.

In addition, the Treasury Board staff had problems in co-ordinating the many studies going on within the Board. These were taking place in areas such as establishment control, the design of revolving funds, the allocation of interdepartmental support costs, and a new system of expenditure coding (to be described later). The whole operation was of considerable complexity, and it did not

Progress of Budgetary Reform

prove possible for the Board's staff to pull all strands together and to work out the interrelationships among them.

However, a commitment had been made to a timetable. With considerable effort, a draft manual was produced in April of 1966¹⁴ and sent out to all the departments as a guide in the preparation of Program Forecasts. The departments in the new wave were asked to try it out to see whether it was possible to develop a trial run of the 1967-68 Estimates in the revised form.

The manual described the Program Forecast as follows:

"It is designed to provide an opportunity for departments to submit for Treasury Board review their assessment of desirable objectives and priorities. By conducting this review for a five-year period the Board will be able to influence departmental priorities and to alter them to reflect other needs of the departments as a whole. The Program Review submission is to include a summary of the department's plan for the next five years, its financial requirements, and a justification for the carrying out of these plans."

A memorandum for each program was to present the objectives of the program and the alternatives considered, together with program and activity justification schedules. These were to show the financial requirements, personnel data, and performance indicators for each activity within the program. The memorandum was also to disclose the reasons for changes in the activities, as well as revenues and the costs of services provided by other departments.

This was indeed a brave hope. One of those involved at the Treasury Board put it this way:

"The first Program Forecast submissions were the old traditional Estimates submissions a few months earlier in a high-quality binding. A departmental program was almost always exactly co-extensive with the scope of the responsibilities of an assistant Deputy Minister, and each activity in each program

¹⁴Treasury Board, *Draft Program Review of Estimates Manual*, 1966.

was equivalent to some smaller segment in the organization. Objectives merely stated the continuation of what had been done for years and usually tended to be of a kind that defeated any attempt at analysis. Resource requirements were justified along the familiar lines of the Standard Objects of Expenditure. It is just possible that the first Program Forecast submissions were made up as practice exercises with little attention other than amused tolerance from more senior officials."¹⁵

In June 1966, the Management Improvement Branch of the Treasury Board issued a "Financial Management Guide".¹⁶ This guide described the structure and processes that needed to be set up in the departments to secure more effective management. Great emphasis was placed on the identification of responsibilities, the choosing of responsibility centres, systems of reporting, delegations of authority, controls, accounting systems, and systems of audit. However, while it gave a general account of program budgeting and expressed the general philosophy that there should be a selection of alternative means of reaching a goal, on the whole the guide came down very heavily on the side of a budget built from the bottom up. Thus it came into conflict with the system designed over the next few years, in which emphasis would have to be given to the determination of priorities at the centre.

Revising the Form of the Estimates

A major success was achieved in moving towards an information frame through which the purposes of public expenditures could be examined with somewhat more precision. The first major division within the Estimates was by department. The next major break was by votes which, over the years, were beginning to be closer and closer to what are now called functional programs. However, this last breakout was by no means as consistent as it has since become. The next division within votes

¹⁵B. A. MacDonald, Presentation at the Annual Convention of the Canadian Good Roads Association, Edmonton, Alberta, September 29-October 2, 1969.

¹⁶Department of Finance, *Financial Management in Departments and Agencies of the Government of Canada* (Ottawa: Queen's Printer, 1966).

Progress of Budgetary Reform

was by Standard Object of Expenditure -- that is, the types of things and services on which money was spent. Answers were sought to two questions:

- (1) How can we break out and rearrange the monies in the Estimates so that they show proposed expenditures on each of the "functions" of government?
- (2) How can we classify the monies in the Estimates so that their probable impact can be assessed before decisions are finally made?

A start was made with a system that the Dominion Bureau of Statistics had developed for classifying government expenditures by function -- i.e., by broad purposes that governments were pursuing through expenditure programs.

The Dominion Bureau of Statistics had developed 14 major functional categories, within which were about 75 subfunctions. For example, transportation and communication -- one of the major functional categories -- was broken down into airways; highways, roads and bridges; railways; telephones, telegraph, wireless; waterways; and other.

These 75 categories were then aggregated in 11 "functions of government". This was a major breakthrough, for it enabled the government, before it made its final expenditure decisions, to consider them in terms, say, of the major primary, secondary, or tertiary industries that would be affected. The allocation, of course, had been known previously in a general way, but the new framework provided the means of classifying the whole range of government expenditures in terms of the major purposes that were being served.

The task was not simple, for it had to be carried out with an eye to the statistical framework of provincial accounts that had been already developed and within which federal-provincial projections were being made. Also it had to be done with an eye to assimilation into a somewhat different framework being developed by the United Nations.

The other major effort was to take the Estimates in their reorganized form and to classify proposed expenditures in a manner consistent with a national accounting framework. Arranged in this way, the government analyst could view government transactions according to their economic impact and see them in the same terms as other flows taking place within the economy as a whole. Provided there was sufficient detail in, say, regional or industrial terms, it was possible to see the impact of expenditures on specific sectors of the economy. Thus the analyst could trace the effect of transfer payments and expenditures on goods and services or capital formation and look at their effects on levels of output, employment, prices, and regional development.

Here again, the situation was made difficult because changes were being made in the Canadian system. These changes were being considered in conjunction with the development of a "System of National Accounts" by the United Nations. In the process it was necessary to modify the Treasury Board's Standard Objects of Expenditure.

At the end of the 1963-67 period the whole system came under very heavy strain. The pressures for higher expenditure were very strong and yet it was clear that a greater degree of direction and control had to be achieved. Accordingly, it became necessary for the Treasury Board to involve the Cabinet collectively in the making of fairly detailed decisions on priorities. This was done in the summer of 1966 and again in the spring of 1967. It should be said that in making these approaches to Cabinet there was a high degree of co-ordination between the Department of Finance and the Treasury Board. Nonetheless, it was apparent to the Cabinet at the end of the period that there was a real need for a review of the whole process of determining priorities as it was carried on within the central executive.

CHAPTER 3

PLANNING IN THE DEPARTMENT OF NATIONAL DEFENCE

The situation in the Department of National Defence was much different from that in the civil departments. To a remarkable degree the early stages of the preparation of the Estimates were used as a means of policy review, and a reasonably close relationship developed between planning activities and the budgeting process.

