

Matters of Special Importance – 1999

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Matters of Special Importance – 1999

Main Points

As the 1990s are drawing to a close, it is an opportune time to take stock of where we are: to reflect on the things we have accomplished over the past decade and the challenges awaiting us in the next. In this chapter, I focus on developments within the federal public sector, looking in particular at the budgetary planning process, performance reporting practices, financial management systems, new governance arrangements and public service renewal. The 1990s witnessed progress in all of these areas, but shortcomings remain:

- The budget process is now more open than it used to be, but the two- to five-year budget horizon is much too short to take into account the longer-term implications of the fiscal choices we make, especially in the context of an aging population and the fiscal pressures it entails. Also, with the expiration of preset funding limits in 1998, there is no longer a mechanism in place to ensure ongoing review of programs.
- Nearly five years ago, the government announced a commitment to results-based management and reporting. While real progress has been made since then in clarifying program objectives and publishing performance measures, departmental reporting is still oriented mainly toward activities and products, and management is not sufficiently focussed on outcomes.
- The accounting methods and systems now used in government do not provide reliable and timely information about what operations or outputs cost. The Financial Information Strategy (FIS), a government initiative currently under way, is designed to fill this gap. Implementation of this initiative has experienced delays, however. It needs to be expedited, if the government's own target date for this initiative is to be met.
- The delivery of government services is increasingly taking place through non-departmental mechanisms, often involving partnership arrangements with other governments or the private sector. Since no single minister is wholly responsible for results in such cases, these arrangements call for new ways of holding government accountable. Without appropriate accountability mechanisms, these arrangements can erode the ability of Parliament to scrutinize government and hold it to account.

- Government efforts to revitalize the public service have intensified recently, but the job is huge and far from finished. Gaps created by years of downsizing and restructuring remain. People management practices need to be modernized. And an aging work force portends immense staffing needs in the years ahead. Reform and renewal of the public service may well be the government's biggest challenge.

The 1990s have been a decade of transition in government. As we enter a new decade, we must aim to consolidate our achievements and continue moving forward. Building on the foundations of the past decade, we can succeed in passing on to posterity a stronger Canada, as our forebears did for us.

Vision

We are committed to making a difference for the Canadian people by promoting, in all our work for Parliament, answerable, honest and productive government that reflects a commitment to sustainable development.

Mission

The Office of the Auditor General of Canada conducts independent audits and examinations that provide objective information, advice and assurance to Parliament. We promote accountability and best practices in government operations.

Elaboration of Mission

*In achieving our mission,
we want to make a difference by promoting:*

- ◆ *a fair and frank accounting of government's stewardship of financial and other resources*
- ◆ *efficiency and productivity in the public service*
- ◆ *cost effectiveness of government activities*
- ◆ *collection of revenues owed to the Crown.*

*Other effects we want to produce
through our work are:*

- ◆ *objective assurance on matters found to be satisfactory and unsatisfactory*
- ◆ *compliance with authority*
- ◆ *deterrence of fraud and dishonesty.*

Two Cheers for the Nineties



Introduction

Writing in this space in 1995, at the midpoint of the 1990s, I wondered how the decade would eventually be remembered. I speculated that either “uncertainty” or “transformation” might describe Canada in the 1990s, depending on how we responded in the remaining years of the decade to the issues generating anxiety at that time:

constitutional disputes, fiscal difficulties, technological disruptions, globalization.

Looking back now from the perspective of 1999, I think it is fair to say that we have made solid progress in tackling these issues. Not that there aren't still concerns. Our journey is not finished. But I believe that, on balance, “transformation” will likely trump “uncertainty” in the history books as a byword for the nineties, and the decade will be deemed to deserve two cheers.

In what follows, I concentrate on developments in the federal public sector, an area where, in my view, the decade was pivotal.

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A decade of great change

Canada's federal public sector has experienced profound changes in the 1990s. We entered the decade with huge budget deficits and widespread concern that Canada was courting financial crisis. Today, as the decade draws to a close, the budget is in surplus and the public debate is over how to use the fiscal dividend. The federal government work force, at 220,000 (excluding personnel in Crown corporations and the military), is approximately one-fifth smaller today than it was at the beginning of the decade. In December 1990, the government released a blueprint for the renewal of the public service, calling for fewer centrally prescribed rules, greater freedom for departmental managers to manage their departments and more authority for front-line employees. Today these plans are, in large measure, fact — although the journey begun 10 years ago is far from over.

Similar changes have occurred over the past decade in many other jurisdictions, both in Canada and abroad, reflecting the influence of common forces. Among these forces are stronger demands on governments to operate

efficiently, and new possibilities — created by the information revolution — to reorganize the way government works.

One source of pressure for efficient government is a better informed and more demanding public. In part, this is a result of faster communication in a wired world. In part also, slow economic growth and rising taxes since the mid-1970s have strained household budgets. Families forced to tighten their

belts to make ends meet are likely to look closely at how their governments spend and to insist on better value for money in the provision of public services.

Improving performance has become a pressing need for governments in the closing days of the 20th century.

The huge buildup of public debt over the past two decades adds to the pressure for more efficient government. With a large proportion of government revenues being diverted to servicing the debt, money spent on providing services must go that much further to maintain their level and quality without resorting to higher taxes. Improving performance has thus become a pressing need for governments in the closing days of the 20th century.

At the same time, developments in information technology are creating new possibilities for governments to respond to that need. Advances in computing and communications are making it easier to disseminate information and consult with citizens, fostering more open and consultative government. They lower the costs of transacting with outside parties, co-ordinating activities at a distance and monitoring performance, thereby favouring new forms of service delivery over traditional means. They call for a highly skilled and adaptable work force, which requires new and innovative people management practices for optimal performance.

