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ACCOMMODATING THE FEDERAL GOVERNMENT

by

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A thesis submitted to Carleton University in partial fulfilment of the requirements for the degree of Master of Arts in Public Administration.

School of Public Administration
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Abstract

The federal government of Canada owns real property worth approximately $15 billion and has annual expenditures of approximately $1 billion for new acquisitions and operations, repair and maintenance of existing property. Even a small percentage improvement would lead to large financial savings and various recommendations have been made to achieve this, most recently a proposal to operate the accommodation function and the engineering function as pure services in a Crown Corporation which would be financially self sustaining. This corporation would have no program responsibilities but would charge its "client" departments the market price for accommodation and for any other service supplied.

This paper discusses some of the historical background to this problem including a previous experiment with the corporate form of organization in 1841, the recommendations of the Glassco Commission, the size of the problem, the functions to be carried out by an accommodation service organization and some of the arguments for and against a crown corporation type of organization.
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INTRODUCTION

The Public Works Act (R.S. c.166) in section 9 states that:

"The Minister has the management charge and direction of the following properties belonging to Canada, and the services in this section enumerated, namely:

---

(d) the public buildings;

---

(h) all other property that now belongs to Canada and the works and properties acquired, constructed, extended, enlarged, prepared or improved at the expense of Canada, or for the acquisition, construction, repairing, extending, enlarging or improving of which any public money has been appropriated as a subsidy only, and every work required for any such purpose"

and this has been amended by the Government Organization Act, 1966 (Chapter 25) which has added a sub-section as follows:
"(2) The Minister has the control, management and administration of all lands belonging to her Majesty in right of Canada except lands especially under the control, management or administration of any other minister, department, branch or agency of the government of Canada."

This indicates that with certain statutory exceptions, the Department of Public Works is responsible for the "management" of the real property assets of the federal government.

From this statutory direction it might be valid to derive an objective for the Department as follows:

"To manage the real property assets and requirements of the federal government as economically as possible while satisfying
(a) Departments and agencies functional requirements
(b) Political and economic considerations"

If this objective were accepted, one would expect that the department would follow policies of acquisition, disposal, analysis, accounting and repair and maintenance in a manner very similar, but not identical to, normal
commercial practice. After all, the provision of accommodation is not directly a function of government, but is rather a service to allow functions of government to be carried on. Furthermore, it is a service for which, at least in general, there are commercial equivalents. Consequently, standards of measurement exist by which the efficiency of the government accommodation program could be evaluated.

This approach is supported by the statement in the Planning Programming and Budgeting Guide¹ that the main respect in which a PPB system differs from traditional forms of government budgeting, is in its concentration on the results, or outputs and benefits, as opposed to just considering the resources required. Since the prime output of the accommodation and real estate management function is a commodity which has a market value, it would appear reasonable that the measures of performance should be at least similar, if not identical to, those used in parallel areas of the industrial sector. Specifically one might look at indicators such as some type of return on

investment with relation to capital expenditure, i.e. the provision of buildings, or percent on turnover for professional and technical services provided by the department to other user agencies.\textsuperscript{ii}

This philosophy is not reflected in the statement of objectives or program descriptions of the department in the current estimates.\textsuperscript{iii} It is suggested that in fact they indicate a passive, service oriented approach which is not really compatible with the statutory direction to "manage" the real property assets of the federal government.\textsuperscript{iv} Furthermore, it is difficult to see how a department which has had the statutory responsibility of "management" for over 100 years is only now in the position of developing and implementing a central inventory for the recording, revision

\textsuperscript{ii}. These criteria would have to be modified for use in government and this will be further discussed in the chapter on - Crown Corporation or Government Department - infra Chapter VI

\textsuperscript{iii} Estimates for the fiscal year ending March 31, 1971, Ottawa, 1970 Section 19.

\textsuperscript{iv}. This approach is now being critically reevaluated by the newly appointed Deputy Minister who has expressed himself very strongly on the concept of a self sufficient service agency, possibly a crown corporation. See Globe & Mail Report on Business 23/12/1969 for comments at time of original announcement, also, Monetary Times - February 1970 - He wants a billion dollar corporation.
and retrieval of information etc, in its area of responsibility.

Before discussing the present magnitude of the problem and a possible approach to its solution, it is probably worth examining the historical developments which have led up to the present situation, particularly in so far as these historical factors have contributed to the present service oriented management philosophy.

At the same time this historical perspective, covering both statutory authority and departmental type of organization, may offer some guidance in the choice of the optimum organization to meet today's problems.
CHAPTER I

A HISTORICAL PERSPECTIVE

Initially the public works function of the Canadian Government had very little to do with housing the Government. The provision of canals, roads, bridges, county court houses, post offices, harbours, timber booms and slides, lighthouses and navigation aids were matters of great importance and could have profound political effects since elections could turn on the efficiency or otherwise with which these needs were met.

Prior to 1841 there was very little executive control over this type of project except for the decision to initiate it, since they were generally operated on a decentralized system of superintending each individual project. Ad hoc Commissioners were appointed by the legislature to take charge of each separate work and Lord Durham found one astonishing case in Nova Scotia where £10,000 having been voted for local improvement, 830 Commissioners were appointed to superintend the expenditure of funds. Since each Commissioner was paid 5 shillings per day plus 2½% commission, little remained after these "expenses of management" had been covered.1

General: All footnotes referring to R.G. are Record Groups found in the Public Archives of Canada, Ottawa. This also applies to the State Books (T and Z) cited.

In June 1839, Lord Sydenham initiated a Board of Works in Lower Canada which he felt "was one of his greatest contributions to the future welfare of the commonwealth". In 1841, the Board's jurisdiction was extended to the United Provinces, conferring very extensive power upon that department and thus

"enabling us to proceed safely and securely in whatever may be undertaken under public account or with public aid". 2

In view of the later conflict which arose in connection with this Board it is worthwhile examining the legislation defining its duties and responsibilities. In August 1841, the Legislature passed

"An Act to repeal certain Ordinances therein mentioned to establish a Board of Works in this Province". 3

This act stated that there would be in the province a Board of Works for the

"superintendence, management and control of public works" 4

and that the Board should consist of such and so many persons as the Governor, Lieutenant Governor or Administrator might from time to time appoint to be members

3. 4 & 5 Victoria cap 38
4. Ibid Section 3
of the Board. One of those should be the Chairman and specially the Board shall have

"such powers, authority and capacity as are provided by this act or may hereafter be provided by any act of the Legislature - -".5

It was specifically stated that the Board of Works might by that name sue and be sued and may have a common seal etc. and particularly

"may hold real property and shall generally have all the powers and capacities which bodies politic and corporate have by law".6

This was limited by the statement in a further clause that

"No expense shall be incurred or authorized by the Board - - unless with the sanction and approval of the Governor, Lieutenant Governor or person administering the government."7

And this is reinforced in a further clause which states that the Board may suggest to the Governor, Lieutenant Governor, etc., any public works or improvements which according to the Board could be undertaken with advantage. However the statement is again made that they shall incur no expense relative to such a suggestion unless with the sanction and approval of the Governor,

5. Ibid
6. Ibid Section 6
7. Ibid Section 9
etc. As further controls on the freedom of the Board, the Act goes on to state that the Board might not enter into any contracts or spend any money unless it clearly appears that the work can be completed according to the intention of the Legislature for the sum appropriated for it.\textsuperscript{8} This of course excepted preliminary expenses which might be necessary to ascertain whether it could or could not be completed. The Board was granted a complete monopoly of all public works unless they had been specially vested in other persons or bodies, but even in those cases the Board of Works was given certain authority to require the reporting of all tolls and expenses collected and incurred by such other bodies or authorities.\textsuperscript{9}

Various other sections of the Act enlarged on the specific powers of the Board with relation to the acquiring and holding of land, real property, contracts, agreements, etc. and help to define the meaning of the earlier clause regarding all the powers of a body politic and corporate. However, the Board of Works was given special authority to allow it to

\textsuperscript{8} Ibid Section 15

\textsuperscript{9} Ibid Section 17
acquire property by conveyance from certain parties who otherwise had no authority to convey property. 10

In view of the problems which later arose with regard to the administration of the Board, it is interesting to look specifically at the duties of the Secretary, which are stated to be:

"It shall be the duty of the Secretary of the said Board (with such assistance as may be found necessary) to keep a separate account of the moneys appropriated for and expended on each Public Work; to have charge of and keep all plans, contracts, estimates and documents, models or other things relative to any such work; to keep regular accounts with each contractor, or other person employed by the Board; to see that all contracts made with the Board are properly drawn and prepared; to draw out all certificates upon which any warrant it to issue, as hereinafter; to prepare all reports to be submitted to the Board for its adoption and to receive and answer, according to the instructions he may receive from the Board, all letters to or from members of the Board, or other persons on the business thereof; to notify the members of all meetings of the Board, which may be called at any time, other than that to which the Board should have adjourned at its then last meeting; to keep minutes of the proceedings at all meetings; and to proceed to any place at which any Public Work may be undertaken, if directed to do so by the Board; to have the general superintendence of all matters which he may be instructed to superintend by the

10. Ibid Section 19
"Board; and generally to do all ministerial acts connected with the business of the Board, which it may direct him to do, or which may devolve upon him, by a fair construction of the meaning and intent of this Act, in all cases not expressly provided for: - - -"  

In further sections of the Act it further refines this in terms of requiring the Secretary to make up detailed accounts, statements of balances of any funds remaining unexpended, the location of money, with every account being accompanied by vouchers, certificates, etc. and these accounts were to be made up to and closed on the first day of January and the first day of July each year. One very interesting requirement is that the accounts had to be attested before some Judge of the Court of King's Bench or a Justice of the Peace and had to be transmitted to the officer whose duty it was to receive them within fifteen days after the set periods. 12 In case this had not defined the duties of the Secretary accurately enough, we find, even at that time, the overall control clause which states that

"and be it enacted that the due application of all moneys expended by, for or under

11 Ibid Section 24
12 Ibid Section 29
the superintendence of the Board, shall be accounted for to Her Majesty, Her Heirs and Successors through the Lords Commissioners of the Treasury, in such manner and form as Her Majesty, Her Heirs and Successors shall direct."13

This is a sort of precursor to the type of "catch all" clause found in the Financial Administration Act which allows the Treasury Board to make such regulations.

Looking at this legislation from the present day point of view, and using current terminology, what was actually created by the statute was a crown corporation which had specific objectives, had to submit a capital budget, was required to keep its accounts in a manner determined by the central control agencies and was even limited in the salary that might be paid to its senior officers (the Chairman and Secretary).

While admittedly the main functions of the Board of Works at this time were in what are normally termed civil engineering areas, with its main housekeeping function not really developing until after confederation, it is however suggested that this period of 1841 to 1846 contributed greatly to the development of a Public Works management policy. The experiment

13 Ibid Section 33
with limited free enterprise and an entreprenaurial philosophy had such a profound effect that it has taken over a hundred years for the government to again seriously consider the possibility of operating public works within a crown corporations environment.

In Hodgetts discussion of the operations of the early Department of Public Works he points out what, in his opinion, were two of the primary problems. As a great spending department, in fact the major spending department of government, it proved consistently incapable of balancing its budget, while at the same time, since the Department, and prior to it the Board, was staffed largely by professional technical personnel, it never managed to find a satisfactory relationship between the expertise of the professional and the lay men who acted as political heads. Specifically he suggests that during the entire pre-confederation period there appeared to be unresolved tension between the experts and the various political heads.¹⁴

In fact Hodgetts suggests that one of the main problems was that Sydenham's act conferred corporate status on the Board.¹⁵ As previously stated,

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¹⁴ Hodgetts, Opus Cit. P. 189
¹⁵ Ibid P. 190
very wide powers were granted to this corporation to
hold and sell properties, to enter into contracts, etc.
but in practice the Chairman of the Board, exercising
his statutory right to make decisions on behalf of the
corporation, very quickly came to dominate the Board.
Indeed the chief criticism by the Royal Commission in
1846 was that the Board

"armed with immense power and acting as
though irresponsible in its operations --
plunged into heavy engagements with contr-
ractors, which at once committed it on
every work on which an appropriation had
been made, without any regard to the whole-
some checks imposed by legislative enactment."16

An examination of the departmental correspon-
dence of this period would suggest however, that alth-
ough the Board of Works did seem to be outside the
control of the Legislature, this situation was forced
on them by a conscious abrogation of responsibility
by both the Legislature and the Executive Council.

The overall impression of Mr. Hamilton H.
Killally, the Chairman of the Board of Works, to be
gained from the departmental correspondence of the
period 1841 to 1846 is that he was an energetic, hard

16 Journals, Legislative Assembly of Canada (J.L.A.C.)
1846 Vol II Appendix O. Also cited by Hodgetts,
Opus Cit.
driving executive of considerable professional skill, who was forced into a virtually untenable position by circumstances largely out of his control. The Board of Works of course had the usual problems of having to deal with employees appointed by the Legislative Council, verbal instructions from the Secretary of the Executive Council which were later denied, and all the common points of friction which develop between control agencies and operating departments. The more specific problem of the legislative control of the Board of Works was well described by Mr. Killally in a letter to the Secretary of the Executive Council which stated that:

"From your explanation as to responsibility, I feel it due to myself to say that I have never avoided any responsibility fairly attached to the office I hold, but I beg to remind you that I have been now for several months individually doing the whole duty of bearing the entire responsibility which is attached to the Board by law. As long as such was confined to professional matters, or to work sanctioned already, I have never troubled you by calling upon you for instructions from the Governor in Council for my guidance, and thereby lessen my responsibility - but in all new cases (as long as I am left without colleagues) such as at the present, - I feel it but just that the will of the executive should be stated to me, especially
as several changes connected with it are currently vague."  

There is also fairly extensive correspondence from the Chairman pointing out his anxiety about there being no other members of the Board of Works and at his being consequently obliged to take upon himself the entire responsibility of the Department.  

When a Commission of Enquiry was finally appointed in the middle of April 1845, it had obviously become a trial of the technical and professional managers within the Board of Works by the Legislative Council. Instead of being apologetic however, Mr. Killally pointed out some of the practical problems and limitations under which he had to work and in a letter to the Secretary to the Commissioners he gave a striking example of the control which actually did occur and was practiced by the Executive Council. Amongst other things he pointed out that on one particular project the work had been going on under very  

17 Letter 4th June 1844, RG 11 Series 2 Vol. 44  
18 Letters 3/10/44 and 17/4/45 Killally to Daly, RG 11 Series 2 Vol. 44. See also a letter of 9/2/46 Ibid, Killally to Daly, in reply to a letter pointing out that Board Meetings could only be called by express authority of the Governor General. This is particularly interesting since Daly was a member of the Board of Works.
great difficulties principally due to the changes made in the line of the road by order of the Executive Council after the contracts had been given out and the difference of opinion with one of the landlords along the line of the road who requested an alteration in the general alignment. This was approved by the Council contrary to the advice of the Board. Such intervention caused considerable delay which was verified by an affidavit and the minutes of the Board of Works. This hardly bears out the claim by the Commission of Enquiry that the technical experts were running away with government expenditure out of all control of the Legislature.¹⁹

The argument might of course be advanced that as an instrument of government, the Board of Works was responsible for carrying out the wishes of the Executive

¹⁹ Letter Begley to Ferres 9/10/45, RG 11 Series 2 Vol. 493. See also RG 11 Series 2 Vol. 492 P. 10 Conclusions ------ "That in commencing many of the public works the Board has entirely neglected to conform to the provisions of the law; and in many instances, the system pursued by the Board has rendered a strict compliance with the law impossible."
Council even on technical matters, and that the real inefficiency referred to by the investigating commission was in the internal management of the Board of Works. This, once again, is not borne out by the Department correspondence, which indicates a stream of recommendations for economy such as recommendations for the sale of surplus land, that public buildings and other property in Toronto and Quebec should be rented for revenue when not required, etc..20

Alternatively it may be suggested that the real inefficiencies were in connection with personnel relations, i.e. keeping on surplus staff when not required, or overpaying the staff. It is obviously difficult at this time to say what were fair rates of pay in the middle of the 19th century, but nonetheless total layoffs were fairly common on the completion of specific items of work, and salary reductions were also not unheard of. Since the salaries of the Chairman and Secretary were determined by the Legislative Council, it would seem likely that none of their subordinates were paid higher salaries than the senior officers, and this would act as a fairly effective deterrent on major waste.21

20. See letters to D. Daly, Provincial Secretary in RG 11 Series 2 Vols. 44 and 45
The entire approach of the Commission of Enquiry becomes rather suspect, when one considers that the Chairman of the Board of Works learned of the appointment of the Commission by reading the newspaper and

"upon enquiry I find that the Commission is not only fully organized, it has had several meetings." 22

Nonetheless instead of resigning, Mr. Killally did offer to cooperate with the Commission and he suggested that a series of visits of inspection to the various parts of the works of the Board would be found very useful by members of the commission. This advice was neglected.