This chapter will review developments in the Department of National Defence, following the same general time frames as in the main paper, but starting in 1954 when Estimates revision was well under way.

PERIOD 1954 TO 1964

In a rudimentary way, the system provided for a degree of long-range planning and included an annual overall review of the Defence program. Although it tended to be heavily oriented towards consideration of capital projects, there was some examination of the operating costs that would follow.

Here is how the system worked. Each of the armed services had an inventory of programs. When it was desired to add a new program or to considerably expand an old one, approval was sought at the proper level within the Department, or from Cabinet or one of its committees. Each year, early in June, each Chief of Staff presented to the Chairman of the Chiefs of Staff a catalogue of all the approved programs. After his review, it was sent on to the Minister. However, at the same time, each Chief of Staff and the Chairman of the Defence Research Board submitted their financial requirements to the Deputy Minister. This statement of financial requirements was expressed in program terms and included the costs (mostly direct) of equipment, construction, accommodation, and personnel over a three-year period.

Progress of Budgetary Reform

This statement of financial requirements for the various programs went to a group known as the Screening Committee (established during the previous period). The members of the committee were the Deputy Minister of National Defence, the Secretary of the Treasury Board, the Chairman of the Chiefs of Staff, and the Deputy Minister of Defence Production. They examined the scale and scope of each program in relation to the total funds likely to be available to the Department. Then, with the agreement of the Minister of Defence and, in some cases, the Cabinet Defence Committee, decisions were made on the extent to which each program was to go forward, if it was to go forward at all. The Committee's decisions were then transmitted to the services, and the actual Estimates were prepared.

The decisions that had been taken within the Screening Committee on the speed and intensity of implementation of the particular programs were reflected in the amounts put into the Estimates. However, the programs themselves were not identified in the Estimates submission that went forward to the Treasury Board. Neither did they appear in the classification of accounts that eventually emerged from the Estimates and through which the Department controlled its activities. Depending on the service involved, there was a greater or lesser degree of integration of program planning and the build-up of the Estimates, with the strongest relationship in the RCAF, some relationship in the Navy, and no relationship at all in the Army.

In the Defence Research Board there was a fairly high degree of interrelationship between planning and the build-up of the Estimates and their later use in management control. Each establishment had a major activity and its own budget. In fair measure, the Estimates process was used as a means of planning activities and subactivities.

While the procedures established in the Department of National Defence were well ahead of those in any of the civil departments, there were still many major problems in the way of using the Estimates for planning.

First, the programs of the three services were almost completely unrelated to each other. Second, the difficulty with the process was that the decision on whether someone's bright idea should become a program was not

taken at Estimates time but at any point in the year. Third, consideration of programs tended to concentrate on capital expenditures. The costing of the operating expenditures that would follow from a particular capital development was by no means complete. Accordingly, there was perhaps some tendency for more capital programs to be put on the books than could be supported through the operating side of the budget, with a consequent stretch-out of implementation and the risk of obsolescence when they began to function.

In the case of the Department of National Defence, special reference should be made to the efforts it made at this time in connection with the Establishment Review procedure. (A more complete account of this procedure is presented later on.)

While the Treasury Board required that the establishment review procedure relate only to civil staff, the Department of National Defence made a real effort to include military support personnel. Also there was the beginning of a major effort to relate input to output. In parts of the armed services an effort was made to develop measures of output. While not all inputs were identified, in most cases the personnel input in support of a particular activity was quantified. In this way the Department began to build measures of efficiency that could be used to compare performance over time. However, while the results were reflected in the numbers of civilian personnel employed by the Department, the input and output relationships and the measures of efficiency did not shape the form of the Estimates to any significant degree.

PERIOD 1964 TO 1967

When the integration of the services began in 1964, the Minister and senior officials in the Department accepted, as a matter of principle, that budget preparation should flow from a properly approved five-year defence plan. Therefore an attempt was made to design an integrated defence program and to see that every component of the forces should be displayed in the Estimates in an appropriate part of the budget -- that is, in relation to some part of the whole program.¹

¹See statement by Dr. J. C. Arnell to the Standing Committee on External Affairs and National Defence, November 21, 1968, pp. 549-54.

Progress of Budgetary Reform

When all the programs of the three services were put together for the first time, it was quite clear that the defence plan was not well integrated. Moreover, it became apparent that the planning exercise had been putting too much emphasis on the acquisition of capital goods and not enough on the operating costs that would follow. Accordingly, the senior officers of the department redesigned the system completely.

In the redesign there was considerable pressure from the forces to use the new command structure that was evolving from integration as a major frame for analysis. This pressure was successfully resisted by civilian officers on the grounds that the command structure was not immutable and could well be changed over time. Another reason was that it did not allow for the relating of the various kinds of support activity to the end product.

After considerable difficulty, a list of 30 activities was drawn up. Ten of these were operational -- e.g., the Mobile General Purpose Support group; 20 were in the support category -- e.g., officer training, and the supply of materiel. Next, an examination was made of each of the units making up the armed forces, which resulted in identification of 900 organizational entities, called "program elements".

This part of the exercise was input-oriented, providing a picture of the resources that were available for assignment to a particular activity. The 30 activities came to be called "capability activities"; that is, they were capable of making a contribution to some larger purpose.

The identification of the 30 capability activities was a major step. In particular, it enabled those concerned with planning to have a much closer look at support activities than had hitherto been feasible. This made it possible, when considering a program, to take into account not only the equipment that would have to be used and the direct operating costs, but also the support costs. Nevertheless, the list did not help much unless the major priorities of the government had been defined.

It would, of course, be possible to start from a number of operational activities. The analyst could measure the purely military effectiveness of a particular

operational activity and then allocate an appropriate share of support to that activity. In terms of how much "bang for a buck", he could work out a benefit-cost ratio. However, this would not get him very far.

Canada cannot mount a total defence effort because it cannot provide for every eventuality. To some extent it must go in for collective security arrangements so that part of its effort must be integrated with that of its allies. However, even where this is not the case, the general priorities must be settled at a political level.