Modernizing government

These developments are occurring in most Western nations and are contributing to a fundamental shift in the way we view government, what it does and how it does it. The traditional, bureaucratic model of public management — centralized, secretive, hierarchical — is increasingly seen as inadequate to the times. While a clear alternative to the traditional model has yet to emerge, prominent features of the new generation of public management include:

- a more transparent and forward-looking budgetary process;
- a decentralized and results-based approach to management;

- greater reliance on outsourcing and partnerships with other organizations to deliver services; and
- a more incentive-driven and flexible government work force.

Where does Canada's public administration figure in this global revolution in public sector governance? What changes are needed to ready it for the next century?

These are the questions I take up in this chapter, looking particularly at modernized budgetary processes, improved results-based information, new accountability mechanisms and public service revitalization. Other issues that are not directly related to the theme of modernizing government but that I consider important are highlighted in a supplement to the chapter.

The budgetary process: Better but still not good enough

The way the government puts its budget together has changed significantly in the 1990s. Central to this change have been the pre-budget hearings held in the fall by the House of Commons Standing Committee on Finance. I called for such hearings in my 1993 Report, and I am pleased to see them become part of the regular budget process. In my view, they represent one of the most significant budget reforms in decades.

The hearings provide an excellent opportunity to focus attention on budget issues and to involve the public in decisions about budget matters. They receive wide publicity, and thus help to improve the public's understanding of the financial constraints and trade-offs the government faces in making fiscal policy. They allow the government to test proposals it is considering and to receive feedback from the public and from Parliament before including such proposals formally in the budget. And they can help mobilize public support for change, by including Canadians at large in the decisions. The hearings, together with the background documents provided by the Department of Finance to support them, have resulted in a much more open and transparent consultative process, consistent with best practices in other jurisdictions.

In other respects, however, the federal budget process lags modern practices elsewhere. In particular, it is still not sufficiently forward-looking, the focus on short-term surplus targets is too narrow and, with Program Review completed and immediate fiscal pressures behind us, there is no longer a mechanism in place to encourage ongoing review of programs.

A long-term perspective is long overdue

I have long been calling for the government to provide long-term fiscal projections as part of the budgetary process. I remain convinced that long-term fiscal projections are necessary to counterbalance a natural political tendency to focus on the short run.

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In recent years, the government has been producing only two-year projections. In his fall fiscal update released earlier this month, the Minister of Finance for the first time provided five-year forecasts of government revenues and expenditures, based on an average of private sector forecasts. Extending the fiscal outlook from two years to five is an important step in the right direction. But I believe that it still falls short of what is needed for a fully informed debate on the budget choices we face and the implications that follow from them. For that, we need information on Canada's longer-term fiscal outlook as well.

Increasingly, other countries are providing the long-term budget frameworks that enable legislatures and the public to make informed choices about their future. Since long-term projections are necessarily speculative, they should not imply a government commitment to the precise outcomes projected. In the United Kingdom, for instance, where long-term fiscal projections are mandated under the *Code of Fiscal Stability* enacted last year, these projections are clearly labelled as "illustrative". In New Zealand, where similarly long-term projections are required under the *Fiscal Responsibility Act*, the Minister specifies that these projections "are not fiscal forecasts. They indicate what the fiscal position might be under alternative assumptions." The value of such projections lies in making the long-term consequences of fiscal policy more explicit, both to Parliament and the public, and in providing early warning of adverse fiscal trends and lurking expenditures.

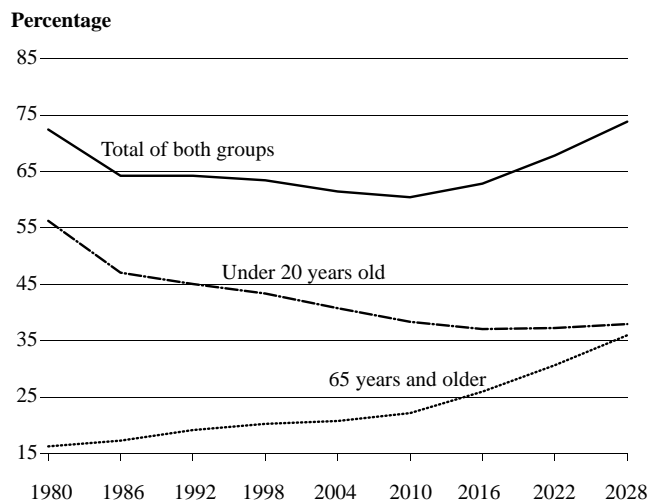
In a report tabled in October 1998, the House of Commons Standing Committee on Public Accounts endorsed the need for long-term fiscal information. In its response to the Committee, the Department of Finance argued that long-term projections would undermine "the importance and urgency of addressing immediate problems." However, the Department did leave the door open for such projections at some later date, once the government has accumulated more annual surpluses and there is less political focus on short-term targets. I think the Department is mistaken. In my view, the argument that long-term fiscal projections would detract from the

importance of immediate problems is not persuasive. Only by considering the longer term can we fully appreciate how urgent our present fiscal situation is.

This is especially true today, given projected demographic trends and their consequences for public finances. The ratio of youth and elderly to the

Exhibit 1

Ratio of Youth and Elderly to Working Age Population



Source: Statistics Canada, Matrix 6367

working-age population in Canada is at an historically low level (see Exhibit 1). This favorable ratio will begin reversing in about 10 years, as the large baby boom generation begins reaching normal retirement age. Within three decades, the proportion of elderly in the population will have doubled, putting unprecedented pressures on our health care and social security systems. Decisions we make today will define the choices available to Canadians not just this year and next, but decades ahead. Should we leave that legacy to chance?