It is interesting to note Hodgetts' analysis of the reasons for the failure of this superficially excellent system. He suggests that one of the factors which contributed to the seizure of power by the Chairman was in fact the provision which gave the Governor a veto over any decisions made by the Board. As long as Sydenham was on hand, this veto power might have been expected to counteract irresponsible decisions taken by the Chairman on behalf of the corporation, but with the arrival of a less interested, or less dynamic,

22. Letter Killally to Daly 19/8/1845 RG 11 Series 2 Vol 45
Governor; the Chairman was allowed a free hand. He also suggests that these centralizing tendencies were exaggerated by the fact that the chairman, Hamilton Killally, also undertook the duties of chief engineer, a position for which he possessed the necessary expert knowledge.

According to Hodgetts this set off a chain reaction which had disastrous consequences. The Chairman was a member of the Cabinet and consequently he contented himself with communicating all decisions of the Board verbally rather than in writing. There seemed to be no particular reason why he, as chief engineer, should write letters to himself in his other capacity as Chairman telling what decisions had been made at the technical level. As a result the engineer spent public money under his authority as Chairman and was able to have his decisions ratified by defending the expenditures before Council (where he was already certain of the four votes held by his other Board members). The fact that the first incumbent, Hamilton Killally, was a strong personality with an engineer's "direct action" approach to the task of advancing the Public Works with all possible speed, added the crowning piece to this whole administrative structure.23 The obvious question

23 Hodgetts, Opus cit pp 190-193
which arises of course is, that since the Council, or the Governor, had the authority of appointing Board members who were members of the Council, one must assume that either the Governor did not appoint the kind of Board members who would control the activities of the Board of Works, or alternatively that Mr. Killally did run his department to the satisfaction of the other members of the Board. (This point may bear further close examination in view of present proposals to run DPW as a crown corporation)

On searching the correspondence of the Board of Works for this general period it was found impossible to find justification for the comments by Hodgetts that

"with Killally in full and irresponsible charge, spending vast public funds with the abandon of the zealot anxious to get things done whatever the cost, the inevitable reaction set in." 24

There is no doubt that Hamilton Killally was a strong personality, technically competent and hard driving, but it would appear from a review of the evidence that the real weakness lay in the Governor and Executive Council who were not prepared to enforce the legislation, which they had the power to do, or to control Mr. Killally.

24. Hodgetts, Opus Cit. p 192
It is therefore suggested that what really broke down was not the organization of the Board of Works but the will of the Executive Council.

Nonetheless, whatever the reasons, in 1845 Governor Metcalfe appointed a Royal Commission to inquire into the management of the Board of Works. It was obvious to the Commission that between 1841 and 1845 the balance of power had swung too far in favour of the expert and it was necessary now to reassert the authority of the politically responsible Ministers by separating the functions of Chief Executive and Chief Engineer and subordinating the technical function to the political head. 25 This operation was nominally accomplished with the legislation passed in 1846; which admittedly deprived the agency of its corporate status by changing the Board of Works into the Department of Public Works, but, it is suggested, in actual fact did very little else.

The legislation entitled,

"An Act to amend the law constituting the Board of Works" 26

25. Preliminary Report of the Commissioners of Enquiry into management of the Board of Works, J.L.A.C. 1846 Vol 2 Appendix O. See also RG 11 Series 2 Vols. 492 to 495 for full report and correspondence with Commissioners

26. 9 Victoria Cap. 37
which was passed in 1846 still gave the function of the Department as being

"For the superintendence, management and control of the Public Works of this province", 27

and it provided for the appointment of a Chief Commissioner and an Assistant Commissioner both of whom might be members of the Legislative Assembly of the province if elected or returned after their appointment as a Commissioner.

With regard to the powers of the Commissioners there was really very little substantial change since they were still empowered to

"By writing under their hands and seals, on behalf of the province, to make and enter into all necessary contracts, agreements, stipulations, bargains, and arrangements with all and any person or persons whomsoever who upon, for or respecting any act, matter or thing whatsoever relative to the Public Works of this province, and the construction and repairs thereof, and the land required for the same -- -- " 28

It would seem that the only change of substance in this legislation was that the Department was now required to enter into agreements "on behalf of the province" while in the past the Board could enter into agreements in its

27. Ibid Section 2
28. Ibid Section 5
own name. The overall function of the new department was given as

"The management and control of constructing, maintaining and repairing all canals, harbours, roads, or parts of roads, bridges, slides and other public works or buildings now in progress, or which have been or shall be constructed or maintained at the public expense out of the provincial funds, and which by or under this or any other Act are or shall be hereafter placed under their management and control". 29

This was of course modified by the overall proviso that nothing in the act should be construed as giving authority to the said Commissioners to cause expenditure on any work not previously sanctioned by the Legislature.

The difference previously referred to is again reinforced in a later clause which states that all lands, property, streams and water, etc. etc. etc. etc. acquired for the use of Public Works shall be vested in Her Majesty and, when no longer required, may be disposed of under the sanction and authority of the Governor in Council. It is particularly interesting to note that any hydraulic powers which may have been or may thereafter be created by the construction of any public works shall be vested in Her Majesty, 30 which may be an interesting

29. Ibid Section 7
30. Ibid Section 13
precedent in dealing with property values which are created by an investment made by the federal government (such as major airports, jetties, location of public buildings, etc.)

This point is further made in a later section which requires arbitrators or appraisers appointed under the act to consider the advantages as well as the disadvantages of any public work or works as respects the land or real estate of any person or persons through which the same shall pass or to which it is contiguous or as regards any claims for compensation for damages which may be be brought before them.31

In practice it turned out that what had really been achieved by the act of 1846 was simply to give the rose another name. As Hodgetts states:

"As a great spending department it proved constantly incapable of balancing its budget; as a department staffed almost entirely by engineers it never found a satisfactory balance between the riual claims and interests of these experts and the lay men who sporadically discharged the duties of Chief Commissioner of Public Works."32

He suggests that while over-expenditure was certainly the

31. Ibid Section 29
32. Opus cit p 189
most impressive symptom of administrative weakness in the department, it was the preponderance of technically trained experts on its directing staff which posed the basic problems. Although the law conferred on the Commissioner of Public Works virtually unlimited discretion to make the final decision on a host of subjects, as a matter of normal practice the engineering staff tended to assume the Commissioner's discretion and very often even failed to keep the political head sufficiently informed of the decisions taken in his name. While this was undoubtedly true, it may be suggested that in any situation where a strong manager is subjected to weak controls, the same developments will occur.33

This is borne out by the fact that while the Department managed to operate under reasonably effective political control, at least to the extent that there was no open fighting between the Commissioner, Assistant Commissioner and the Secretary, this situation changed almost overnight in 1851 with the re-appointment of Hamilton Killally to the position of Assistant Commissioner. By this appointment, the Assistant Commissioner

33 Hodgetts, Opus Cit p 189
See also discussion under Glassco Commission in next chapter regarding the arguments in favour of making, in the make-or-buy situation.
became in fact if not in law the permanent deputy head of the department. Although Killally did not take a seat in the Legislative Council, an Amending Act of 1847 enabled the Secretary acting with the Assistant Commissioner to sign all contracts and make decisions in the name of the Chief Commissioner. This, combined with the fact that the Assistant Commissioner had equal and coordinate powers with the political head, enabled Killally to run the Department in its entirety.

This situation was broken up by the primary action of L.V. Sicotte, as Chief Commissioner of Public Works, who in a memorandum to the Executive Council pointed out:

"That his usefulness as head of the department is retarded and paralyzed to a great extent by the state of things which he has exposed -- and to urge an action which would remove some of the difficulties above mentioned." 34

The recommendations consisted essentially of an immediate firing of the Departmental Secretary, and then the removal of Mr. H.H. Killally the Assistant Commissioner.

34. State Book T, Public Archives of Canada p 263, see also pp 554, 557.
Although the Departmental Secretary was dismissed as:

"inefficient, unfit and utterly incapable for the duties assigned to him"\textsuperscript{35}

it is interesting to note that at that time the Department had a regular cost accounting system, particularly for repairs on public buildings, where the Clerk of Works made out a weekly return for every project giving the work done, the tradesmen employed, and the number of hours every tradesman had worked on every project. This was arranged in tabular form for easy analysis.

