

AN ABRIDGED HISTORY OF MAJOR EXPENDITURE

MANAGEMENT REFORMS IN THE CANADIAN FEDERAL GOVERNMENT

Purpose

This paper provides an abridged history of the of the major expenditure management reforms undertaken by the Canadian federal government over the past 35 years ranging from the institution of Planning, Programming and Budgeting Systems (PPBS) in the late 1960s, to the major Program Review in the late 1990s which fundamentally restructured federal programs and expenditures. It includes Management by Objectives, A Base Reviews, Cabinet Referral System, Policy and Expenditure Management System, and Expenditure Review Committee, Departmental Performance Review and Results Reporting. This paper also includes the evolution of “machinery of government” (short hand for structures, organizations, mandates and relationships of a broad array of government entities) as it relates to expenditure management.

The abridged history illustrates how the overall expenditure management system has gradually evolved over time, with each new system or budgetary technique building upon the existing system. No only do we see what features of the budgetary survive over time but also how some new budgetary reforms are developed as a reaction and adjustment to some of the shortcoming of previous reforms. The paper provides a chronological framework for the evolution of budgetary reform. It is intended to help the Russian government position its current budgetary and institutional situation. It is also intended to help the government in selecting from a menu of experience those approaches and systems of expenditure management which will address its weaknesses and build upon its strengths.

Abridged History of Major Expenditure Management Reforms

Pre 1962

The federal government undertakes “line item” budgeting with a focus on the resource and administrative inputs (as opposed to program or departmental outputs and outcomes). This entails an elaborate record and reporting of expenditures and outstanding commitments. It includes a detail controls and constraints on financial inputs and detailed administrative procedures.

1962

The independent Royal Commission on Government Organization (the Glassco Commission)¹ recommends that:

- the government do away with a “line item” budgeting and adopt a program approach to budgeting in the form of Planning, Programming and Budgeting System (PPBS) in order to strengthen the “central direction of government”, and
- greater authority be delegated from central control agencies to departments and agencies to administer their programs and expenditure. This was best described in terms of, “let the managers manage”.

The government establishes the Bureau of Government Organization (BOGO), headed by a senior deputy minister to coordinate the implementation of the Glassco recommendations.

The Treasury Board asks departments to submit 5- year forecasts of departmental expenditures.

1966

The Treasury Board is separated from the Department of Finance and becomes a separate department under the Government Reorganization Act of 1966 with responsibilities for, among other things, managing the government’s expenditure budget.

1968

The government adopts PPBS, strengthens the role of the Treasury Board and its Program and Planning Branches in expenditure management, establishes the Cabinet Committee system including the Cabinet Committee on Priorities and Planning (chaired by the Prime Minister) to set broad priorities and directions and guide the work of the cabinet committees

Under PPBS, policy and expenditure decisions were separated, with the Cabinet Committees deciding on programs and Treasury Board deciding on expenditures.

The Treasury Board is supported by the Treasury Secretariat Secretariat consisting of four branches that directly and indirectly guide the expenditure management process. The Program Branch has responsibilities for budget analysis and advice on departmental expenditure levels and the Planning Branch has responsibilities for program evaluation and performance measurement. Two other branches in include: Administrative Policy and Personnel Policy.

The Treasury Board issues a guide² to departments and agencies on how PPBS is to be implemented. The key concepts include:

- the setting of program objectives,
- systematic analysis to clarify objectives and assess alternative ways to achieve them,
- framing the budgetary programs to achieve objectives,
- future projections of the costs of programs,
- plans for the year by year achievement of programs, and
- information by program to monitor achievement of program objectives, and to reassess objectives and programs.

A guide to “cost-benefit analysis”³ is issued for use by departments and agencies in assessing existing program and new proposals.

The Prime Minister overhauls the cabinet decision-making process. Most notable is the creation of the Cabinet Committee on Priorities and Planning, chaired by the Prime Minister with overall government-wide responsibilities for determining government priorities, establishing the fiscal framework (on the advice of the Minister of Finance) and ensuring the implementation of the government’s plans and priorities.