Canada eliminated its deficit much faster than almost anyone thought likely a few years ago. The near-term outlook remains favourable. This provides us with a window of opportunity to put

in place the structures that can withstand the demographic pressures looming ahead. To do that, we need information on how serious those pressures are. And clearly, such information requires an outlook well beyond the government's current two- to five-year budget horizon.

In a surplus environment, unconditional short-term targets based on pessimistic projections can lead to adverse consequences

The fiscal plan or framework is a key feature of any modern budget. It reflects the government's fiscal response to current economic conditions and its strategic approach to ensuring stability and health in public finances. Until recently, the government's fiscal strategy had focussed exclusively on deficit reduction. With the elimination of the deficit two years ago, the government's announced objective now is to maintain a zero balance or a small surplus in its annual budget.

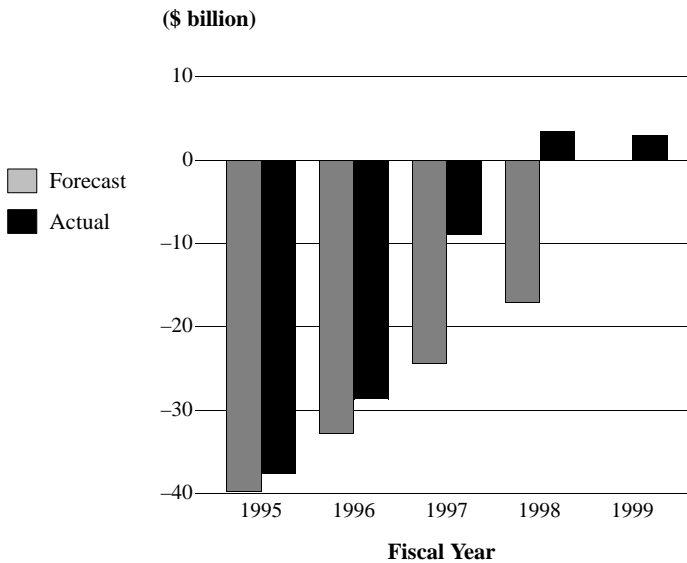
Under the current planning process, specific targets for the budget balance are set for each of the two fiscal years following the budget. The government commits itself unconditionally to meeting these targets: in the vivid language of the Minister of Finance, they are targets to be met "come hell or high water." To ensure that they are, the targets are based on "prudent" economic assumptions,

meaning assumptions that interest rates will be higher and economic growth correspondingly lower than the consensus forecast by the private sector. They also include a \$3 billion “contingency reserve” as an additional cushion against unforeseen developments.

As Exhibit 2 shows, over the past five years, the government has in fact bettered every target it has set. In the early years of this “prudent” approach

Exhibit 2

Budget Balance: Forecast vs. Actual



to budget planning, when the budget was still in deficit, bettering the target meant, in effect, moving toward a balanced budget faster than forecast. This proved useful in earning the government a reputation for fiscal discipline and assuring markets that Canada’s finances were at last under control. But now that the budget is in surplus, this approach to budget planning has less benign consequences.

For one, it biases government decisions toward higher spending. With budget projections based on pessimistic assumptions, it is likely that the actual budget surplus will exceed the projection. By the time this becomes evident near the year-end, it is normally too late to affect the result through tax reductions, leaving increased spending as the most effective means of eliminating the

“excessive” surplus. Each of the past two budgets contained significant new spending booked in the year the budget was tabled. As a result, recorded spending in each of those two years was substantially higher than had been planned. In February 1997, program spending for fiscal year 1997–98 was budgeted at \$105.8 billion, but actual spending recorded for that year was \$108.8 billion. In February 1998, program spending for fiscal year 1998–99 was budgeted at \$104.5 billion. Actual spending was \$111.4 billion, nearly 7 percent higher.

At issue here is more than the mere fact that the government spent more than it had planned to spend. How this was done also matters. A scramble around budget time to find ways to spend money before the year ends is not a process calculated to ensure efficiency, effectiveness and economy in the use of public funds. In fact, it differs little from end-of-year spending by departments with surplus funds, except that it involves not millions but billions of taxpayer dollars.

The current approach to budget planning also leads to pro-cyclical bias, adding stimulus when the economy is strong and removing stimulus when the economy is weak. Budget surpluses will tend to be larger than projected when economic growth is higher than expected, and smaller when growth is relatively low. A policy of sticking to a specific surplus target, regardless of events, will therefore normally require increased spending when the economy does better than expected and reduced spending when the economy does worse. In short, it will tend to stimulate an already strong economy and dampen a weak one, exacerbating normal swings in the business cycle.

The current approach to fiscal planning was adopted at a time of huge deficits and widespread skepticism about the government's ability to rein them in — the legacy of a series of overoptimistic forecasts. In those circumstances, setting unconditional short-term targets proved a winning strategy. With the conditions giving rise to that strategy now behind us, the strategy itself needs to be rethought.

A multi-year fiscal framework can promote fiscal discipline and sound spending decisions

The government's success in eliminating the deficit was aided by two initiatives it launched early in its mandate. The first was Program Review, involving a comprehensive examination of existing programs to determine whether they were still necessary and, if so, whether they could be better run. The second initiative was a new Expenditure Management System, which capped government spending by requiring that all new projects be financed with funds reallocated from existing programs.

The need for ongoing review of government activities remains.

Program Review was completed by 1995 and the cap on spending was lifted implicitly in 1998, with the elimination of the deficit. The need for ongoing review of government activities remains, however, for we still need to ensure that they continue to serve a useful public purpose and that they remain efficient, effective and affordable.