As a result of this clash the Public Works Act was amended in 1859 and the position of Assistant Commissioner was now officially recognized as equivalent to the permanent deputy head, who was properly subordinated to a single minister. The duties of the Secretary were not abolished, although this had been suggested by Sicotte, and were left essentially unchanged, but the terms of the Act made it clear that the holder of this position was to keep his own subordinate place in the hierarchy.

\textsuperscript{35} Ibid.
However once again, as in the previous situation, the legislative changes did not entirely restore harmony between the politician and the expert. Samuel Keefer who had spent a long time with the department as an engineer, (Note: Hodgetts uses the term enjoyed a long career but this is not entirely borne out by some of the correspondence from Mr. Killally to Mr. Keefer when he was working as an engineer36) was promoted in 1859 to the new permanent post of Deputy Commissioner. By 1862 the Commissioner Mr. Cauchon stated that:

"When I came into the Department I did not consult Mr. Keefer, the Deputy Commissioner, for I had no confidence in him. In my opinion he had by his management in regard to the heating and ventilating of those buildings and other mismanagement driven Mr. Rose from office. I had therefore no confidence in him and never consulted him about these works. I was obliged to look for information from the officers in the Department."37

36. See letter Begley to Power 3/5/1844 RG 11 Series 2 Vol. 44
"That signed by Mr. S. Keefer appears to the Board to be a most extraordinary and unjustifiable one to be given by any person holding such a situation. It exhibits the greatest irregularity in the performance of his duties, shows that for 3 months a regular estimate was not made out of the work, and interference in a most imprudent manner between the contractor and his creditors."

37. State Book T, Opus Cit p 264.
The buildings referred to were of course the Parliament Buildings which were under construction at that time.

This further advanced until by 1864 in a memorandum to Council, the Commissioner, Mr. M. Laframboise, pointed out that he was of the opinion that it was not advantageous to the public interest that Mr. Keefer should be continued in office and that his services should be dispensed with.

This recurrent series of clashes between the political head and the technical staff admits of two primary explanations. On the one hand we have a statement by the Secretary of the Department in 1862 that:

"The will of the Commissioner forms the system for the time being. There is no absolute rule."38

As a consequence some of the more strong willed Commissioners went ahead on their own discretion without technical advice and altered contracts, dispensed with public advertising of tenders, authorized issue of payments to contractors without seeing that the work had

been checked by experts, and granted extras beyond the
terms of the contracts. The oral order of the Commis-
sioner was of course accepted by all senior officials
as sufficient authority for any action.39 It is
interesting to compare this with the situation in 1845
when H. Killally, as Chairman, in a letter to the Secre-
tary of the Executive Council, pointed out that in
future no verbal orders would be accepted but that
they must all be submitted in writing.40)

On the other hand one can accept, as Hodgetts
does, that the main responsibility for the financial
and administrative difficulties rested on the shoulders
of the engineers. When the Assistant Engineer of the
Department was asked by the Financial and Department
Commission in 1862 whether he took into consideration
the appropriations made by Parliament for the work,
he replied that this was a matter that concerned the
Commissioner more than the Engineering Branch. When he
was asked how the engineers kept track of the amount
of appropriation available or still to be spent, he

39) Hodgetts, Opus Cit. p 196
40) RG 11, Series 2 Vol. 44, Letter Killally to Daly
   4/6/1844
   "...the possibility of any such misunderstanding
   will in future be avoided by my seeing your
   instructions officially in writing."
replied that he was aware of the amount but they had no record of it except by reference to the Accountant.\footnote{41)}

He stated that he could not say in what form the accountant's record was kept and that he would not refuse to give a certificate if the account was in excess of the appropriation but would direct the attention to the fact of excess, leaving responsibility to rest upon the head of the Department. It is suggested that in today's management philosophy this is exactly what the function of the technical expert should be. It is his responsibility to advise top management of the implications of their decision and then to act upon instruction. This is in line with the old British quotation that:

"the expert must be on tap but not on top".

There is of course the other difficulty that, unless the engineers had kept their own entirely distinct accounting system, they would have received very little help from the departmental accounts. The Commission of 1862 reported that:

\footnote{41) Opus Cit., also cited by Hodgetts p 197}
"The looseness and irregularity which are visible in the Public Works Department extend far beyond its bookkeeping. Its records of accounts are defective, its checks upon expenditure worthless, its paucity of information on points essential to a correct understanding of its transactions in their progress is, confessedly, deplorable". 42)

Looking at this situation from a present day concept of philosophy of management, one would have to come to the conclusion that the overall responsibility had to lie with the Minister. While admittedly a great number of changes took place, with seventeen Chief Commissioners holding the position between 1846 and 1867, nonetheless they were all members of Cabinet and it was really the responsibility of central government, who had the authority, to define the methods of operation, administration and accounting for the department. While one may criticize the individual executive officers, both technical and administrative within the Department, the overall responsibility must lie with the political authority who did not define or enforce the rules regarding the operation of the Department.

42) Ibid p 14, and cited by Hodgetts.
The classic example of the construction of the Houses of Parliament typifies this basic problem. Although Mr. S. Keefer, the Deputy Commissioner, was finally fired largely because of this project, it must be pointed out that Mr. Rose, the political head of the Department, testified to the Commission of Enquiry that:

"I was not aware till towards the end of the year 1860 that extra work to any unusual or extraordinary amount had been done. My attention had not been especially called to it. I was but the political head of the Department. It was the duty of the Deputy Commissioner and the Assistant Engineer (in charge of buildings) and Architect to see that nothing was done but what the contract orders of the Department wanted". 43)

However it is obvious that the Commissioner must have been aware of the total expenditures which, during his term of office, had reached well past the half way point and the buildings were not yet above ground. When Mr. Rose resigned and his place was taken by Mr. Cauchon he, as previously cited, simply refused to consult the Deputy Commissioner and stormed ahead using all the statutory powers of the Chief Commissioner.

43. Cited in Memorandum to Council, March 7, 1864, State Book Z, p 517. Also note that Mr. Keefer, in his testimony to the Committee, stated that Mr. Rose was aware of the circumstances.
However, according to Hodgetts, this personal intervention only made matters worse since, refusing all expert advice, he proceeded in four months to pay out nearly $300,000 to the contractors without calling for vouchers.

According to Hodgetts this series of small mistakes and one major blunder over the Ottawa buildings taught the Department of Public Works better administrative habits. He suggests that the lessons learned were:

(a) That the political head should never be forced into the position where in making his decisions he had nothing to fall back on but his own discretion and vast ignorance of technical matters.

(b) Unless close liaison was maintained between the responsible politician and the expert technicians, the department would always suffer from over expenditure of appropriations.

44. Opus Cit p 202
(c) The Department learned the value of fixed routines so that the views of the experts could be channeled through to the political head so that the discretionary element in loosely drawn contracts could be avoided and so that a technician could never make vital decisions without referring them to the head.

He suggests that this last lesson was one of the most important, for it is a tendency that readily emerges in a Department like Public Works.45

It is suggested that in actual fact these lessons were not learned, and the history of the Langevin Building46 and more recently the National Arts Centre may cast some doubts on Hodgetts conclusion.

At the same time one might wonder whether any organizational structure conceived at that time would have worked within the overall framework of the public service. As D'Arcy McGee pointed out in regard to the Civil Service Act

45. Opus Cit p 203

46. See letter Charlebois to Fuller, 18/4/1888, RG 11 Series 8 Vol. 1, complaining of delays, technical incompetence, etc.
"The main principle of the Act is that seniority ought to bring promotion with the inevitable progress of time itself. Undoubtedly seniority in the Public Service where it is associated with aptitude, energy and character ought to be the chief ground of promotion. Wanting, however, these additional qualifications, the sterile seniority standing alone seems to be rather a ground for removal or reduction than for invariable advancement. It is clear to every capacity that of the two hundred officers and clerks permanently employed at the seat of government, and a much larger number employed in the external civil service, the speciality of every man depending for its reward upon the sole test of seniority, the Public Service must be deprived in many instances, year after year, of the best services of some of the best men. On the other hand it is apparent that the elevation of an officer by seniority alone, from a position for which he has shown special aptitude, and to which he has grown familiar, to another, a new and untried position, must lead to confusion and disorganization even if all salaries are to be augmented at a percentage, with change of offices, the results so far from acting as a healthy incentive to the to offer a premium chiefly to those, who have a gift of keeping up appearances making friends, and "holding on.""