1970

The Treasury Board introduces the concept of “A-B-X” budgets to support the program review function of PPBS. The “A” budget consists of those expenditures required to finance existing programs at their current level of service. The “B” budget consists the financing required for new programs or to expand existing ones. The “X” budget consists of expenditure reductions to existing programs to finance any new programs.

Major changes are implemented to the way the expenditure Estimates were presented to Parliament over the period 1969 to 1971, specifically:

- expenditures are presented by departments on a program by program basis with a statement of objectives,
- each program is broken down into activities and total costs are displayed in terms of objectives of expenditure,
- non-budgetary items (loans, investments, and advances) are individually displayed by program,
- estimates by program are presented for the coming year are compared to the forecast of expenditures for the fiscal year just ending and to the actual expenditures of the previous year,
- grants and capital expenditures in excess of \$5 million are segregated into separate votes,
- salary data are replaced by data on authorized and planned person-years,⁴ and
- the number of standard objects of expenditure are reduced to twelve.⁵

1974

The Treasury Board, in response to difficulties that departments were having in developing measures of program effectiveness and operational performance for PPBS, puts in place a framework of Operational Performance Management Systems (OPMS). OPMS proposes a comprehensive analytical framework for tracking program outputs in relation to program inputs.⁶

The Treasury Board Secretariat promotes Management by Objectives (MBO) in an effort to assess results achieved against pre-determined program goals.

The government, in major and far-reaching decision indexes the income tax system to automatically adjust to increases in inflation and also indexes major social transfer payments to individuals such as old age security payments to the elderly and child allowances for families. The result is an increase in expenditures and a reduction in revenues, resulting in the elimination of the annual “fiscal dividend” which had automatically increased as inflation bumped individuals into higher tax brackets. Increased expenditures and reduced revenues in turn led to increasing annual deficits and a significantly accumulating national debt.

1975

The government puts in place a broadly based regime of price and wage controls both within government and the private sector, and establishes the Anti-inflation Board for implementing the controls.

1976

The Auditor General, in his 1976 annual report to Parliament declares that, “parliament and indeed the government has lost, or is close to losing, effective control of the public purse”.⁷

1977

The government strengthens the expenditure decision-making process of cabinet in an effort to increase control of government spending and to ensure that government expenditures will increase no more rapidly than the growth in GDP. The government establishes what came to be called “the Treasury Board referral system”. Prior to that, new spending initiatives were increasingly being approved by Cabinet Committees, then considered by Cabinet and only after that being referred to Treasury Board for consideration of the resources. The new “referral system” requires that new spending proposal be considered by Treasury Board prior to consideration by Cabinet. It also requires that Treasury Board ministers be designated as a “treasury ministers” in their participation in Cabinet Committee discussions.

1978

The government establishes the Office of the Comptroller-General within the Treasury Board with responsibilities to significantly strengthen financial management and program evaluation within government.

The Prime Minister launches a surprise government-wide expenditure reduction exercise, subsequently called “the guns of August” in an effort to keep the growth in government spending in line with increases in GDP. The budget cutting exercise is managed centrally by the Treasury Board with the support of the Privy Council Office. There is little or no discussion and negotiation with departments and agencies. The President of the Treasury Board announces the level of expenditure reductions for each department and the actual departmental programs to be reduced or eliminated.

1979

The government passes an amendment to the Auditor General’s Act establishing a legislative basis for “value for money audits”. This ushers in a new era of independent performance reviews of departmental management and programs undertaken by the Auditor General who reports to Parliament.

The Royal Commission on Financial Management and Accountability (the Lambert Commission)⁸ recommends measures to “avoid waste in government” and “strengthen accountability”, including an overhaul of central agencies.

The newly elected government of May 1979 announces the Expenditure Management System,⁹ designed to:

- set government-wide expenditure limits through the publication of a five year fiscal plan and
- establish specific expenditure levels and priorities for policy sectors within which departmental plans and budgets would be considered.

1980

The new elected government of February 1980 establishes the Policy and Expenditure Management System (PEMS).¹⁰ Under PEMS it is intended that policy and expenditure decisions be integrated at the macro level by the Cabinet Committee on Priorities and Planning, and at the micro level by Cabinet Policy Committees who manage their budgetary envelopes. Budgetary envelopes¹¹ are established by Priorities and Planning on the recommendation of the Minister of Finance, with input from Policy Committees. In total 10 budget envelopes are established with five committees of cabinet responsible for managing two each. Two new Ministries of State, one for Social Development and the other for Economic and Regional Development are established to support the system.