A multi-year fiscal framework can provide the incentive for this ongoing review. As part of such a framework, the government would establish aggregate spending limits consistent with the fiscal future it wants to bring about. Limits on total spending can help promote good management and fiscal discipline in the public sector. They play the role that household budgets do in family spending decisions: forcing decision makers to recognize the costs of their decisions and the need to choose carefully among their spending options.

There is no limit to the demands that can be made of government or to the services government can choose to provide. In the absence of a budget constraint, the temptation to do too much is natural. When spending on new programs can be accommodated without depriving existing ones of resources, why bother with the difficult — and costly — exercise of carefully analyzing new proposals, or risk alienating political support by opposing

Even in good times — especially in good times — it is important that we set affordable limits on spending and live within them.

them? Government ministers and managers have limited incentive to curb their own spending, or to oppose that of others, when it does not interfere with their own favourite programs. Establishing explicit limits on total spending changes this dynamic, by bringing home to decision makers the fact that every program has to compete for resources with all others. It encourages a more careful review of new initiatives and comparison

of their merits with those of other initiatives that would have to be sacrificed to put them into place.

Canada's finances improved significantly over the past few years. Our challenge now is to maintain the fiscal discipline that made those improvements possible. Even in good times — especially in good times — it is important that we set affordable limits on spending and live within them. As we learned in the early 1990s, if we do not establish limits ourselves, the financial markets will do it for us. The whole point of a good budgetary process is to prevent us from ever falling back into that condition.

For related OAG work, see: 1998 Chapter 6 Population Aging and Information for Parliament: Understanding the Choices; 1995 Chapter 9 Information for Parliament – Deficits and Debt: Understanding the Choices; 1993 Chapter 5 Information for Parliament – Understanding Deficits and Debt.

Without better information on the results of government programs, Canadians cannot know what they get for the taxes they pay

In my first report as Auditor General eight years ago, I stressed the need for managers and departments to account for results: “for what they have — or have not — achieved with taxpayers’ money.” Information on results is necessary first and foremost because it goes to the heart of why organizations exist, which of course is to achieve desirable results, not to just use up

resources. But it is necessary for practical reasons as well — more specifically, to:

- manage programs and services more efficiently and effectively. We cannot improve what we do unless we know the results of what we are doing;
- support better allocation of public resources. Intelligent decisions on the funding of programs require information on what those programs are achieving or are not achieving; and
- improve accountability in the use of public funds. As delegation of authority to use public resources proceeds, clearer reporting on objectives and on results achieved becomes all the more necessary to preserving democratic control and accountability for use of the taxpayers' money.

The federal government has introduced several important initiatives in this area over the past few years, as Exhibit 3 shows. These initiatives have

Exhibit 3

Milestones in Performance Reporting at the Federal Level

February 1995. The government announced a new Expenditure Management System, stressing commitment to “performance information and management.”

November 1995. In his annual report, entitled *Strengthening Government Review*, the Treasury Board President reaffirmed the government’s commitment to results-oriented management and set out its strategy to bring it about.

April 1997. The House of Commons approved a motion to split the annual *Estimates Part III* into two documents, a *Report on Plans and Priorities*, tabled in the spring, and a *Performance Report*, tabled in the fall. The intention is for the reports on plans and priorities to establish performance expectations and for the performance reports to disclose how well previous expectations were achieved. The first complete set of Performance Reports was tabled in November 1997 and the first full set of Reports on Plans and Priorities in March 1998.

certainly made a difference. Information to Parliament is now more complete and accessible; descriptions of departmental missions, structures and activities are better; and progress has been made in setting expectations and reporting performance.

Yet, as the government acknowledges, much remains to be done. Objectives in departmental plans are frequently vague. The specific results expected are often neither clearly stated nor measurable, and they tend to focus on outputs (what is produced), not outcomes (what happens as a result). Reporting is still oriented mainly toward activities and products.

It was recognized from the beginning that managing for and reporting on results would be difficult to implement. Establishing

meaningful performance expectations, reliably measuring accomplishments and reporting on them fairly are not easy tasks. Causal links between program outputs and societal outcomes are rarely unambiguous or precise. Our expectations about what is possible must therefore be realistic.

That said, however, I’m convinced that focussing on results is the right approach. Other jurisdictions that have travelled this road ahead of us —

Australia, New Zealand, the United Kingdom, the United States, the Nordic countries — acknowledge the difficulties, but none that I know of is thinking of turning back. Independent standard-setting bodies in Canada agree. CCAF–FCVI Inc., the Canadian Institute of Chartered Accountants, the Canadian Council of Legislative Auditors — each one of these organizations has recently sponsored major research and development programs aimed at promoting performance reporting in the public sector. These initiatives reflect a growing consensus among practitioners on the importance of results-based reporting for effective performance and accountability in the public sector.

Nevertheless, progress in this area will likely remain slow until appropriate incentives to report on results and performance are put in place. An important first step would be for the government to find a way to make better

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use of performance information in its decisions on planning and allocating resources among programs. Parliamentarians can also help by reviewing Departmental Performance Reports more closely and using them more extensively in scrutinizing government activities. And departmental managers must be encouraged to integrate performance measures more fully in their own planning decisions. For all of this to happen, strong support from senior managers is needed to change the culture to one focussing on outcomes rather than only inputs and outputs. Without this support, progress will be very slow. With it, public management can be modernized.

For related OAG work, see: 1998 Report on Parliamentary Committee Review of the Revised Estimates Documents; 1997 Chapter 5 Reporting Performance in the Expenditure Management System; 1997 Chapter 11 Moving toward Managing for Results; 1997 Chapter 22 Crown Corporations: Making Performance Measurement Work; 1995 Chapter 10 Crown Corporations: Fulfilling Responsibilities for Governance; 1993 Chapter 4 Crown Corporations: Accountability for Performance.