Looking at the recommendations made by the Glassco Commission in 1962, it would seem that, although various changes were made in the Civil Service Act over that period of 100 years, in substance the method of

47. T.D'Arcy McGee, Report on the origin and organization of the Public departments, RG 1, E 7, Vol. 59 (a).
operations had not really drastically changed.

It is particularly interesting to note that D'Arcy McGee pointed out that under the Act of 1859

"There is in fact no department of our government in which a one man power may be so fully exercised as in Public Works. The will of the Commissioner for the time being is the law of all the office and officers included in the Department". 48

The internal organization of the department was divided into the Engineer Branch, the Accountants Branch, the Secretaries Branch, the Custodian Branch and the Provincial Arbitrators. Except for the Provincial Arbitrators, who were paid through the Legislative Council office, the heads of all the other branches stood equally in direct relation with the Commissioner. It is suggested that this very strongly supports the argument previously presented that if the engineers were not aware of the financial implications of their decisions, the responsibility must lie with the Commissioner or Minister who was the one man who had access to all the information.

48. Ibid
The overall conclusion from this brief historical review is that the effectiveness of the public works function, at least historically, was not affected by its form of organization i.e. corporate status or department, but was very heavily dependent on personalities, political atmosphere and the relationship between Ministers and their staffs. If human nature does not change, and there is no reason to suppose that it does, one might therefore wonder whether the present day proposal to solve all accommodation problems by organizing the function as a crown corporation will really achieve its aims. In the final analysis every major public works project is a political act and in 1845, when the Department started to stray from what seemed to be the political requirements of the Executive Council, the technique used to reinstitute discipline was simply to avoid appointing Members of the Board and thus forcing the technical head to take on the total responsibility of policy and administration for which in due course he was fired.

One might justifiably wonder what action the government would take if faced with the same situation today. The Department of Public Works of course passed through all the vicissitudes of the Civil Service
in general, but the scope of this paper does not allow a full discussion of all the factors which contributed to the problems of Public Works over the succeeding century. As Hodgetts points out, service departments are always in the difficult situation where they are blamed for lack of service or defamed for overbearing interference and finicky attention to detail.\textsuperscript{49}

The next major event however was the Glassco Commission report which will be discussed in the next chapter.

\textsuperscript{49} Opus Cit p 184
CHAPTER II

THE GLASSCO COMMISSION REPORT

In 1962 the Glassco Commission presented a general review on operations and organization in government. Their report\(^{50}\) provided a useful review of how property might be managed in the government environment but, even more important, defined some of the environmental characteristics which would allow property to be managed in a rational manner.

It is impossible to review all the factors in the report within the context of this paper, although in reality the recommendations make a package many of whose specific aspects do not make sense in isolation. Nonetheless, a selective review can be made of those characteristics of government which most affect the accommodation function, always bearing in mind that these recommendations are only applicable if the other operations of government are being managed in an essentially equivalent manner.

In the current rush toward quantified analysis it is worth looking back to the terms of reference of

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the report which pointed out that it was directed to the improvement of service rather than achievement of efficiency and that in the eyes of the public, good management in the sense in which it is understood in the business world, is not necessarily synonymous with good government. At the same time it points out that all public administration has at least potential political implications. While the public servant must be politically neutral in doing his job, he serves his Minister badly if he is unaware of or indifferent to the political consequences of what he does. It was not considered part of the job of public servants to substitute their own political judgement for that of the Minister, but there is a need for them to recognize situations in which political guidance must be sought.

This of course is in line with the general concept of PPB which is that the responsibility of the public servant in the decision-making process consists of identifying what in the problem is quantifiable, and enabling the Minister(s) to make a choice in full knowledge of the economic costs of the political decision.

51. Opus cit. Vol 1 p 25

52. Opus cit. Vol 1 p 32
Historically the main characteristics of the civil service have been control and inflexibility. As stated in the Report:-

"The structure of control built up between 1918 and 1951 was impressive and unique. Measured against the most narrow objectives it was also unquestionably effective, the standards of probity reached by the Government of Canada in its use of people and money are high but good management consists in more than the avoidance of sin, and this Calvinistic approach to public administration, while well designed to discomfit bad managers, was bound to prove most frustrating to good ones.

Inherent in this system of control has been a tendency to self-perpetuation; by divesting departments of the authority essential to the effective management of their own affairs, the system tended to weaken their sense of responsibility."53

While this type of approach may possibly be acceptable in a "policy" department or activity, it would certainly act as a disincentive to rational management in any of the quasi-commercial operations in government.

This has always been recognized and various devices have been developed to overcome this problem. Foremost amongst these devices is of course the development of semi-autonomous boards, commissions, etc.

53. Opus cit. Vol I p 44.
as a method of by-passing patterns of control. These leave the Minister responsible for broad policies but not operating decisions. Control, to the extent that it is exercised, is by the appointment of senior officers and Directors, review of capital and sometimes operating budgets, management audits and annual reports.

If one accepts the report's recommendations for the responsibilities of Treasury Board as being

"Reviewing and approving the programs and objectives of departmental management, both annual and long-term, to ensure execution and compliance with government policy.

Establishing broad principles of administration to ensure reasonable uniformity and consistency throughout the Public Service.

Concurring in the appointment of the senior financial officer in each department or agency to ensure an adequate level of departmental performance.

Supervising application of financial policies and practices";\textsuperscript{54}

the problem becomes simpler but not yet solved. Apart from the political character of public administration there are other differences from the business world

\textsuperscript{54} Opus cit. Vol i p 121
which make it difficult to evaluate performance in the government environment. Primarily there is an absence of the profit test which might be used as a guide in the allocation of resources and as a measure of competitive performance. If we redefine the word "profit" as meaning, in this context, the achievement of objectives, we are still left with the difficulty of making allowances for time in the analyses, since non-monetary values cannot be discounted and the use of shadow prices can lead to many other problems.

Nonetheless when one considers that the immediate aim of the techniques of management developed for industry is to attain the organization's goals with the greatest possible economy of effort, it should be possible to adapt most of the management techniques developed for business, to government. The rationale in this case would be essentially a drive for efficiency as opposed to effectiveness, i.e., on the basis that whatever a particular department of government is doing, it would be of benefit to the government to achieve the same objective with the smallest possible expenditure of resources.

55. Opus cit Vol I p 46
56. Opus cit Vol I p 46
One of the main arguments commonly advanced in favour of removing the accommodation function to a Crown Corporation type of organization is the requirement for personnel flexibility. Indeed Glassco mentions that, at that time, no guiding principle governing the exemptions of Crown Corporations and Boards from the Civil Service Act was evident but there can be no doubt

"that in many cases the objective was to permit management to operate with the freedom denied to departments generally."57

Looking at the controls in force in 1962, it was pointed out in the report that a premium was placed on over-staffing as a protective device. At the present time this effect has been emphasized by the classification system employed in the Public Service, where points are awarded (among other factors) for the number of employees supervised, and it therefore pays every junior and middle manager to obtain the largest staff possible.

Many of these factors would be removed or changed if one were to adopt the recommendations of the Glassco Report which stated that;

57. Opus cit Vol I p 256
"they should be allowed to deploy the human resources unfettered by detailed limitations on the number of personnel in particular classifications or units. This freedom must of course carry with it accountability for performance. One of the major functions of the personnel division will be to assess the effectiveness with which departments use their personnel, subject to approved budgets, and to broad policy guidance by the Treasury Board."58

There is also the problem of the remuneration which can be paid to the Deputy Minister and his senior officers. At the present time senior personnel in development companies are attracting salaries in the range of $50,000 to $100,000 per annum and sometimes higher, plus a variety of stock options, while a senior Deputy Minister in the Public Service is limited to $40,000 per annum. Glassco pointed out that as a matter of simple justice it is not in the public interest to set arbitrary limits on the remuneration of key employees at levels well below prevailing rates for comparable talent elsewhere in the economy. At the same time the report points out that if such persons are to be given real authority and responsibility as generally recommended in his report, the present pay policies cannot be expected to attract and hold men

58. Opus cit Vol I p 257
and women of the calibre required.\textsuperscript{59}

Unfortunately in the recommendations on this particular chapter, while the report recommends that the salaries of senior administrative personnel be increased at least by the amounts necessary to create reasonable differentials in remuneration for varying degrees of entitlement of senior staff, there is no specific recommendation regarding equivalence with industry. Even if one accepts the fact that in the Public Service there are other factors such as the challenge and interest of the work, a sense of public duty, stimulating personal associations, freedom from the strain of the competitive tempo of business, (which may not, and perhaps should not, apply in the accommodation function) job security, etc. which are all today becoming rather shaky arguments,\textsuperscript{60} nonetheless even if they hold, there must be some value attached to them either as a percentage or in absolute dollars which might enable one to establish some type of fair

\textsuperscript{59} Opus cit Vol I p 287

\textsuperscript{60} Note also the discussion on motivation (pp 276-284) which makes many recommendations which are generally advanced as arguments in favour of corporate status, as many people feel they cannot be implemented in a departmental environment. This was obviously not Glassco's view.
relationship between Public Service salaries and the private sector.