To help implement PEMS, departments and agencies prepare Multi-year Operational Plans setting out the ongoing costs of existing programs for consideration by Treasury Board. Departments and agencies also prepare Strategic Overviews setting out the policy

rationale and expenditures associated with new initiatives for consideration by Cabinet Committees.

1981

The essential “rules of game” for PEMS are:

- the Cabinet Committee on Priorities and Planning, chaired by the Prime Minister, establishes the envelope levels (including policy reserves) on the basis of recommendations from the Minister of Finance on expenditure levels and from Cabinet Policy Committee chairmen on sector priorities,
- the Cabinet Policy Committees are responsible for making allocations from their policy reserves for new departmental initiatives and for reallocations across departments within their sectors,
- the Treasury Board is responsible for costing existing programs and for making allocations from the operating reserve to departments in order to maintain existing programs,
- the Department of Finance makes provision within the government’s overall expenditure framework for a central reserves in order to handle increases in statutory programs, and
- tax expenditures and off-budget financing (eg., loans, loan guarantees and advances) provided to departments and agencies are to be taken into consideration by the Department of Finance in recommending envelope levels.¹²

The Treasury Board published the “*Guide on Program Evaluation*”¹³. The purpose of the guide is to:

- ensure that departments and agencies undertake the “systematic gathering of verifiable information on programs and demonstrable evidence on their results and cost-effectiveness”, and
- “to periodically produce credible, timely, useful and objective findings on programs appropriate for resource allocation, program improvement and accountability”.

1983

PEMS is under some strain as:

- Policy Committees of Cabinet find it difficult to achieve political consensus in order to make real and significant savings to fund new programs,
- the Minister of Finance increasingly earmarks a portion of new money in the envelope specifically for certain programs and ministers, thereby undercutting the role of the Policy Committee to determine specific program priorities within the context of government-wide priorities and the overall envelope levels for the sector, and

- there are concerns about the large, expensive and elaborate organizational structure, in the form of the Ministries of State which are required to support the system and the Policy Committees of Cabinet.

1984

Steps are taken to simplify PEMS with the new Prime Minister indicating that it was “too elaborate, too complex, too slow, and too expensive”. The supporting Ministries of State for Economic and Regional Development and for Social Development are eliminated and their combined staffs of several hundred people are redeployed to departments and agencies.

The Prime Minister of the newly elected government in May 1979 establishes the Nielsen Task Force on Expenditure Review to rationalize government programs and achieve significant expenditure savings. The Task Force receives significant input from the private sector and establishes a large number of joint private and public sector task forces.

During the period from 1984 to 1993 a series of continuous and ongoing expenditure reductions are undertaken by the Minister of Finance and the President of the Treasury Board. These reductions are to contain/reduce expenditures in order to reduce the increasing government deficits and to provide funds for new initiatives. Many of the reductions are across-the-board cuts.

As a first installment in 1984 the President of the Treasury Board announces expenditure cuts and cost recovery increases of \$3.6 billion.

The Minister of Finance in his first budget announces the target of a \$15 billion reduction in government expenditures by 1990-91. Over the course of the next several years the Minister of Finance and the President of Treasury Board work together to propose to the Cabinet Committee on Priorities and Planning and the Prime Minister a continuous series of expenditure cuts. The proposals included cuts to transportation subsidies, transfers to provincial and territorial governments, partial de-indexing of social programs, eliminating 15,000 public service positions, the privatization of crown corporations, the establishment of a limited number of special operating agencies, across-the-board cuts to departmental operating budgets, and freezes on salaries of public servants, members of Parliament and Senators.

Significant failures and financial crisis in crown corporations lead the introduction of Part X of the Financial Administration Act (FAA), which established a new legislatively based control and accountability framework for crown corporations.