In practice, it has proven difficult for government to give this sort of policy guidance to the armed forces during any of the postwar years. However, much greater clarity of policy was given by the 1964 White Paper on Defence, which discussed the future role of the military. It was possible to identify six purposes:

- (1) protection of internal security in peacetime,
- (2) protection of territorial integrity in peacetime,
- (3) contributions to North American defence,
- (4) contributions to the defence of the alliance,
- (5) contributions to U.N. peacekeeping efforts, and
- (6) provision of military assistance.

Working from these six purposes, the Department identified 13 military tasks or "required capabilities" -- e.g., the countering of a bomber attack, the surveillance of coastal waters, and aid to civil power.

The important thing to note about the required capabilities was that they were output-oriented. The Department needed some weighing of these output tasks and, to a reasonable degree, this was accomplished by the White Paper. Once given, it was then possible to relate the output-oriented "required capabilities" to the input-oriented "capability activities". This is to say that

Progress of Budgetary Reform

once the purpose of military forces was defined, it was possible to consider how the purpose might be achieved.

In addition to laying the groundwork for a system of program budgeting, the Department began, in 1966, to study means of introducing a system of responsibility accounting. The aim was to devise procedures whereby, at all levels, those with responsibility would know the total costs of operations within their control. A detailed study of Air Transport Command, launched late in 1966, enabled the Command to introduce responsibility accounting at the beginning of fiscal year 1968-69. Significant savings have been made, and the plan is being extended into other commands. As yet, it is incomplete, because personnel are managed centrally, and materiel costs are charged at the time of acquisition rather than consumption.²

PERIOD 1967 TO 1971

During 1968 and 1969 two major changes were taking place. First, the government apparatus was being prepared for the tabling of the 1970-71 Estimates in a new form. As well, each of the departments had proposed its 1969-70 estimates in the new form and they were actually printed for distribution to parliamentarians. The other major happening was an overall reappraisal of the priorities within the defence program.

In developing the framework of votes, the Department and the Board agreed that it was not necessary to have six separate votes, one for each of the six major objectives of the military program. This was because of the multiple tasks of various components of the forces and the likelihood that a change in the international scene would leave some votes with too little money and some with too much.³ Therefore, one large vote was to cover military operations and another, the acquisition of capital items. This is to say that the whole of the military operations within the department were called one "program".

² See Government of Canada, *Proceedings of the Standing Committee on External Affairs and National Defence*, November 21, 1968, pp. 545-611.

³ J. C. Arnell, "The System for Management in the Department of National Defence", unpublished paper prepared for presentation on April 23, 1971, to the Senior Management Seminar at the Canadian Forces School of Management, p. 14.

In addition, some distinct civilian activities were called programs -- e.g., those of the Defence Research Board, and the Emergency Measures Organization.

Within the military operations vote, six "program activities" were laid out. Four of these related to the major military roles of the Canadian Armed Forces; one covered support services; and the last covered employer contributions to the pension fund.

The costs of the "program elements" or organizational unity entities were aggregated in two different ways for two different purposes. For purposes of dealing with Treasury Board and Cabinet, they were aggregated in terms of programs and program activities. However, for purposes of operational planning and personnel planning, the Defence Department was required to think in terms of operational or support activities in order to assess performance.

For purposes of internal control, the Treasury Board has given wide discretion to the Department. However, the Department is not yet fully ready to manage on a program basis and, while it calls its allotments "activities", they are actually resource allotments. Major equipment, military and civilian pay, and capital projects are handled at the centre, and the remaining funds are allotted to commands.

This whole system came under a severe test when the defence program was again reappraised. The government defence review left the six roles unchanged, but their priorities were shifted, with highest priority going to the protection of Canadian sovereignty. A problem then arose because most of the governmental work in the North had, in the past, been handled by the RCMP and agencies such as the Department of Northern Affairs. It was now clear that the military were to get into the act, but it was far too early to say what the nature and extent of involvement were to be. In the face of this uncertainty, there was naturally some tendency to think in terms of military capability rather than to start from first principles and say: "What is it that we should be doing in the North?" This having been established, "What should we do to adjust military capabilities?"

Progress of Budgetary Reform

As a result of this dilemma, a special working group was established that tried to think out the whole problem of military involvement in the North in terms of program objectives and subobjectives. The preliminary stages of this work have now been completed, and an attempt is being made to translate program objectives and subobjectives into terms of military capability.

It should be remembered in assessing progress at DND over the last two years of this period that not only were priorities changing, but so were force structure and force size. The substantial reductions in strength and changes in force structure would have been quite unmanageable without the clarification of program objectives. Thus the institution of the PPB system, even in a limited form, has made it possible to carry through major changes in a much more rational way than would otherwise have been the case.

CHAPTER 4

THE NEW EXPENDITURE BUDGET

For the civil departments, the last period to be dealt with in this paper, 1967 to 1971, was marked by a dramatic increase in the degree to which the expenditure budget was used as a vehicle for planning. We can more easily appreciate why it took 30 years to arrive at this stage if we cease to regard a government department as a hierarchical body and see it instead as a coalition¹ of diverse elements held together by the Minister and the Deputy Minister, and those close to them.

Members of the coalition are full-time employees of the department and clientele groups, as well as, say, members of parliamentary committees, representatives of the Auditor General and the Department of Justice, representatives of cognate departments, and members and secretaries of relevant Cabinet committees, unions, and professional associations. The interests of these various groups may diverge widely, and polyarchy rather than hierarchy usually prevails at the "top" of an organization. The struggles are bitter among civil servants who represent different clientele groups. Tension or conflict may also exist between those with functional responsibility and those organized as a profession or around a process such as purchasing or personnel administration.

In the same way, there may be tensions between full-time and part-time members of the coalition -- e.g., between representatives of the Auditor General and the financial officers, or between combinations of these, e.g., members of a parliamentary committee and an ambitious branch on the one hand, and program analysts and financial officers, on the other.

How do the managers of a coalition hold it together? Cyert and March suggest that they have various means at their disposal. "Side payments" may take various forms, such as money payments, provision of services, and the

¹See Richard M. Cyert and James G. March, *A Behavioral Theory of the Firm* (Englewood Cliffs: Prentice-Hall, 1963), pp. 26-43.