In the area of financial management with regard to the accommodation function, probably the most significant point is the fact that capital costs in the Government of Canada are charged off when the funds are expended. Thus depreciation is never taken into account by the government, although it might well be needed whenever an activity or service is expected to operate at a profit or to break even; whenever a department or agency provides services which might alternatively be provided by private enterprise; and whenever any alternative courses of action are being considered for planning purposes. In general, therefore, in the government service when decisions on a make or buy problem were being made, the amounts in the analysis tend to be based on incremental cost only. The report therefore recommended that wherever depreciation accounting is necessary for management purposes it should be incorporated in the departmental accounts, and/or adequate records of assets and use should be maintained.61

61. Opus cit Vol I p 109
Concurrently of course it would be necessary to properly account for the free services including accommodation, furniture, power, franked mail, superannuation and other employee benefits. Unless these costs are properly charged, user departments cannot be expected to be conscious of the costs or to have an incentive for more efficient utilization.

Looking at the overall recommendation with regard to common services, that they should all be charged for, it becomes obvious that a system of bookkeeping must be adopted which is comparable to that used in similar sectors in industry. This becomes particularly important in deciding the relative advantages of what is commonly known as "make or buy" where it would be difficult if not impossible to make a comparison unless both alternatives are being analyzed by the same methods.

Going on to the more general aspect of common service agencies, the report has the underlying philosophy that whenever possible a service of government that can be purchased on the open market, should be. This is based on the argument that:

"The essential concern of government is the attainment of goals of public policy. The
particular instruments by which these goals are reached are of secondary interest at best, and preoccupation with them can only divert the attention of Ministers and administrators alike from their primary purpose. Most government operations are undoubtedly practical necessities for the execution of its policies but, other things being equal, it is preferable to buy rather than to make, in order to restrain the continuing spread of government as distinct from the private sector of the economy."62

Without discussing the validity of this argument in the more general aspect of common services, it is suggested that in the area of accommodation, the decision by the government to erect a multi-storey building in a particular area is very seldom a purely financial consideration and thus, even if all other things are equal, there are sound arguments why the government should own the building.

Since the provision of services like accommodation are common to virtually every agency, the report looked at the possibility of providing these services from a common pool. First of all there is the argument that considerations of public policy may influence the administrative practices of government in meeting its operating needs for staff, accommodations

62. Opus cit Vol I p 46. See also discussion in Vol II p 318.
and engineering works, and supplies and equipment. These considerations may necessitate not only the formulation of standards to govern such practices, but also the creation of common service departments and agencies charged with specific responsibility for ensuring that the public interest is recognized and served.

Secondly, the pooling of common services may also be warranted by considerations of economy or administrative advantage. From the point of view of the departments, while the definition of needs for supplies and services is inescapably a part of the departmental responsibility, the actual satisfaction of those needs may be only a chore which intrudes on the essential functions of devising and applying solutions to the public problems. (This of course is partially negated by the personnel policy referred to previously.)

Thirdly, smaller operating units encounter a special problem in meeting their needs for a wide variety of administrative services because of the prohibitive costs of maintaining staffs to cater to such needs and the impossibility of keeping such staffs fully employed. Common service organizations,
Where they exist, can meet some of those needs, but in other situations a small unit might have to become the client of a larger operating unit.63

The report does not propose a uniform pattern for the organization of common services although it does lay down certain general principles which should govern the provision of administrative services by one organization to another. First of all the arrangement for administrative services must not impair the essential authority and responsibility of the operating department. This means that within certain general government standards, the user of these services has the right to define his needs and, in order to emphasize to both the user and the supplier where the responsibility lies, and also to ensure that the total costs of programs are identified to Parliament, the costs of service should be chargeable to the user.

The second general principle enunciated is that service and control must be sharply differentiated.64

63. Opus cit Vol I pp 57-59

64. See following chapter on Functions of a Service Department, on the differentiation between a passive and an active Service Agency.
The Report suggests that suppliers and services should exercise no control over the users except within the strict limits of any responsibility for applying special considerations of public policy. The only general element of control which should be exercised would be in the form of an assessment by centralized control agencies of the level of services demanded by the users and indicate the satisfaction given by supplying agencies. This would be part of the general evaluation of performance throughout the machinery of government.

The next point made is that the direction of these common service agencies must be in the hands of senior administrators who come within the general rotational program for the top levels of the Public Service, and they will therefore be conscious of, and sympathetic to, the needs of the user departments. This of course is contrary to the arguments which are commonly advanced at the present time that certain service agencies are so specialized in their nature that the senior executives must be specialists and must therefore be paid a salary which can be commanded by a similar specialist in industry. Furthermore Glassco also suggests that, to the extent that operations similar to those of a service organization
are carried out in other parts of the Public Service, there should be rotation of the technical staff involved. There are other suggestions with regard to contacts with external developments and techniques and also arranging, either by contract or other arrangements, for exchange of personnel with outside agencies.65

The next general recommendation was really the most basic one of all. Essentially it is that the organization of each common service must be designed to serve the needs of its clientele. There has been an unfortunate tendency, even at the present time, for service agencies to become very concerned (whether successful or not) with the optimization of their own operations while ignoring the fact that their only "raison d'etre" is to allow the operational departments of government to carry out their basic functions. It is unfortunate that in the 8 years which have passed since Glassco, this particular problem has not yet been solved.

The final recommendation in this area is that the current service organization serve the

65. Opus cit. Vol I p 58
Treasury Board and its staff as a source of technical guidance in the framing of policies and standards to govern administrative practices for other governments. This of course still leaves the basic problem of how Treasury Board, on its part, can measure the effectiveness of a common service agency without having specialists within the Board who understand both the operational needs of the "client" departments and the service departments.66

One of the terms commonly used (and misused) in discussion of common service functions is the question of "make or buy". In reality this is rather a misnomer, since the decision is not normally such a simple one. In acquiring any service or property there are really two questions which must be answered. First of all there is the question of whether the article or service is needed at all, and secondly there is the question of the optimum method of financing this acquisition if it is required. At one end of the spectrum there is the alternative of making or providing the service with one's own staff, while at the other end there is the possibility of purchasing the good or

66. *Quis Custodiet Ipsos Custodes?*
service on the open market. In the area of real estate there are a large number of different purchasing options varying from outright cash purchase through leasing, leasebacks, joint ventures, etc. Thus, in this paper when the term "make or buy" is used, it will be assumed to mean the entire range of acquisition options which is open after the decision has been made to acquire the good or service.67

While accepting the basic hypothesis of the report that each venture into a secondary field of activity by government is attended by added responsibility and increased complexity of management, there are nonetheless some very strong arguments in favour of providing services within the government as opposed to buying them. First of all there is a not unnatural inclination for the more aggressive public servant to bring under direct control all the elements necessary to support the operations in his area of responsibility. Contracting out, whether to private industry or to a government common service department, is thought to limit his operating freedom and flexibility. In

67. For an excellent discussion of this problem see "Make or Buy" by J.W. Culliton, Harvard University, Graduate School of Business Administration, Boston, 1961.
addition to this, where the possibilities of promotion may depend, or be thought to depend, on the number of public servants being supervised, there is a direct incentive for empire building.68 By changing the general contract procedure and, possibly, the point allocation system for personnel classification it may be possible to overcome this argument.

A more serious argument however is what is sometimes known as the "nucleus of competence" argument. Essentially this goes as follows - if the department is to have the necessary expertise to supervise the activity which they are buying, from the point of view of techniques, workmanship, etc., they must be practiced in this undertaking and keep abreast of new developments. Furthermore the contracting department and agency must have its own measures of performance available to establish norms and costs against which it can assess the price and quality of goods produced and services rendered by suppliers. Then there is the argument that continuity of essential operations must be assured in the event that private enterprises cannot or will not continue to provide the goods or services

68. Opus cit. Vol II p 320
required. And finally there is the argument that sole reliance on outside suppliers leaves the government unprotected from possible discriminatory pricing tactics.69

The report suggests that most of those arguments for a core of nucleus can be overcome by proper recruiting and training programs which can provide the skills necessary to supervise external suppliers. Competitive bidding and contractual safeguards can probably provide better protection against other potential abuses. The primary problem identified by the report is the fact that there would always be the danger that a department would not stop at acquiring a minimum core or nucleus, but would acquire equipment, plant and staff in excess of need and would then proceed to expand its operations in order to utilize its acquired competence.