Better cost information is needed for improved performance

Good performance reporting and managing for results are also hampered at present by poor information on the cost of government activities. Accurate and timely financial information is essential to an effective performance-based system. To assess performance, results must be linked to costs. It is not enough to know merely what is produced; we also need to

know the cost of that production. The accounting methods and systems now used in government do not provide reliable and timely information about what operations or outputs cost.

The accounting methods and systems now used in government do not provide reliable and timely information about what operations or outputs cost.

The government's Financial Information Strategy (FIS) currently being implemented is designed to fill this gap. Among other things, FIS will replace the somewhat archaic, partly cash-based present system of accounts with full accrual accounting similar to that used by business firms. This means that capital asset costs will be recognized over time as the assets are used up, instead of all "up front" in the year acquired. By

appropriately associating costs with the operations they support, accrual-based accounting will provide us with better information on what government programs actually cost.

First launched in 1989, FIS was re-endorsed as a government priority in 1995. The target date for implementation across government is April 2001. FIS will bring the management of government into alignment with modern private sector practices in other jurisdictions, such as Alberta, Australia, New Zealand and the United Kingdom.

The pace of implementation will have to accelerate if that target date is to be met. As I report in Chapter 21, FIS remains far from completion. At the time of our audit, most government departments were ill-equipped to implement FIS, and central management and support by the Treasury Board Secretariat needed considerable strengthening. In my view, the momentum created across government to deal with Y2K must now be carried forward to FIS. In particular, new financial systems and accounting rules must be put in place within two years if the present deadline is to be met, and officials throughout government must be encouraged to use the more businesslike and timely financial information that FIS will provide for day-to-day management and accountability.

The government cannot afford to let this project lag, especially in light of previous delays. Not only meaningful performance reporting but program evaluation, inventory and asset management, decisions about how to fund and run programs, how much to charge for user services where user-pay policies are in place — all of these activities require information that the government does not now have and that FIS, properly implemented, can provide.

For related OAG work, see: 1999 Chapter 21 Financial Information Strategy: Departmental Readiness; 1998 Chapter 18 The Financial

Information Strategy: A Key Ingredient in Getting Government Right; 1997
Chapter 2 Financial Management: Developing a Capability Model; 1997
Chapter 3 Management of the Government's Accounting Function: A Central Agency Perspective.

New governance arrangements require new accountability mechanisms

In Chapter 23 of this Report, I discuss the results of a government-wide audit of accountability in new types of governance arrangements that involve organizations outside the federal government in the delivery of federal objectives. The Labour Market Development Agreements with the provinces, the Canada Foundation for Innovation, the National Child Benefit, the

Canada Millennium Scholarship Foundation and the St. Lawrence Seaway Management Corporation are examples. There has been a significant growth in the use of such arrangements and they hold promise of more effective and efficient delivery of federal programs and services.

Without appropriate accountability and good governance mechanisms, these arrangements can erode the ability of Parliament to scrutinize the use of federal power.

I am concerned, however, that the government has not given proper attention to the implications for

accountability and good governance. By their very nature, these arrangements challenge the traditional accountability relationship that sees ministers answerable to Parliament for their policies and programs and, through Parliament, to citizens at large. Since other parties are also involved in these arrangements, ministers are never wholly responsible for them. In some cases, arrangements have intentionally been set up to be totally independent from ministers, even though they may depend on federal funds and federal authority. Without appropriate accountability and good governance mechanisms, these arrangements can erode the ability of Parliament to scrutinize the use of federal power and the right of citizens to accountable government.

Our government-wide audit found significant weaknesses in existing accountability mechanisms. Arrangements have been established without adequate provision for Parliament to scrutinize the way they operate or to hold the government to account for their performance. And they do not always provide means for public input, citizen redress, or recourse when the public's expectations are not met. Indeed, there are few mechanisms in place that would allow the government itself to monitor these arrangements effectively. As things now stand, the government does not know to what

extent it is using these arrangements or whether, as instruments of federal policy, they are performing well or failing.

Fiscal and technological forces are pushing governments to use innovative, non-traditional ways of delivering programs and services. Reliance on new governance arrangements is therefore likely to grow in the future. As we move to these new forms of delivery, however, we should be careful not to jettison fundamental principles of parliamentary democracy along the way. Whenever the government enters into new arrangements for program delivery, it must ensure that they address several key elements: credible reporting, effective accountability mechanisms, adequate transparency and protection of the public interest. Parliament itself needs to consider carefully what governing framework it expects in such new arrangements. While increased reliance on new forms of public service delivery may be inevitable, it need not be at the expense of accountability to Parliament and the public.

For related OAG work, see: 1999 Chapter 5 Collaborative Arrangements: Issues for the Federal Government; 1999 Chapter 6 Human Resources Development Canada – Accountability for Shared Social Programs: National Child Benefit and Employability Assistance for People with Disabilities; 1999 Chapter 23 Involving Others in Governing: Accountability at Risk; 1999 Chapter 24 The Canadian Adaptation and Rural Development Fund: An Example of Involving Others in Governing; 1998 Discussion Paper Assessing Alternative Service Delivery Arrangements (June); 1998 Chapter 12 Creation of the Canadian Food Inspection Agency; 1997 Chapter 5 Reporting Performance in the Expenditure Management System; 1997 Chapter 19 Transport Canada – The Commercialization of the Air Navigation System.