Progress of Budgetary Reform

preferential grant of status. Policy commitments are another form of side payment and are highly valued. Precise policy commitments, however, can put the future stability and cohesion of the coalition into real jeopardy, particularly when they are tied to resource allocations, as they are in an expenditure budget.

For example, some of the full-time components of the coalition may have a strong urge to grow. To define objectives clearly may be to limit growth because people tend to resist the consequent shifts in the allocation of resources. The severe dislocation of social structures and career patterns that usually occurs is highly disturbing to people in mid-life. Therefore, those who manage the coalition will be reluctant to be explicit about hoped-for changes in direction.

It is also probable that the more an organization ages, the greater is the degree of control that employees exercise over their supervisors. The goals of employees are likely to be increasingly of internal relevance² and tied strongly to the practice of technique. Here again, there is only so much the leadership of a coalition can do in making definite policy statements without disturbing various occupational groups.

Finally, as different policy issues come up, the active composition of the coalition will change. Not all members are equally affected by every problem and, since different sets of forces have to be resolved in different cases, there is bound to be inconsistency between the solutions that are hammered out.

For all these reasons, the managers of a coalition will find it necessary to make their policy commitments somewhat fuzzy. If they do not, the future of the coalition will be in danger. Towards the end of this chapter, we will see that, during the last few years under PPBS, there has been very real difficulty in getting departments to define their objectives. Perhaps the reason is that departments are not really hierarchical bodies under the control of their leaders but rather loose coalitions held together by their nominal masters.

²See Wm. H. Starbuck, "Organizational Growth & Development" in J. G. March (ed.), *Handbook of Organizations* (Chicago: Rand McNally, 1965), pp. 451-533.

Despite this fundamental problem, great strides were made in developing the Estimates into a format that would provide meaningful information on which to base policy decisions. The following sections describe the institutions, processes, and concepts as they are now. The chapter ends with a chronology of their development over the period.

INSTITUTIONS

Up to 1968, the Treasury Board had been the only Cabinet committee that had concerned itself with the expenditure budget. In that year, however, the Cabinet Committee on Priorities and Planning was created, coming into full operation in 1969 with its own secretariat. This Committee, which meets once a week, is chaired by the Prime Minister. Its main functions in the autumn of 1972 were to report to Cabinet on:

- the overall thrust of government policy, including the initiation and consideration of major policy reviews;
- the priorities to be assigned among the scarce resources of manpower, money, and the time of Ministers;
- the identification of priority problems and assignment of responsibility for their solution; and
- the consideration of specific important issues that need to be dealt with quickly and for the handling of which there is no established machinery.

Another of its responsibilities is to exercise a coordinating role among the "functional" committees of the Cabinet: External Policy and Defence, Economic Policy, Social Policy (including labour and manpower), Government Operations, and Science, Culture and Information. It is their task to consider program initiatives from the departments, to carry through major policy reviews, and to consider both in relation to the overall direction of government policy. The Committee on Priorities and Planning indicates to the functional committees the desirable goals and thrusts of government policy and the volume

Progress of Budgetary Reform

of money, manpower, ministerial time, and House time that can be devoted to them. It also seeks to bring about in the functional committees the review of existing policy and programs. One observer has called the group the Inner Cabinet.

The Treasury Board also plays a central co-ordinating role. One of its main tasks is to consider program proposals in the light of the policy directions and priorities developed by the Committee on Priorities and Planning. As a result of this consideration, annual expenditure plans are drawn up "which will reflect the government's policies and priorities, and at the same time achieve the optimum results for the citizen in the use of his dollar. This is accomplished ... by allocating funds, in diminishing order, to those programs which are most effective in achieving the goals inherent in those priorities."³

Linkage among the committees is provided in several ways. Some Ministers will sit on more than one committee, and all will receive Cabinet papers dealt with in other committees. The Privy Council Office provides secretarial service to all Cabinet committees (except the Treasury Board). As well, the appropriate officer of the Treasury Board staff attends meetings of each functional committee, while the Secretary of the Board attends meetings of the Committee on Priorities and Planning.

However, this is not a complete picture of the institutional structure. There are two other major features.

The first of these is the emergence of Ministers of State. They are without regular departmental responsibility and are intended to operate with small secretariats. In contrast to the regular Ministers, who have a department that usually serves industrial or social sectors, Ministers of State usually deal with an emerging problem area such as urban Canada. Such problem areas cut across existing departmental boundaries, often affecting the work of many Ministries. This institutional invention makes it likely that a problem will receive continuous attention, which would not be the case if it were left to the regular interdepartmental consultative machinery.

³A. W. Johnson, "The Treasury Board of Canada and the Machinery of Government of the 1970's", *Canadian Journal of Political Science* 3 (September 1970).

The second feature is the institutionalization of the review of the machinery of government. Earlier in this Study, it was pointed out that the departments were coalitions. It is of continuing importance to make sure that the balance of the various coalitions is appropriate. Also, if new policies are to be pursued, the coalition of forces must be strong enough to push them through.

For example, suppose the aim of a policy is to protect the consumer. If the various consumer services are scattered throughout the Ministries whose clientele produce food and other goods and services, their activities are likely to be given far less priority than the interests of the respective industrial sectors being served. Only when responsibility for the same services within different departments is put under one wing can consumer protection be a realistic goal.

Later on we will be speaking about the developing frames of perception through which Ministers can take inventory of what is being done to deal with certain emerging problems, so as to judge whether the amounts of money and manpower are committed adequately. Yet it may also be necessary to pluck these elements out of their existing locations and to assemble them into a coalition, often with a parliamentary mandate. Only in this way can sufficient forces be assembled in one place and pointed in one fairly clear direction.

The review of the composition of the various coalitions has been institutionalized through the close interrelationship between the Committee on Priorities and Planning and the Plans Division of the Privy Council Office.

PROCESSES

The processes associated with policy-making are difficult to describe, because so much is going on and because the situation is so fluid.

To get a grasp of the problem, we will approach it in two ways -- namely, in terms of:

- (1) the types of policy-making taking place,
- (2) the devices through which policy gets translated into action.

Progress of Budgetary Reform

Policy-making can be divided into three basic types: the review of directions of policy; the identification and solution of emerging priority problems; and the design of "metapolicy" (i.e., policy on how to make policy).