There is of course one other principal argument in favour of the "make" decision which is very often ignored. This is the complexity of government tendering procedures. Most managers would therefore be quite prepared to accept a cost penalty to make rather than buy, and this may lead into a situation where the same product may be made by one department while being bought

69. Opus cit Vol II p 320
by another. While Glassco suggests that in private organizations there are systematized procedures for make-or-buy decisions, 70 in actual practice in the larger corporations the same problem arises.

One of the basic problems in the Federal Government is that at the time of the report, and to some extent even today, a rational analysis of the make or buy decision is virtually impossible. Since

"little or no account is taken of extra departmental costs such as rent, maintenance, heating, cleaning, water, power, light, or employees fringe benefits (supperannuation unemployment health insurance and accident compensation), no charges are made for such services as mail and telephone, no interest costs are computed for use of capital or working funds, no allocation is made for grants in lieu of municipal taxes, and of course no account is taken of income taxes.

In brief, comprehensive costs to measure the efficiency of government operating activities are not available except in isolated cases. Nonetheless many public servants appear convinced — — —. They ignore the fact that true costs exceed the figure provided by their accounts by 50% or more." 71

70. Opus Cit. Vol II p 321
71. Opus cit. Vol II p 322. Some recent work of J. Wadsworth suggests that true costs may well exceed estimated costs by 100% if all factors are considered. See reference infra p. 78
With the advent of PPB and proposed full charging for all common services, it is hoped that this particular problem may be overcome.

Going on to the specifics of real property management, or the accommodation function, this was felt important enough by the Commissioners to justify a virtually complete report in itself. The report points out that historically the whole property function of government (excluding the public domain) was the responsibility of the Department of Public Works. Over the years real property operations have been assumed by other departments to the point where today (that is in 1962) Public Works carries out 40% of construction and controls only a fraction of the floor space in existing buildings. This distribution of responsibilities had led to a situation where no one agency in government knows what the federal government real property holdings are in their entirety, what they are worth, what is needed, and what is surplus. As the report points out, much more information must be recorded, such as the use to which property is being put, the structure standing on it, the cost and date of acquisition,

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72. Opus cit. Vol II p 26
the value assigned, if any, for the purposes of making grants in lieu of taxes, utility services, and the like.

As previously mentioned, capital expenditures are only charged to a department when first made and this, almost as a matter of course, makes it impossible to have any rational disposal policy for surplus property. As the report points out, the major imperfection in the system is that the initiative rests with the department holding surplus land and, as has been already stated, since a department is not being charged for the surplus land there is no reason to dispose of it. Then there is the fact that in many cases departments have limited knowledge of the properties within their care and no systematic means of identifying unneeded parcels. Grants made to municipalities in lieu of taxes are not distributed by charges to departments holding the land, and thus no financial penalty is incurred for continuing to hold the unneeded property. When land is sold departments are not credited with any part of the proceeds. And finally there exists a general belief by officials that the departments own the property entrusted to their care.73 There would be

73. Opus cit. Vol II p 31
advantage in fostering throughout departments a concept of ownership in common, under which property allocation to or acquired by the department is not to be forever part of its resources.

In summary, the lack of accountability for performance is regarded by Glassco as one of the principal reasons for the failure of present arrangements. The more fundamental deficiency however lies in the unsuitability of the existing system by dissipating responsibility for the performance of various functions.

In discussing the merits of a crown corporation type of organization the argument is often advanced that this corporation would act exactly like its counterparts in the private sector concerned only with satisfying an accommodation demand and building essentially when, where and how the financial and building code requirements dictate. The Glassco report points out that with the increasing concern with land use and also because "federal property represents by far the largest real estate holding in Canada," the Federal Government often influences the physical structures of cities and towns.74 At the same time the problems of larger cities are

74. Opus cit. Vol II p 33
bringing into focus increasingly the need for slum clearance and urban renewal, in relation to which location of federal buildings may have particular significance.

Thus;

"It is no longer acceptable to the public interest for the federal government to act independently of local or regional planning authorities, because the scale of its projects may be so great in particular cases, as to distort long range development plans by local authority. -- In such circumstances the application of a consistent federal policy with regard to land use, planning and development generally, is virtually impossible. It is evident that the interest and responsibility of the Federal Government is to play a full and effective part in the programs which are developing to guide future goals into desirable patterns and reshape all the communities to meet modern needs."  

This is a duty which is not laid upon the normal commercial developer and it would appear to negate at least some of the popular arguments in favour of the semi autonomous corporate type of organization.  

The discussions of the commission with regard to land use were then summarized in a series of

75. Opus cit. Vol II p 34
76. This will be discussed more fully in the final chapter on Crown Corporation or Department (Chapter VI, infra)
recommendations as follows:

"a) Consideration be given to consolidating in a single land statute, legislation having general application to the acquisition by purchase or lease, and the disposal or leasing to others, of real property in Canada and abroad, by all departments and agencies of the Crown.

b) The Department of Public Works be made responsible for the development of a complete inventory of properties owned or leased by the Federal Government and its agencies, and its maintenance as a perpetual record, by posting to it all future acquisitions and disposals as they occur.

c) The Department of Public Works in its organization for real property management, assign staff to be responsible for the land use aspects of federal property ownership and to consult and cooperate with all levels of government and their agencies for the future development of urban, rural and regional areas.

d) The Department of Public Works be constituted the sole authority for real property management outside the Defence sector.

e) Except for Defence purposes, the acquisition of property by purchase or lease be made by the Department of Public Works and title thereto to be held in its name.

f) The disposal of all surplus property of the federal government including property declared excess to the needs of the Armed Forces be the responsibility of the Department of Public
Works, and that under a form of organization appropriate for the purpose, aggressive efforts be made to identify and dispose of unneeded real property.

77. The employment of Crown Assets Disposal Corporation in the disposal of surplus real property be discontinued. 77

It is particularly interesting to note that although Crown Corporations are discussed fairly extensively in the report and many rather drastic recommendations are made with respect to forms of organization, etc., the Glassco commission did not see fit in this particular case to specifically recommend a Crown Corporation type of organization.

With regard to construction services in the Federal Government the commission discovered that, despite the monopoly on construction which was granted at Confederation to the Department of Public Works, this has been impinged upon very effectively by many other departments. In 1962 its principal independent competitors were the Department of National Defence, Department of Transport and a number of other agencies. On the basis of the evidence gathered, the Commissioners

77. Opus cit. Vol II p 35
came to the view that the continuing dispersal of construction activities throughout the government should be reversed, and that in order to achieve economy and efficiency in the conduct of public business, responsibility for all construction required by civil departments and agencies should be consolidated in a single construction agency. At the time of the report it was felt that defence construction might well be left to the Department of National Defence but that this should be re-examined at a later date in the light of events.

The general analysis came together in a recommendation that:

"1. The Department of Public Works be made responsible for the planning and supervision of all construction required by civil departments and agencies and the employment of all professional, technical and supporting staffs needs for such purposes.

2. The Department of Public Works be made responsible for the planning and supervision of construction for the Department of National Defence of all classes of property other than those at present provided for the planning and construction staff of the Armed Forces."79

78. Opus cit Vol II p 46
79. Opus cit Vol II pp 47, 48
In looking at the relationships of the proposed common construction agency with its client departments and Treasury Board, the report suggests that the Department of Public Works would have a basic duty to serve the needs of its clients by securing the efficient and prompt construction of the facilities they require. The planning and estimating by the Departments on a program basis (the estimate of construction costs would presumably come from the Department of Public Works) would place on Treasury Board the responsibility of deciding whether or not the requests are granted. It is therefore not open to the construction agency to question approved programs nor challenge the need for the structures which have been approved.80 The Department of Public Works would however have to have substantial additional responsibilities if waste is to be avoided. First by playing the part already described in the long term planning process (i.e. by estimating) it could render valuable advice and assistance to Treasury Board. As the repository of the government's know how in construction

80. Opus cit Vol II p 52, and also see infra Chapter III on the Functions of a Service Department and the comparison between an active and a passive stance.
matters, its criticisms and suggestions on proposals cannot be ignored.