Revitalization of the public service is critical to the success of all other public sector reforms

A highly competent and well-motivated government work force is key to successful public sector reform. In the end, it is people who must implement the reforms, deliver the services and provide feedback for improved performance. Modernizing the public service is therefore vital to modernizing government. Bringing this about may be the government's biggest challenge.

Modernizing the public service is vital to modernizing government.

The public service today is a knowledge-based institution: a majority of its members are in the professional or management categories. In the future this will likely be even more pronounced. Human resource systems and practices designed for an

earlier era will not sustain the public service of the future. “Knowledge workers” tend to be self-directed. They perform better in an environment of incentives than of rules. They demand greater involvement in decision making. They value flexible working arrangements and opportunities for continuous learning. Smart companies are already operating this way. Canada’s public service will have to learn to compete with them, if it is to attract and retain the right workers for the future.

At the same time, the public service is an institution under considerable pressure. Work force reductions and years of restraint and restructuring have had an unsettling impact. Skills and competencies to run programs are lacking in many areas. According to recent surveys, increased workloads and poor career paths are major concerns among federal public service employees, while young Canadians no longer view the public service as an

Failure to reform the public service would put all other public sector reforms at risk.

attractive career option. The government will have to cope with these immediate concerns while establishing a plan to deal with the longer-term needs of the public service.

One issue that is both immediate and longer-term is work force renewal. The public service work force is older than the Canadian work force as a whole. A large proportion of public service employees will likely retire during the next decade. Over one half of senior managers will be eligible for retirement within the next five years. The public service will have to replace these employees at a time of generally slow labour force growth and increasing demands for skilled workers in other sectors of the economy. And it will have to do so while safeguarding core public sector values like integrity, non-partisanship, diversity and respect for due process.

The government is aware of these problems and the challenges they pose. It has paid more attention lately to human resource issues and progress has been made in some areas, as I reported last April in a chapter on the management of science and technology personnel. New recruiting and development programs, resumption of collective bargaining, la Relève and a universal job classification system are among the prominent recent government efforts aimed at adapting human resource management practices to the current and anticipated needs of the public service work force. A host of other, less visible projects with a similar purpose are under way across the public service and within individual departments and agencies. But the job is huge, and progress appears frustratingly slow.

It is likely to remain so until the government succeeds in establishing a vision of the public service that can give all these efforts coherence and

direction. What is the proper balance between central direction and departmental autonomy over personnel management? How do we maintain a unified public service while devolving responsibility to departments and agencies? Which government functions should remain in the core public service and which could be allowed to migrate elsewhere? Without clear answers to such questions, progress in reforming the public service will likely stall. And failure to reform the public service would put all other public sector reforms at risk.

For related OAG work, see: 1999 Chapter 9 Management of Science and Technology Personnel: Follow-up; 1998 Chapter 1 Expenditure and Work Force Reductions in the Public Service; 1998 Chapter 2 Expenditure and Work Force Reductions in Selected Departments; 1997 Chapter 1 Maintaining a Competent and Efficient Public Service.

Conclusion

The 1990s have been a decade of transition in government, both in Canada and elsewhere. The revolution in information technologies that is forcing companies across the spectrum to “reinvent” themselves is having a similar impact on governments. Like corporations in the private sector, governments are becoming smaller, mission-oriented organizations providing goods and services through varying arrangements with other parties. The principle that best describes this emerging public sector model is captured by the maxim that “governments should steer, not row.”

Common elements of this emerging model include greater reliance on means outside of departments to deliver services, a shift in focus from inputs and outputs to outcomes, management based on results rather than rules, and a lessening of centralized controls in favour of increased managerial autonomy and employee empowerment. It also encompasses a more participatory form of governance, entailing more transparency in government operations and more consultations with the public in formulating policies and making decisions.

The federal government has made important strides during the decade now ending. But much more still needs to be done before the results merit three cheers rather than two.

In most of these areas, the federal government has made important strides during the decade now ending. But much more still needs to be done before the results merit three cheers rather than two. An open and forward-looking budgetary process, good information on the results of government activities and integration of that information in management decisions, a clear perspective on the role and make-up of the future public service along with the actions necessary to see this brought about — it will

take improvements in all of these areas. In most cases, all that is needed is further progress on processes now in place. It is therefore certainly within our reach — and we should make it our goal — to earn that third cheer before the next decade is out.

At the threshold of a new century, Canada stands tall and full of promise. As our membership in the G-7 shows, Canada ranks among the economically most important countries in the world today. And our first-place ranking in the UN Human Development Index for six years in a row indicates that our achievements extend beyond the economic sphere alone.

National success is not foreordained, however. As we know from the experience of other countries, it is possible for societies to regress as well as to move forward. Which course they find themselves on depends critically on the performance of the public sector: its capacity to generate informed policies, provide the necessary infrastructure, minimize the burdens it places on private firms and individual taxpayers. To ensure that we move forward, we need government institutions that are responsive, effective and efficient. Building on the foundations of the past decade, we can succeed in passing on to posterity a stronger Canada, as our forebears did for us.



Chapter Supplement: Other Recent and Ongoing Audit Issues

Managing for sustainable development: Progress has been made but gaps remain

It has been four years since the *Auditor General Act* was amended to help strengthen the federal government's performance in protecting the environment and promoting sustainable development. Those amendments required government departments to prepare sustainable development strategies, and created the position of Commissioner of the Environment and Sustainable Development within my Office to monitor and report annually to the House of Commons on departmental performance.

Since then, the Commissioner of the Environment and Sustainable Development has reported three times to the House of Commons on a total of 17 audits and studies of issues with an important environmental or sustainable development component. What have we learned?

