Forty Years of Financial Management Policy

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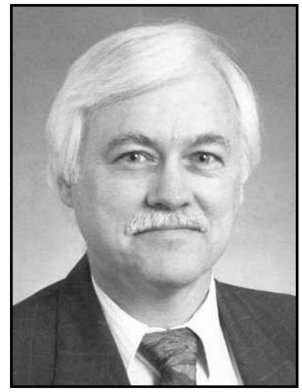

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A bunch of the boys were whooping it up in the Malamute saloon…. oops, wrong story. The story of the evolution of financial management policy in the federal government over the past 40 years is not quite so strange as some of the sights seen by the northern lights, but it has seen its share of twists, turns and strange events.

As one might expect, the government environment, organization and management culture, precedents and personalities have influenced financial policy over the years. Financial policy development has been characterized by the 2 C's of conservatism and caution; at the same time, financial officers have found creative ways to bend, but not break, financial policy to meet program exigencies or evolving situations.

Financial management policy has usually been developed in a sound progressive manner but occasionally as a somewhat reactive response to a specific event. Examples of the sound approach include the 1973 Guide on Financial Administration and the majority of current financial policies. Examples of "over the top" reactive type of policies include the 1957 policy prohibiting the use of government funds to purchase Christmas cards and the early 1980's policy prohibiting first class air travel. Another example was the taxi chit overkill – rather than provide appropriate delegation of authority and deal with values and ethics when abuse was detected, it almost took more signatures to take a taxi ride than to get a $1 million project approved!

One can surmise how the greeting card policy came into effect, but it is interesting to note that the policy continued to exist for decades, long after the Treasury Board practice was to no longer issue such prohibitions. In this case, officials did not want to repeal the policy for fear that its withdrawal would be seen as an implicit sign that it was OK to buy greeting cards. And sure enough, soon after the policy was quietly dropped from a list of policies in effect, the calls came in asking if greeting cards could now be purchased. The policy prohibiting first class air travel came about when the then President of the Treasury Board, departing on a flight out of Ottawa, found more public servants sipping cocktails in the first class lounge than ministers!

Personalities have clearly influenced the context of financial policy development. Two royal commissions, a bull-dog Auditor General and a host of other characters have contributed to the movement towards a robust financial policy framework.

The Glassco Royal Commission of the early 1960's is generally regarded as the cornerstone of modern financial management practices in the federal government. Its theme of "**let** the managers manage" led to a significant decentralization of management (including financial) responsibility.

Until the late 1960's, very few departments had financial officers since financial responsibilities were assigned to a central Controller of the Treasury (the precursor of the current Receiver General). When financial elements were centrally controlled and all financial officers worked for one organization, financial policies could be kept simple since it was not difficult to communicate in a smaller, centralized organization. Still, a 10-volume Treasury Manual existed to define financial rules.

Financial management policy continued to be issued by the Treasury Board, which was now constituted as a separate entity, instead of being part of the Department of Finance. By 1966, it had published a series of "Treasury Board Management Improvement Policies". It created a Financial Management Division within its Administrative Policy Branch. With the Glassco inspired push to decentralization, changes in the *Financial Administration Act* in 1969 placed primary responsibility for financial management on deputy ministers. A new Treasury Board Policy on Financial Administration followed in 1973 to replace the Management Improvement Policies. For those quantifiably inclined, it is of interest to note that the 1973 policy contained 21 pages, one 6-bullet policy statement defining deputy ministerial responsibility, 9 topics, 21 directives (i.e. mandatory elements) and 34 guidelines (optional elements); check the TBS web site to see how many policies currently exist.

One of the Financial Management Division's key contributions to the financial management framework was the preparation of a Guide on Financial Administration, published in September 1973 as a hardbound document (did they think it would never need to be amended?). In the foreword to the Guide, Bud Drury, then President of the Treasury Board wrote:

"Traditionally, the main objective for financial administration has been to control cash disbursements in relation to appropriations approved by Parliament. While this objective remains important, increasingly there is a need for departmental and central agency managers to relate financial costs to program achievements or outputs to ensure that maximum effectiveness and efficiency are attained in the expenditure of public funds."