Intense effort has been put into reviews of major policy areas in the light of overall government policy. These have been sparked by the Committee on Priorities and Planning and have been carried on by the appropriate departments reporting to the relevant functional committees. Policy assessments have been made of areas such as agriculture, fisheries, transportation, and oil, as well as of activities such as the operation of foreign policy and citizenship development. Besides giving perspective on sectoral policy in the context of overall government policy, the reviews serve to clarify and appraise policy objectives and to test them against one another for consistency.

The second type, which was laid down in 1968, is the identification of priority problems and studies leading to their solution. The purpose of this exercise is to mobilize and allocate the scarce planning resources and planning time of the government to focus on those problems of greatest urgency or importance.

Here a distinction needs to be made between the priority problems and the priorities of the government. A priority problem is defined by the government as one that is now emerging or has emerged and for which the government, as yet, has no mechanism for solution. Emphasis needs to be put on the word problem. The priorities of the government are more comprehensive, for they encompass not only the new emerging problems, but the old ones as well -- the ones that are being solved or alleviated by on-going programs. Thus the priorities of the government result from ranking all the government's responsibilities by degree of significance.

The priority problems that the government has identified normally extend beyond the scope of one department. That, perhaps, is why they have become "problems". Because they do not clearly fall within the value frame or range of perception of any of the existing departments, they have grown unnoticed and unchecked by Ministers who have relied too heavily on the regular bureaucracy as a sensory device.

The general approach for the Committee on Priorities and Planning is to prepare a list of priority problems, with a brief description of each that attempts to get at the main issue. The Committee goes on to identify one Minister who will be responsible for a further definition of each problem and proposals for its solution. In a ways-and-means paper, that Minister indicates how he intends to take on its examination. He may also refine the definition of the problem. Once the Committee on Priorities and Planning has reached agreement on ways and means, a schedule is drawn up, and the Minister usually assembles a special staff, drawing on a special fund of the Privy Council Office or seeking appropriate funding from the Treasury Board. After his study of the matter, he presents a planning paper to the appropriate functional committee of Cabinet, giving an account of the likely results of alternative ways of solving the problem and a proposal for action. After consideration by the functional committee, the proposed solution is passed on to the Committee on Priorities and Planning and then to Cabinet. Along the way, plans are made for its possible implementation through the devices of legislation, budgetary provision, and organizational change.

The third type of policy-making, metapolicy, is carried on by the Committee, which annually reviews how it will allocate the manpower, money, and time of the Ministry. It also looks at a most difficult problem -- how to mesh the various processing devices. Five of these are on an annual cycle: the Estimates; the revenue budget; the design of the legislative program; the consideration of policy reviews, including the examination of priority problems; and the evaluation of the performance of senior personnel. The only process that is not cyclical is the consideration of the adequacy of the machinery of government. Sufficient Committee time is set aside to deal with special problems that may be neglected because of lack of machinery.

So far, attention has been directed to the types of planning going on: policy reviews, priority problems, and policy on how to make policy.

The major cyclical processes available for the initial translation of policy into action are the revenue budget, the legislative program, and the Estimates. No special mention will be made of the first two except to

Progress of Budgetary Reform

say that a constant attempt is being made to make their output compatible. This is accomplished by checking for consistency among the outputs of the three at critical time points within the year and by checking for compatibility with the work going on in the Cabinet Committee on Economic Policy.

The following is a brief account of the Estimates cycle and of other activities that impinge on it. It traces the process as it operates through: the Cabinet; the Cabinet Committee on Priorities and Planning; the Treasury Board and its Secretariat; the Minister of Finance and his department; and the departmental Ministers and their departments.

Let us assume that we are thinking of the preparation of the Estimates for 1972-73. Early in 1971, perhaps in January, the Minister of Finance would give an economic briefing to the Cabinet Committee on Priorities and Planning. Several such briefings would be held during the year, with the first one providing the economic background for fiscal planning for 1972-73. Operating this far ahead, it would be impossible for the Minister to make predictions about tax yield with any great precision. More likely he would propose a set of assumptions to provide the basis for planning. At about the same time, the Minister of Finance would submit a forecast of nonbudgetary receipts and expenditures. The President of the Treasury Board would then submit his preliminary analysis of the expenditures necessary to finance ongoing programs in the new year at their existing level -- the A Budget.

After considering these papers, the Committee would draw up broad guidelines. Briefly, the guidelines would indicate the governmental areas of priority on which "new money" should be spent, and the areas on which special downward pressure should be exerted. "New money" means the margin between the revenue yield and the A Budget, plus savings through the X Budget, which is a list of low-priority program elements that may be discontinued. Treasury Board would have received A and X Budgets from the departments in January 1971.

New Expenditure Budget

By March another briefing on the economic outlook would have been given by the Minister of Finance, and the Committee on Priorities and Planning would be able to draw up more definite guidelines. Information on these guidelines would be given to the departments in March and they would submit their B Budget program forecasts in May, consisting of the cost of new services or the expansion of existing services.

During June and July, the Treasury Board would review the A, B, and X Budgets with the departments. Almost inevitably, the total of the B Budget submissions would exceed the amount of new money available, and recommendations would be developed within the Treasury Board as to what the budgetary levels should be. Then the recommendations would be reviewed by Cabinet, and decisions would be given to the departments in August.

In September there would be a call for the formal submission of the Main Estimates in October. These would be considered by the Board in December and by the Cabinet in January 1972, and would finally be tabled in the House in February.

Before leaving our consideration of process, mention should be made of the evolution of a system for appraising the performance of the government's most senior executives. Beginning in the early sixties, the Treasury Board and the Civil Service Commission developed the "Senior Officer" category -- now known as Senior Executive or SX, at four levels. This was designed to give more of a rank and less of a job classification to those who were carrying the heaviest responsibilities below the Deputy Minister level and who were not performing in a scientific or professional capacity. Entry into the category and movement between levels is controlled by a panel of officials of Deputy Minister rank.

Over time, a system of performance evaluation has been developed. The departments award rates in the upper reaches of the salary bank of each level only to those of clearly superior performance.