Many environmental and sustainable development issues are, by their very nature, difficult to manage. They are often scientifically complex, involve long time frames and do not fit neatly within a single department's or government's mandate or jurisdiction.

Notwithstanding those difficulties, when policies and programs are developed and announced, the public does expect that they will be implemented and that intended results will be achieved. But as the Commissioner stated in his May 1999 Report, the federal government's management of environmental and sustainable development issues is a mix of successes, failures and works in progress.

Both the Commissioner and I are convinced that performance can be significantly improved by applying sound management practices to the sustainable development agenda. Departments and agencies have taken the first steps: we have seen examples of good environmental management, and a growing interest among public servants in understanding and sharing good practices.

But we still have a way to go before those good practices become the norm and are applied routinely to the management of environmental and sustainable development issues.

For related OAG work, see: 1999 Report of the Commissioner of the Environment and Sustainable Development.

Managing Atlantic shellfish in a sustainable manner: Have we learned from past mistakes?

Last April, I reported the results of an audit of the way the Department of Fisheries and Oceans manages the Atlantic shellfish fisheries. The findings of that audit lead me to question whether government has learned the lessons of past failures in fisheries management.

Many of the management problems found in previous audits (reported in Chapters 14 and 15 of my 1997 Report) continue to exist. Of greatest concern is that the Department has still not developed an overall management framework for the Atlantic fisheries. As a result, fundamental questions about fisheries management remain unanswered. What are the overall objectives for managing the fishery? How are competing biological, social and economic factors to be balanced in decisions made by fisheries managers? How can decisions be made in an open and transparent manner, consistent with a set of guiding principles for the fishery? In the face of inevitably limited information about the resource, how is an appropriate element of caution introduced in regulatory policies about the fishing industry? These are only a few of the key issues that the Department must address.

I believe that the Department must move quickly to develop an overall framework for managing Atlantic fisheries in a sustainable manner. The Standing Committee on Public Accounts also made such a recommendation in a report to the House of Commons last June. This framework should be the foundation on which future decisions are based. Without this foundation, the long-term sustainability of the resource remains at risk.

For related OAG work, see: 1999 Chapter 4 Fisheries and Oceans – Managing Atlantic Shellfish in a Sustainable Manner; 1999 Chapter 20 Fisheries and Oceans – Pacific Salmon: Sustainability of the Fisheries; 1997 Chapter 14 Fisheries and Oceans Canada – Sustainable Fisheries Framework: Atlantic Groundfish; 1997 Chapter 15 Fisheries and Oceans Canada – Rationalization to Renewal: Atlantic Groundfish.

User fees: More than just government revenues

The idea of government user fees is not new; some federal government departments have been charging since the turn of the century for services they provide. But only in this decade has the idea received serious widespread attention, particularly following the 1995 Program Review when departments revamped programs to deal with the deficit and to improve their services to Canadians. Existing user fees were increased and new ones introduced.

Critics of this initiative have been many and vocal. User groups, and respected commentators, have criticized the way user charges have been implemented and questioned the merits of the policy. One of the main architects of the Program Review exercise argues that managers relied too heavily on user charges to meet Program Review objectives. An influential industry group has called for a fee moratorium across government.

Our audit work, both in past years and this year, provides ample reason for concern about how user charges have been implemented. Weaknesses in determining costs of individual services have left users with an unsettling feeling about the cost figures used to set fees. Often, managers can't make a convincing case that users are not being charged for inefficient operations. Despite the fact that user charges are a contentious issue that has sparked a great deal of debate, departments and the Treasury Board Secretariat have generally reported little information to Parliament and the public on plans for user charges or on results.

What is to be done, then? The Treasury Board Secretariat has promised to review experience with the policy this year. With many voices arguing that user charges should be frozen or abandoned, it is important to consider the arguments for fixing the initiative. Our work provides evidence that user charges can generate additional benefits, beyond revenues, to both the government and users of services. This can serve as an incentive for users to work with managers and focus services on what they truly value. The pressure that user charges create to improve service standards, costing systems and efficiency of operations should be welcomed by users and government officials alike.

User charges are not applicable everywhere, nor should they be seen as a panacea, but they can play a valuable role in the management of government services.

For related OAG work see: 1999 Chapter 11 Agriculture Portfolio: User Charges

Grants and contributions programs: Management shortcomings persist

Grants and contributions are transfer payments from the government to individuals and organizations of various types. Grants are unconditional transfers; that is, they impose no requirements on recipients beyond the initial entitlement conditions. Contributions, however, are transfer payments that are subject to performance conditions specified in the contribution agreements.

Over the past two decades, my Office has carried out several audits of the management of grant and contribution programs by federal departments and agencies. These audits identified persistent shortcomings, ranging from problems in compliance with program authorities to weaknesses in program design, and to poor controls and inadequate reporting on performance.

I can't help but express a certain degree of frustration with the management of grant and contribution programs. I believe that my Office has made a difference in the programs that we have audited. What concerns me is that when we look at programs we have not audited before, we find similar problems. I know that parliamentarians share my concern. For instance, in its 24th report to the House of Commons tabled in March 1999, the Standing Committee on Public Accounts recommended that my Office consider undertaking an audit of the management of grant and contribution programs government-wide and report our conclusions to Parliament.

In my response to that recommendation last June, I informed the Committee that we were planning such an audit for reporting in the fall of 2001. Our intent is to look at a number of different departments and agencies with relatively large grant and contribution programs, so that we can make summary observations on the quality of the management of such programs across government.

In the meantime, we continue to carry out audits of specific grant and contribution programs and report on each to the House of Commons. This year, we examined payments made under The Atlantic Groundfish Strategy, Phase II of the Canada Infrastructure Works Program, and four grant and contribution programs in the Industry Portfolio.