It is of interest to compare this quote, written almost 30 years ago, to one of the four pillars of today's modern comptrollership initiative that says "*Modern Comptrollership presumes that departments can not only report on their program performance but can also, in a relatively systematic fashion, link their resources spent with the results* *achieved. It is understandable that Parliamentarians would want to know what it costs to produce certain results."* The more things change, the more they stay the same.

Maxwell Henderson was the Auditor General of Canada for most of the 1960's and his office focused on the detection and disclosure of "non-productive payments". The size of government was relatively small and it was common for auditors to examine most payment transactions. One of the strange practices of the time was the amount of repetition in the AG's reports; the report was largely a series of "audit notes" and the notes were repeated from year to year until either the AG was satisfied that the situation had been corrected or the Public Accounts Committee had discussed the issue.

Jim Macdonnell's appointment as the Auditor General of Canada in 1973 was an inflection point for financial management policy. With his management consultant's mentality, he quickly altered OAG audit practice to focus on systems and management controls. He pushed for radical change, believing that if the management culture could be fixed, then the risk of non-productive payments would be minimized and the ability of managers to demonstrate cost effective program delivery would be enhanced.

Macdonnell's remark in the mid 1970's that "government has, or is close to losing effective control of the public purse" was a wake up call (it was rumoured that Macdonnell and the then Prime Minister Pierre Trudeau had an interesting conversation or two). The statement led to a flurry of financial policy activity, the creation of the Lambert Royal Commission on Financial Management (with its theme of "**make** the managers manage") and eventually to a host of changes in financial practices and reporting to Parliament. One of the effects of Macdonnell's report was a doubling of the number of financial officers in government. When it became common in the late 1970s for financial officers to receive two or even three promotions in a year, Treasury Board Secretariat issued a pronouncement that limited promotions to no more than one per year (in the 1990's, one promotion per decade may have been more common…).

As in the story of the tortoise and the hare, the approach to policy development by the Financial Management Division in the 1970's, the Office of the Comptroller General in the 1980's and more recently by the Comptrollership Branch of TBS, has been a case of "slow and steady wins the race". It is understandable that care must be taken to ensure that policies affecting billions of dollars are developed in a manner that covers all the bases and anticipates as many contingencies as possible. Occasionally, the process gets accelerated, as illustrated by a policy developed in the mid 1980s – the draft policy came to the attention of Jack Manion, then Secretary to the Treasury Board, when it was 6 to 12 months from being issued in the normal process. It was a topic of close interest to him given his previous position as Deputy Minister for the Unemployment Insurance Commission. Making a few marginal notes on the draft policy, he pencilled a note (no e-mail in those days …) to the Comptroller General saying that he thought it should be published asap. Months were collapsed into weeks and the policy came into being.

Some financial officers have built reputations around being creative in applying financial policy. In the 1970's, managers controlled head count but not necessarily salary budgets. Creative ways were found to hire staff in ways that did not count towards "person years" but could use salary dollars.

Stories abound about creative ideas related to maximizing spending at year-end. Some prescient managers of programs that required major equipment purchases were known to put in orders for equipment in January, with the caveat to the supplier that the purchase would only be confirmed in mid-March (once departmental lapses were known) with delivery required by March 31. One department is reputed to have been the most creative in regard to year end spending – buying an oil tanker load of fuel in March and then telling the supplier that they could borrow the fuel until the department actually needed to use it later in the year. Current policies such as payables at year end and the carry forward have eliminated the need for such creativity – in the days before these policies, one departmental Chief Accountant reportedly had all supplier cheques issued towards the end of March sent to his office rather than being mailed to suppliers. Once he more clearly knew the balance in the appropriation, he mailed out some cheques and returned the rest to the Receiver General for cancellation – voila, a balanced appropriation!

No doubt the financial policy story will continue to evolve in the years ahead, and hopefully the story will be populated with interesting characters, anecdotes and the occasional controversy, but not too many!! ■

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