1986

The Neilsen Task Force, involving 19 separate study groups, reports its findings recommending expenditure reductions and the elimination of tax expenditures of between \$7 billion to \$8 billion.¹⁴ There is considerable focus on eliminating subsidies to agriculture, fisheries, transportation, business, and regional development. The government does not implement any of the major recommendations.

The Treasury Board implements Increased Ministerial Authority and Accountability (IMAA) another attempt to “let the managers manage” by negotiating memoranda of understanding between the Treasury Board and departments to increase authority and flexibility in delivering programs while establishing an accountability framework for measuring performance.

1989

The Prime Minister creates the Expenditure Review Committee chaired by the Deputy Prime Minister in an attempt “to ensure that the government’s expenditures continue to be directed to its highest priorities, and that expenditure control continues to contribute to deficit reduction”. The Operations Committee of Cabinet serves as a gate-keeper with spending decision being made by the Cabinet Committee on Priorities and Planning.

The government announces the creation of Special Operating Agencies,¹⁵ which are “discrete operation units within departments that have been given increased managerial autonomy in exchange for greater accountability of results”.¹⁶

1990

The government launches “Public Service 2000”¹⁷ in an effort to reform and modernize the way in which the public service manages and administers government programs. The primary factor that led to this initiative to reform the public service was a growing frustration that “managers were being undermined by a culture based on rules”. Four expenditure management tools for departments were put in place:

- single operating budgets for departments to increase the flexibility between salary and operating budgets,
- the elimination of person-year controls on departments,
- year-end carry forward of up to 5% of operating expenditures for departments, and
- increased retention for departments of funds raise from cost recovery.

1991

The Treasury Board introduces Shared Management Agendas¹⁸ with departments in an effort establish a joint agenda between Treasury Board and each department on specific departmental performance and on the administrative and managerial flexibilities required by departments.

The Auditor General reports to Parliament several times a year rather than only once on deficiencies in the program and expenditure management.

1993

The President of the Treasury Board undertakes a major review of the organization and machinery of government. The focus is on the ways and means to streamline government operations through the reorganization of government departments and the reduction, rationalization, and elimination of government agencies, boards and commissions.

The new Prime Minister in June 1993 announces a major and far-reaching re-organization of government departments and agencies intended to make government more efficient, more streamlined and responsive, and less cumbersome. This reorganization included:

- a reduction in the number of cabinet ministers from 40 to 24,
- the elimination and merging of departments to create large departments such as Human Resources Development Canada and Industry Canada,
- folding in the Office of the Comptroller-General in to the Treasury Board Secretariat,
- the elimination and merging of many small departments and agencies,
- a first step in developing on a more formal basis “ministerial portfolios” which clustered together government departments, agencies and commissions in order encourage greater horizontal coordination.

1994-95

The newly elected government launches its Program Review in an attempt at “Getting Government Right”¹⁹ as it moved forward to reduce the ballooning deficit step by step, beginning first with its election campaign commitment to reduce the deficit to 3% of GDP (\$25 billion from a level of \$42 billion). As described, the approach to “Getting Government Right” is to “start by deciding what needs to be done by government, and then what can be afforded”.

In the 1994 Budget the Minister of Finance promises to “review all government spending” and announces that the Minister for the Public Service would lead the Program Review. In May 1994 the Minister responsible for the Program Review launches the review by writing to all his ministerial colleagues asking that all spending within each department and portfolio be reviewed. In the fall of 1994 the Prime Minister establishes a Coordinating Group of Ministers, chaired by the Minister responsible for Program Review and a Steering Committee of Deputy Ministers chaired by the Clerk of the Privy Council (the Prime Minister’s Deputy Minister) to begin reviewing departmental proposals.

The Privy Council Office (with advice from the Department of Finance and the Treasury Board Secretariat) established a series of tests against which departments and agencies are to assess their programs. The questions, which would form the basis for the review

within departments and by central agencies and by the Coordinating Group of Ministers are:

- *Public Interest Test:*

Does the program or activity continue to serve the public interest?

- *Role of Government:*

Is there a legitimate and necessary role for government in this program area or activity?

- *Federalism Test:*

Is the current role of the federal government appropriate, or is the program a candidate for realignment with the provinces?

- *Partnership Test:*

What activities or programs should or could be transferred in whole or in part to the private or voluntary sector?