For related OAG work, see: 1999 Chapter 7 The Atlantic Groundfish Strategy: Contributions and Grants; 1999 Chapter 17 Canada Infrastructure Works Program: Phase II and Follow-up of Phase I Audit; 1999 Chapter 19 Industry Portfolio – Investing in Innovation; 1998 Chapter 27 Grants and Contributions: Selected Programs in Industry Canada and Department of Canadian Heritage.

National Health Surveillance: Lack of collaboration impairs effectiveness

Health surveillance is a core function of public health. In Chapter 14 of this Report, we examine the way Health Canada carries out national health surveillance and control activities, and how those activities support the other components of the public health framework.

The chapter identifies weaknesses in national surveillance of diseases and injuries that, taken together, have clear national implications for public health. First, they compromise Health Canada's ability to detect, prevent and control health risks associated with outbreaks of communicable diseases and other health threats. Second, they compromise its ability to plan and carry out programs that deal with the causes and treatment of diseases.

In a separate but related chapter, we present a case that illustrates many of the issues raised in Chapter 14. We looked specifically at how federal and provincial agencies — Health Canada's Food Directorate with its Laboratory Centre for Disease Control (LCDC), the Canadian Food Inspection Agency (CFIA), and provincial and local public health departments — responded to an outbreak of a food-borne disease that occurred in March and April 1998.

We found that some important elements of the response to the outbreak worked well, but others did not; for instance, there was insufficient co-operation among the agencies involved. The CFIA did not share certain information when requested by provincial public health officials to assist in the investigation.

A formal framework is needed that sets out clearly the roles and responsibilities of the LCDC in relation to those of other participants, in order to guide the response to threats to public health. Many individuals could have avoided this illness had the federal and provincial health departments acted more quickly.

For related OAG work, see: 1999 Chapter 14 National Health Surveillance – Diseases and Injuries; 1999 Chapter 15 Management of a Food-Borne Disease Outbreak; 1999 Chapter 29 Federal Support of Health Care Delivery.

Millennium bug: no room for complacency

Year 2000, the two-digit year code problem (also known as Y2K and the millennium bug) has been a cause of concern to industry and governments around the world. The estimated costs of addressing this problem run as high as US \$800 billion worldwide. In August 1999, the federal government estimated the costs of its Year 2000 projects at \$2.2 billion. According to the Treasury Board Secretariat, the final costs could reach \$2.5 billion. However, given the extensive reliance on computerized processes by both industry and government, the implications of not addressing the problem adequately could be immense.

We audited the government's preparedness for the millennium bug in each of the past three years. Our 1997 Report noted our concern about the slow pace of Year 2000 work. In 1998, we remained very concerned that some essential services could be interrupted in 2000. In 1999, as we completed our work in individual departments and agencies, we reported our findings to management and suggested actions to consider. That additional step was taken to provide more time for those organizations to act.

The government has made significant progress in preparing its systems that support government-wide mission-critical functions for the Year 2000. In July 1999, work on those systems was 99 percent complete. The remaining work was scheduled to be completed by October 1999.

Departments have also been preparing for potential system failures that may be caused by Year 2000. However, though contingency procedures have been defined, we found that contingency planning needs more work. In the plans we reviewed, some key components were incomplete or lacking specific details.

As we completed our audit in September 1999, much had been accomplished to prepare for the Year 2000 but work still remained to be done. We concluded that the government needs to remain vigilant to minimize potential disruptions in January 2000 and beyond.

For related OAG work, see: 1999 Chapter 25 Preparedness for Year 2000: Final Preparation; 1998 Chapter 20 Preparedness for Year 2000: Government-Wide Mission-Critical Systems; 1997 Chapter 12 Information Technology: Preparedness for Year 2000.

Opportunities for cost savings

Improving the efficiency and effectiveness of government activities and cultivating a healthy regard for economy are objectives central to our mandate and to the work that we do at the OAG. The impact of our work is not easily quantifiable in most cases, but often in the course of our audits we find opportunities for cost savings to which a price tag can be attached. Following are two recent examples:

Materiel management. Government holdings of materiel (assets other than money and real property) exceed \$50 billion. Our 1996 audit of how these holdings are managed identified significant shortcomings, resulting in poor value for money and excess inventories. Our report recommended action to improve information on materiel holdings and rectify deficiencies in materiel management systems. In a follow-up to our audit, reported last December, we found that departments had made significant progress in materiel management. Since 1996, inventory holdings had been reduced by more than \$480 million. This may reduce annual carrying costs by as much as \$100 million.

Fiscal equalization payments. Our 1997 audit of the Equalization Program questioned the inclusion of user fees among the set of taxes forming the base of the equalization formula. The basic purpose of equalization transfers is to reduce disparities among provinces in their fiscal capacities to provide public services. The audit pointed out that to the extent that government-provided services are financed directly through user fees, the users of those services also generate the capacity to provide them: there is no need for transfers to support provincial capacities in such cases. Looking at this question another way, fees used to finance “user pays” activities are not available to finance general government services. There is no revenue source, as such, to equalize. In reforms to the equalization formula introduced earlier this year following consultations with the provinces, the government amended the equalization formula to exclude half of the user fees from the tax base. This change will be phased in over five years. When fully implemented, it will save the government approximately \$350 million annually.

For related OAG work, see: 1999 Chapter 32 Follow-up of Recommendations in Previous Reports: Department of Finance — Equalization Program; 1998 Chapter 28 Follow-up of Recommendations in Previous Reports: Materiel Management in the Federal Government; 1997 Chapter 8 Department of Finance — Equalization Program; 1996 Chapter 23 Materiel Management in the Federal Government.