Beginning in 1969 the categorization of those of deputy head rank was formalized. Three levels emerged, each with a salary range within which a deputy head's salary is set. Salaries are reviewed annually in the light of an assessment of past performance by a Special Committee of Senior Officials, which makes recommendations to a Cabinet

Progress of Budgetary Reform

committee. The Cabinet makes the final decision, which is communicated to each deputy by the Prime Minister, who gives the reasons for the particular treatment the deputy has been accorded.

This has been a move of the utmost significance. It extends the possibility of increasing the control over individual departments by the collectivity of Ministers. In particular, it will allow them to give graduated awards to the senior officials of those departments that are active in developing measures of efficiency and effectiveness and in shifting the direction, scope and scale of their programs in response to government priorities.

CONCEPTUAL VIEW

At the present time there are several frames through which the Estimates are viewed. It is useful to think of these as either vertical or horizontal systems of classification.

Vertical disaggregation involves a hierarchy of progressively finer breakdowns. There are several of these, the most significant being the "functions of government" classification. Eleven "functions" have been identified, and each of these is broken into subfunctions, then into programs, and then into activities. The eleven functions are the following: economic development and support; transportation and communications; health and welfare; culture and recreation; education assistance; foreign affairs; defence; general government services; fiscal transfer payments to provinces; interest on public debt; internal overhead expenses. Another type of vertical breakout is by department, then by program, and then by activity.

There are several types of horizontal breakouts. One classifies according to National Accounts categories: operating expenses; capital expenditure; grants and loans. Another classifies according to the Standard Objects of Expenditure. All of these are in the public domain, printed in the Estimates "Blue Book".⁴ Within the executive, special vertical classifications have been

⁴Canada, *Estimates for the Fiscal Year Ending March 31, 1972* (Ottawa: Queen's Printer, 1971), pp. 1.6 - 1.90. See also Treasury Board, *How Your Tax Dollar Is Spent* (Ottawa: Queen's Printer, 1971).

established. These may correspond to the main "thrusts" of government policy or they may serve as inventories of activity where the government is taking stock of the adequacy of its efforts in dealing with emerging problems.

Also within the Executive there are special frames for viewing the effectiveness and efficiency of individual programs. When the Treasury Board issued its first *Draft Program Review and Estimates Manual* in 1966, it contained this admonition under the heading of *Performance Indicators*.

"Departments are to strive for indicators that measure the effectiveness of their activities and subactivities. Indicators that measure efficiency are no substitute for indicators that tell whether there is a valid purpose for the expenditures in the first instance. Until suitable measures of effectiveness are determined, data which indicate efficiency are to be submitted."⁵

Brave words! Four years later, the manual was much less peremptory and considerably more resigned and wistful on this subject:

"Departments should attempt to isolate for each activity a small number of key factors that reflect the volume or quality or desirability of the service being provided by the activity. These key factors may be measures relating to work load or measures of effectiveness. Properly chosen measures used in Program Forecast submissions could be of great assistance in making clear the essential aspects of activities and programs and in arriving at decisions on an optimum allocation of resources.... Any measure of effectiveness of the activity or program should be based on an objective of the program."⁶

Here it is important to distinguish between "cost effectiveness" and "efficiency". Treasury Board officers define cost effectiveness as the degree to which a specified objective or group of objectives is realized at

⁵Treasury Board, *Draft Program Review and Estimates Manual*, 1966, p. 3.

⁶Treasury Board, *Program Review and Estimates Manual* (November 1970) p. 1.23.

Progress of Budgetary Reform

lowest cost by a program or project. Efficiency, on the other hand, is the relationship between the outputs (defined precisely in terms of kind, quantity, and quality), of a particular program or activity and the inputs used in their production.

To obtain a measure of cost effectiveness, it is first necessary to define the objective of a program. The next step is to establish criteria that will serve as measures of the extent to which the objectives are being met. Then judgment can be made as to which of several courses of action are likely to be most effective.

Here considerations of efficiency begin to emerge. Judgments can be made of several courses of action, looking at various levels of outputs and their cost, and the degree to which the criteria of effectiveness are being met. Very good progress has been made in devising measures of efficiency. They have been developed for the work of a very substantial number of employees in the public service.

The assessment of cost effectiveness is a much more subtle matter, and progress here will be much slower. While the measurement of efficiency involves the relating of volume of inputs to measures of output, the assessment of cost effectiveness involves consideration of whether these particular outputs are the most effective in furthering government objectives. Thus objectives must be clarified. The outputs of possible alternative courses of action are then related to the reaching of program objectives, taking into account their relative costs.

At the heart of the problem lies the difficulty of getting clear statements of program objectives. Because of the complex nature of the coalitions that we call departments, these are likely to be ill-defined, non-operational and perhaps contradictory. This difficulty may not be resolved until Cabinet Ministers and other political officials themselves define the goals of departments.

The Planning Branch is beginning to work with a few departments to make assessments of program effectiveness. As each major study is completed, it is hoped that the responsible Minister and the President of the Treasury Board will make a joint submission (or separate submission) to the appropriate subject-matter committee of Cabinet on revisions in program objectives, program modification

or substitution, and tentative budgetary commitments. The most important part of the exercise will be to clarify objectives or to push them further away from being stated in terms of inputs, and towards being stated in terms of outputs as they affect human welfare.

This will be a long slow process. It may also be a painful one, for it may well involve substantial modifications in the orientation, structure, and occupational composition of departments. However, when carried through, it will be possible to advise Ministers with much more assurance that the objectives of government policy are being met.

Another important part of the work of the Planning Branch is the study of costs in those departments that carry on overhead activities. By comparing them to see what common services they use, significant savings may be identified.

A CHRONOLOGY

The new institutions, processes, and perception frames did not emerge overnight, but evolved over the three-year period as a result of constant experiment. Originally, they were developed to bring the government's spending under control and, later, to enable consideration of the broad directions of government policy. The following chronology sketches the major outline of the story.

Early in 1968, the Treasury Board went to the Committee on Priorities and Planning with a forecast of the probable departmental Estimates proposals for 1969-70. The Board suggested "guidelines" on the basis of which these Estimates could be examined. At about the same time the Department of Finance made revenue forecasts for 1969-70 and expressed its views on the economic impact of such expenditures.

After approval by Cabinet, the general nature of the guidelines was made known to departments. Considerable "static" developed from departments, and there was further discussion. There was also a general discussion of the guidelines with the provinces.