- *Efficiency Test:*

If the program or activity continues, how could its efficiency be improved?

- *Affordability Test:*

Is the resultant package of programs and activities affordable within the fiscal constraint? If not, what programs or activities should be abandoned?

Notional targets for reduction by departments are established by the Department of Finance and communicated by the Deputy Minister of Finance to departments. The notional targets are not scientific but are broadly divided into three categories: very significant reductions over 50% (for example, in Transport Canada), substantial reductions of about 25% for many departments, and smaller reductions of less than 15%.

In the fall 1994 Fiscal and Economic Update, the Minister of Finance indicates publicly that “come hell or high water” the government will achieve its target of reducing the deficit to 3% of GDP (\$25 billion) in the upcoming budget in 1995. The Prime Minister strongly supports his Minister of Finance and Minister responsible for Program Review as he reviews specific program review decisions and targets. While a few modifications are made the Prime Minister does not yield to special pleading by strong spending ministers.

Fears about the impact of the Mexican peso crisis on Canada, with its high-accumulated government debt, serves to strengthen the resolve of the government to restructure programs and achieve significant expenditure savings. The crisis, which leads to higher interest rates for Canada and in turn higher public debt charges, triggers an upward adjustment in the targets for spending reductions. It also triggers further immediate expenditure savings from the Department of Human Resources Development that up to that point had been exempt from the Program Review with a “promise” to yield future down stream saving through its Social Security Review.

February 1995 Budget announces:

- achievement of 3% deficit reduction target,
- \$29 billion in multiyear expenditure reductions resulting in 1996-97 program spending being reduced to 13.1% of GDP, the lowest level since 1951,
- elimination of 45,000 public service and military positions with significant incentive programs put in place for early retirement and early departure
- a significant restructuring of many federal government programs particularly in the areas of transportation, employment insurance and job training, defence and foreign aid, agricultural, industrial and regional subsidies and the elimination of boards, commission and advisory agencies,
- reductions in social transfer payments to the provincial and territorial governments through the creation of the Canada Health and Social Transfer which combined several transfer programs into a block-funded program. This gave provinces considerably less funding with only slightly more flexibility.

In 1995 the government establishes a new “Expenditure Management System”²⁰ which incorporated a number of features aimed at more rigorous expenditure restraint by ensuring that:

- programs continued to be reviewed on an ongoing basis,
- expenditure and deficit targets are achieved on a step by step annual basis, and
- any new expenditures proposals are considered within the context of the tight fiscal framework²¹ and as part of the Minister of Finance’s budget.

Specifically the features of the new Expenditure Management System include:

- Improved expenditure planning by requiring the review and reallocation of expenditures within the Budget process,
- Treasury Board changes its role from “funder to banker” by reducing the size of its central “operating reserves” to focus on departmental investments to yield future year savings or cost avoidance,
- Central “policy reserves” are formally eliminated, with new any new initiatives to require greater scrutiny and to be funded through reallocations,
- Departments to focus on performance and program results with increased public accountability,
- Departmental business plans are established to focus on strategic changes in departmental programs and business to achieve the budget targets,

- Some increased administrative and budget flexibility is provided to departments to encourage more effective management and delivery of programs within significantly reduced resources, and
- Establishing departmental “Outlook” documents to assist the House of Commons Standing Committees in reviewing departmental expenditure planning by focusing on future expenditure trends and priorities.
- The Minister of Finance publishes each fall an economic and fiscal update as the basis for setting fiscal and economic parameters and assumptions within which the spring budget is developed.

1996

Phase 11 of Program Review is launched at a significantly reduced scale and scope from phase 1. During the second phase, notional expenditure reduction targets are not established as the focus was on implementing phase 1, and a greater reliance on “user fees”, cost recovery and contracting out.

President of the Treasury Board and Minister of Finance issue *Guidelines for Corporate Governance of Crown Corporations and Other Public Enterprises*²².

The government announces its intention to establish three service agencies: the Canada Food Inspection Agency, the Canada Customs and Revenue Agency, and the Canada Parks Agency. These new service agencies, designed along the lines of “executive agencies” in the United Kingdom, are responsible for service delivery and not policy. They are permitted to operate with increased autonomy in the management of their resources while being held accountable for specifically agreed upon results.

1997

The government reports on its *Panel on Modern Comptrollership*.

The Treasury Board is “re-oriented to play an enhanced role as the government’s management board”. This involves a greater emphasis within government on results-based management and strengthening results-based accountability.

2000

The Treasury Board publishes *Results for Canadians*,²³ a framework and agenda for management within the federal government. The key features of the framework are:

- building a “citizen focus” into the management of government activities and services,
- highlighting the importance of sound public service values,
- focusing on the achievement of results for Canadians, and

- promoting discipline, due diligence and value for money in the use of public funds.

¹ Royal Commission on Government Organization (Ottawa: Queen's Printer, 1962).

² Treasury Board of Canada, *Planning Program Budgeting Guide* (Ottawa: Treasury Board of Canada, 1969).

³ Treasury Board Secretariat of Canada *Benefit-Cost Analysis Guide* (Ottawa: Treasury Board Secretariat, 1976),

⁴ A person-year represents the equivalent of one person working full time for one year.

⁵ The Object of Expenditures, which still remain today are:

- Personnel
- Transportation and Communications
- Information
- Professional and Special Services
- Rentals
- Purchased Equipment and Maintenance
- Utilities, Material and Supplies
- Acquisition of Land, Buildings and Works
- Acquisition of Machinery and Equipment
- Transfer Payments
- Public Debt Charges
- Other Subsidies and Payments

⁶ Treasury Board of Canada, *The Operational Performance Measurement System of the Government of Canada* (Ottawa: Treasury Board Canada, 1974)

⁷ Canada, Auditor General of Canada. *Report of the Auditor General* (Ottawa, 1976).

⁸ Royal Commission on Financial Management and Accountability, *Final Report* (Ottawa: Department of Supply and Services, 1979).

⁹ Department of Finance, *The New Expenditure Management System* (Ottawa: Department of Finance, 1979).

¹⁰ Privy Council Office, *The Policy and Expenditure Management System* (Ottawa: Privy Council Office, 1981).

¹¹ The resource envelopes define the financial resources that are available to a Policy Committee of Cabinet for a particular policy sector.

¹² Privy Council Office. *Policy and Expenditure Management System: Envelope Procedures and Rules*. (Ottawa: Privy Council Office, 1980).

¹³ Treasury Board of Canada, Office of the Comptroller General. *Guide on the Program Evaluation Function* (Ottawa: Supply and Services, 1981).

¹⁴ Task Force on Program Review (Ottawa: 1986).

¹⁵ In 1989 the government created five Special Operating Agencies (SOA's): Canada Communications Group, Consulting and Audit Canada, Training and Development Canada, Government Telecommunications and Informatics Services, and the Passport Office. By the end of 1995 another ten organizations had received Treasury Board approval to become SOA's while the Canada Communications Group had become a candidate for privatization.

¹⁶ David Wright, *Special Operating Agencies – Autonomy, Accountability and Performance Measurement* (Ottawa: Canadian Centre for Management Development), p.vii.

¹⁷ *Public Service 2000: The Renewal of the Public Service of Canada*, 1990.

¹⁸ Treasury Board Secretariat. *Towards a Shared Management Agenda*. (Ottawa: Treasury Board Secretariat, 1991).

¹⁹ *Treasury Board. Getting Government Right: A Progress Report*. Ottawa: TB, 1996. Treasury Board. *Getting Government Right: Governing for Canadians*. Ottawa: TB, 1997.

²⁰ Treasury Board, *The New Expenditure Management System*, (Ottawa: Treasury Board, 1995).

²¹ The fiscal framework established by the Minister of Finance, after consultation with the Prime Minister sets out the overall framework for expenditures and revenues, including any provision for funding of new expenditure or tax initiatives.

²² Department of Finance and Treasury Board of Canada. *Corporate Governance in Crown Corporations and Other Public Enterprises: Guidelines*. (Ottawa: 1996).

²³ Treasury Board Secretariat, *Results for Canadians: A Management Framework for the Government of Canada*, (Ottawa: President of the Treasury Board, 2000).

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