Progress of Budgetary Reform

In November 1968, the President of the Treasury Board instructed the Public Accounts Committee⁷ to make the following changes in the format of the 1969-70 Estimates: some simplification of detail in the Standard Objects breakdown, elimination of salary range data, and more information on some Crown companies; i.e., income and expenditure statements were to be made in support of Crown company requirements funded through Estimates, and proposed capital expenditures were to be indicated. Further changes were proposed for the 1970-71 Estimates, and each program should be broken down into activities (the means by which the objectives were to be reached). Second, for each program, operating, capital, and grant votes were to be consolidated into one, although the breakout would be shown in the detail of the Estimates. Nonbudgetary items such as loans, investments, and advances were to be shown in conjunction with the appropriate program. Thus the number of votes would be reduced from about 236 to 130. Third, programs were to be displayed by activities, and total costs displayed according to Standard Objects of Expenditure. Further statements would provide information on the value of services provided by other departments. The Public Accounts Committee agreed with the proposals, by and large. However, they wished to segregate grants or capital that exceeded \$5 million into separate votes.

In December 1968, the "Annual Outlook" conferences began, in conjunction with the provinces, at which an attempt was made to pull together the expenditures for all three levels of government and to classify them functionally. Despite difficulties with the data, it was the first major attempt towards co-ordinating policies before decisions had actually been made.

As of April 1, 1969, the Treasury Board dropped the "establishment" concept. Instead it placed a limit on the number of man-years available to a program and a limit on the number of continuing employees that could be on strength at the end of the fiscal year. A reporting system was also devised to show, at the end of each quarter, the number of man-years that were used to date and the full-time continuing-employee strength at the end of the quarter. At the same time, Treasury Board ceased issuing minutes authorizing establishments, which were to

⁷Government of Canada, *Proceedings of the Standing Committee on Public Accounts*, November 21, 1968, pp. 37-60.

New Expenditure Budget

be financed by the resources allotted for this purpose in Estimates. However, the departments were to be free, in general, to supplement the salary allotment with monies transferred from other parts of the vote.

In March 1969, the Treasury Board and the Department of Finance went to the Cabinet Committee on Priorities and Planning with proposed expenditure guidelines for the 1970-71 Estimates. Over the following two months the guidelines were worked out and approved, and further modifications were made after the Treasury Board program review. A detailed list of cuts was prepared and, except for priority programs, expenditures in the rest of the government service were frozen.

During the summer of 1969, a revised form of expenditure control was announced. Within operating votes there was almost complete freedom to move money around. However, separate allotments were to be established for anticipated salary revisions. Special allotments were also set up for projects still under review. In the case of grants there was to be a separate allotment for each grant. For capital allotments there was considerable liberalization. However, the Treasury Board did stipulate that the accounts should be set up in such a way that there could be separate runs on an activity or Standard Object basis.

In October 1969, it was decided to drop manpower controls, effective April 1, 1970, and no such controls existed for the fiscal year 1970-71.

In the spring of 1970, the government introduced the concept of the A, B, and X Budgets. Guidelines were again prepared for 1971-72. A figure was struck for the X Budget of projects to be deleted, with the funds thus saved to be devoted to high-priority programs.

In September 1970, manpower controls were reimposed, with effect from April 1, 1971. Under the new system there was to be an upper limit on the number of man-years, divided between continuing employment and employment of other types. Each quarter, reports were required on the number of man-years used and on the strength at the end of each quarter.

CHAPTER 5

AN ASSESSMENT OF THE PRESENT SYSTEM

Up until a few years ago, most policy-makers saw their function as being one of brokerage. Demands were made on government on behalf of regions, industries, or members of social categories. The role of the policy-maker was either to reach a "solution through conflict" in which one group got what it wanted and the other didn't or, preferably, to reach a solution by compromise. In the latter case, the values of the groups in competition were unchanged.

Now, however, another and much more difficult type of solution is called for (Vickers calls it the integrative solution), which is necessary because of the highly complex and interdependent nature of our society and the clear limits on the volume of resources available to governments.

To deal with the new society, great political imagination is demanded from leaders in a search for new conceptions of the situation. Also, greater participation in decision-making by those affected is becoming desirable, if not necessary.

"The characteristic of an integrative solution is that it commands the assent of all the contestants as doing full justice to all their different claims; and it is attained only by changing the way in which the situation is regarded or valued (or both) by some or all of the contestants, a change which enlarges the possibilities of solution beyond those which existed when the debate began."¹

Not only is the character of political decision-making changing, but the demands on government are increasing as levels of aspiration rise. For example, the Central Planning Bureau in the Netherlands made a calculation of

¹Vickers, *op. cit.*, p. 208.

Progress of Budgetary Reform

the total cost of achieving the main goals of the various social groups in the country and found it would exceed by twenty times the available resources.² Moreover, the gap is growing between the aspirations of the members of the society and the possibility of their realization. It is for policy-makers to consider whether it is wise to try to close the gap by "spending your way out of the problem" or by acting on the society to dampen the rate of increase in levels of aspiration.

In this fluid situation, a modern government wishing to make good policy must design for itself a system for the perception of reality. Major factors in the intractability of the problem are the shortage of ministerial time and the choice of where to begin. Should Ministers spend a great deal of time considering the sort of Canada they want to see? Should they engage in abstract discussion of values in an attempt to achieve some rank order of preference? Or should they examine major sectors of government activity, looking for interrelationships and trying to sort out priorities through interaction among Cabinet and other spokesmen for the various regions, cultures, and different industrial and social groupings? Or is there time for any of this? Perhaps it is better to settle on the main thrusts of policy and try to find resources to deal with the most urgent of emerging problems. This would mean leaving the rest of government activity to go on its way against the day when measures of efficiency and cost effectiveness will give some indication of the programs that should be axed.

At high levels of aggregation the task is one of bewildering technical and moral complexity. It is fraught with major difficulties in the disentanglement of ends and means and in the clarification of assumptions about the nature of man and the qualities of justice.

Some of these difficulties can be evaded for a time by the development of a set of unweighted and incommensurable "social indicators" measuring the quality of life. Individual programs could then be assessed according to their likely contribution to the raising (or lowering) of various of these indicators. However, the problem of ranking values will remain.

²Quoted in Dror, *op. cit.*, p. 165.

Another possible approach is to design a "balance sheet" for the typical member of various regional, industrial, social, or demographic categories and then to look at the various outputs of government as they would affect this balance sheet. A major problem with this Benthamistic approach to policy analysis is that it may assume that contentment comes with the reaching of certain objective levels of well-being. This may not be the case; it may be that relative position is what bothers the members of various categories. Political contentment may result from greater equity, rather than higher standards of living.

Another way of coming at the problem may be to design a set of national goals, expressed not only in terms of economics, but in terms of such goals as national unity, greater participation, greater social equality, and so on. Here there are major difficulties in sorting out ends from means, and the problems of defining the contribution of various programs to these goals may be very considerable.

A major problem with the PPB approach is that it is an allocative instrument and hence is appropriate for a situation in which parts of the bureaucracy are making claims on behalf of competing sectors of the society. Left to itself, it is thus a conservative device, which, while it can aid judgment among competing claims, does nothing to prevent the linear and independent development of a multitude of single-track programs. If the decision had been to rely on PPB almost completely, the result would have been that bureaucratic claims represented society's needs and the only task was to make choices among these claims. If the choices were "rational", the public interest would then be served.

A decision to let PPB stand by itself would have had grave defects. For one thing, it would have been to ignore that "rational" choice is quite impossible if one is trying to judge between a program to develop the National Gallery and one to get a greater production of soybeans. For another, it would have been to have accepted incrementalism as inevitable, for the judgments would have been reduced to consideration of what departmental programs should be granted extra funds. Finally, given the limited value frame of each of the departments, it would not have given the Ministry the capacity to sense new problems and to respond to them.

Progress of Budgetary Reform

It is fortunate indeed that PPB is only part of a larger system and that there are complementary components of the system that allow more conscious judgment to be made among very disparate programs and that counteract the inherent conservatism of a purely allocative device. The Committee on Priorities and Planning devotes a fair amount of its attention to what Dror calls "the processing of values". Its outcome is a set of judgments on the main thrusts of government activity and on the major problems the government wants to tackle. In other words, the government, in a conscious exercise, attempts to sort out values.

Another important feature of the larger process, of which the Estimates is a part, is the conscious attempt to work out a phased interrelationship among at least three major activities: the consideration of the Estimates, the development of the revenue budget, and the legislative cycle. These are fitted into a frame that includes consideration of long-range values and the adequacy of the policy-making system itself. Here a major constraint is the available time of Cabinet Ministers.

Looking at the main Estimates process itself, it will be seen that it spans something like 13 months, quite apart from the time spent within the legislature. This carries certain penalties and advantages. From the point of view of the departments, it means that some sort of Estimates activity is going on all the time, with a consequent increase of pressure on senior officials. However, the stretching out of the process makes it possible for Treasury Board to deploy its analytic activities over much of the year. In the days when much of the effective consideration of Estimates was concentrated in a period of a few weeks, it was simply impossible to use staff resources to their full capacity. Also, the greater span of time and attention makes it less likely that a game of manoeuvre will succeed.

Moreover, the emerging system allows them to view the expenditure budget in many different ways -- for example, in terms of problems that have become urgent. Under the new arrangement, Ministers can call for inventories of efforts in all departments to solve those particular problems. Such inventories, with appraisals of their sufficiency, can lead on to judgments on government re-organization, with the aim of forming a coalition strong enough to deal with the problems under review.

Assessment of Present System

Another major advantage of the emerging system is that it formalizes the joint consideration of economic and fiscal policy and of programs of expenditure and lending. In the past, linkage of this sort was provided by a relatively small number of senior officers with responsibility to very few Ministers, and success depended upon the existence of an effective network among officials and upon the personal capacity of the Minister of Finance and his status within Cabinet. In contrast, the developing system provides an overall view of policies and expenditures, so that a larger number of Ministers can participate in evaluation, and the whole Cabinet can be involved in the major decisions to be reached.

One of the most significant developments over the last few years has been the introduction of the A and B Budgets. The idea was based on the realistic awareness that, until assessments of effectiveness and efficiency could be developed, judgments among existing programs would not be worth much effort. In the meantime, it seemed logical to focus the attention of the Board's staff and of Ministers on what was going on at the margin. Thus a start could be made on providing a sound base for all government spending later on. The invention of the X Budget has been less successful. However, it may well be that Ministers themselves are becoming impatient with the scarcity and triviality of the items in this budget and that increasing pressure will be brought to bear so that this source of "new money" can be exploited to a reasonable extent.

As we move in closer to the Estimates process itself, however, we find one major component that is largely a sham -- namely, the Program Forecast. The theory of PPB has it that the first step is to decide on objectives. Then various alternative means of reaching these objectives are explored, and judgment is reached on which one is the most *effective*. Finally, *efficiency* of effort in following the chosen path is evaluated.

In fact, relatively little such activity is reflected in the Program Forecast. Very few departments have conducted cost-effectiveness studies, although some have been undertaken by Cabinet directive. The Planning Branch of the Treasury Board and some departments are making progress, but there is considerable variation in the rate and degree of accomplishment. However, condemnation is easy, and the fact is that the theory of PPB has taken

Progress of Budgetary Reform

insufficient account of the human difficulties involved in real life situations. The theorists have confused the "ought" with the "is", perhaps because they did not understand the "is" well enough. They have said, "Government organizations are set up to pursue government objectives. Therefore, they must have goals." They would go on to say: "If they don't know what their goals are, or won't say what they are, they must be ignorant, or wrongheaded or both."

In practice, it is extremely difficult for a large complex organization to be specific about its goals, for the reasons already brought out earlier in the Study. Yet the policy-maker at the level of a national Cabinet *must* seek a clarification of organization goals. They are the only handle he has, the only means by which he can secure control of some of the most powerful bodies in our society.

There is nothing wrong with the theory of PPB when it says that goals should be defined, that alternatives should be explored in a search for the most effective, and that the efficiency of chosen instruments should be measured. The task should not be given up because of earlier facile assumptions about organizational objectives. The very intractability of the problem, and the serious consequences of letting it persist, dictate that it must be solved.

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