Furthermore considering the need for consistency of working conditions and operating efficiency, standards would have to be drawn up to cover such matters as the quality and cost of alternative types of construction, the allowances of floor space, provision of services such as elevators, air conditioning, loud speaker installations, lecture halls, etc. The Department of Public Works, because of its experience, should carry the main burden of fact finding and investigation to establish accommodation standards which can then be promulgated by the Treasury Board.

In the area of property operations the report points out that of the 180 million sq. ft. of building space owned or leased by the Government in 1962, only approximately 30 million sq. ft. was under the control of the Department of Public Works. The quality of accommodation varied considerably, with that in all government old buildings and many leased premises being substantially inferior to that contained in the government's new structures.81 (At the present time the

81. Opus cit Vol II p 54
leased accommodation is probably rather higher in standard than that in many of the government's buildings) One point made by the report, which still may be applicable today, although in a slightly modified form is the fact that:

"in spite of acknowledging the advantages of modern standards of accommodation as it does in its own construction, government tends to rent space of medium or sometimes low quality. In view of the great economy of operations possible in modern structures, as well as implications for employee morale, the deliberate selection or construction of second class space because of lower rental or capital costs may well be, in many cases, a false economy."\textsuperscript{82}

In the area of administrative procedures the commission pointed out that a basic requirement of administration of real property is a good system of records and accounts and proper financial reporting. A complete inventory of the properties with additions and disposals promptly reflected therein is essential. So too is an accounting system designed to provide the information needed for management on a current basis. In addition to monetary records kept on an accrual basis and reflecting the depreciation,

\textsuperscript{82} Opus cit Vol II p 55
detailed records are required on a quantitative basis. The elementary records in use in 1962 were found totally inadequate for management purposes and even their most serious deficiencies are not made good by alternative procedures. In the matter of vacant space, which needs close supervision, no regular reports were then made and the accounts kept on the usual government cash basis provided no clue as to current costs. 83 It would be interesting to discover to what extent these circumstances have changed as of today.

The main conclusion the Commissioners arrived at from their studies was that the task of managing real property for all civil departments and agencies, and those properties within the Department of National Defence which it could efficiently service, should be entrusted to the Department of Public Works. It was pointed out that to discharge this duty satisfactorily, a more adequate organizational pattern would be required, including delegation to appropriate groups of responsibility for conducting specific functions. At the same time because of its relation to real property management and its implication for

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the cost of property operation, the Commissioners felt that the Municipal Grants Act,\textsuperscript{84} which provides for payment in lieu of municipal taxes for the federal property, might logically come under the administration of the Department of Public Works instead of its present location in the Department of Finance.

The recommendations made in this report for a single agency were intended to apply to foreign operations as well as the domestic. Construction, purchase and disposal are susceptible of but a small degree of delegation outside the department; but certain leasing activities and housekeeping duties such as cleaning, minor repairs, the local purchase of supplies and so on should be delegated to the senior officer of the major Canadian element in the locality and carried out under his supervision. In such matters, the local officer would be answerable to the Department of Public Works and not to the department of which he is a member.\textsuperscript{85}

One main area which is re-emphasized again in the report, is the fact that the disposal of

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\textsuperscript{84} R.S.C. 1952 c 182 as amended
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\textsuperscript{85} Opus cit. Vol II p 59
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surplus real property must be centralized and should be the responsibility of the Department of Public Works. Before property in excess of the need of one department is disposed of, its possible reassignment to other government use should be explored. Only if no other needs existed, or were foreseen, should the Department of Public Works declare it surplus to government requirements and dispose of it.\textsuperscript{86}

In its final recommendation with regard to the new role of the Department of Public Works, the report points out that the future activities of the Department should be limited to those of a common service agency without conducting, as it did then, certain programs of its own. With regard to the acquisition, construction, maintenance, and upkeep or disposal of real property, the Department of Public Works, as the exclusive common service agency, should perform all the necessary tasks. The purchasing and disposal of departments' and agencies' office furniture should be discontinued\textsuperscript{87} (although it may be argued that more efficient service could be provided if DPW were to be responsible for the entire working environment and not

\textsuperscript{86}. Opus cit. Vol II p 63

\textsuperscript{87}. Opus cit. Vol II pp 65 and 67
only the floor space).

Unlike some other studies, the Commission believed that the proposed department should feel its way rather than attempting to blue print its organization in detail from the beginning. They emphasized the importance of achieving finally a proper organizational structure, but were aware of the danger of allowing matters to get out of hand in the initial stages. They pointed out in conclusion that the adoption of their recommendations in the fields of real property management could effect very substantial economies in operation and possibly liberate surprisingly large sums for other government purposes through an effective program of surplus disposal.88

88. Opus cit. Vol II p 68
CHAPTER III

THE FUNCTION OF A SERVICE DEPARTMENT

At this stage it is probably best to define just what is meant by the term "Service Department" or "Service Function" within the context of this paper. If we assume that government (another term difficult to define) has certain political objectives in terms of what the electorate requires in the way of economic management, health and welfare, defence, law and order, transportation, etc., then there are also certain service functions which become necessary to allow these political objectives, whatever they are, to be carried out. These housekeeping, or "service" functions would include cheque issue, staffing, accommodation, material supply, construction services, design services, transportation, etc.

The Glassco commission suggested that the prime concern of government relates only to those matters of substance which cannot be delegated to others, and that:

"in general a transfer of work to suppliers outside the government should facilitate rather than jeopardize the attainment of
the primary goals of the departments and agencies and result in important economies."

Thus, theoretically those services could, and perhaps should, be bought on the open market and therefore the only justification for carrying them out within the government would have to be one or more of:

a) **Economies of Scale**
   Since in some areas (including accommodation) there are many users who would be buying the service in the retail market, the government should be able to save money by buying in bulk.

b) **Security of Supply**
   This may apply to actual security, i.e. ensuring that a supply is available, or for that matter ensuring that the government's needs can be met without seriously distorting the market. This latter aspect can possibly be met by a co-ordinating agency which looked at the total impact of government requirements on the market.

89. Opus Cit Vol II p 319
c) **Flexibility**
An internal government system can be designed to meet specific government needs and be altered to meet changing needs of government. This is not so easily done if dealing with a large number of individual businesses.

d) **Policy Instruments**
A major service agency, such as material supply, cheque issue, etc. can be used as an instrument of policy of government such as regional economic stimulation, Canadian industry development, employment policies to help the disadvantaged, etc. These policies can of course be achieved by other means, but it may be easier to do through a directly controlled agency or agencies.

etc.

At first sight it would appear that if economies of scale exist, the service function should be always carried out by government. However, this criterion
must be applied with care since, if carried to its logical conclusion, it would indicate that government should operate virtually every aspect of our society. In fact, at the extreme (*reductio ad absurdum*), one could make the case that individual desires which conflict with economies of scale, by deviation from the standard, should not be allowed. However, assuming that political controls will ensure that the system does not expand unduly, the economy of scale criteria is probably a valid first test, providing it does not interfere with other possible government objectives of, say, a market where no buyer has any more than a certain percentage of the market.

The question of security of supply is most obvious in the area of defence material supply where secure sources and/or inventories may be of critical importance. However, even in accommodation some security of supply is necessary due to the long lead time in construction procurement and the difficulty of predicting market conditions over the long (comparatively) period of construction development.

Of even more critical importance at the present time may be the issue of labour relations. If a service, say the issue of family allowance cheques,
is provided by a number of private concerns (in this case, perhaps banks or computer service bureaus) the government is subject to possible political embarrassment in case of a strike, go-slow or lock-out in any one of these organizations.\textsuperscript{90} By providing the service directly there is only one agreement between one employer and one employee organization to worry about.

If one considers that there is, say, a 10\% probability of labour unrest leading to interruption of service for any one pair of organizations in any one year, the probability of break down in one segment of the service goes up very rapidly as the number of separate organizations goes up. It can be simply demonstrated that if we have a total of seven different agreements under these conditions, there is a probability in excess of 50\% that at least one of them will break down within any one year. Considering the political visibility of this type of service, it is understandable that government will prefer to handle services like the issuance of cheques with their own forces even if this is not the cheapest method (which it may well be).

\textsuperscript{90} At the present time this is being demonstrated by truck drivers employed by a Contractor working for the Post Office. The drivers are striking the company to try and force the government to essentially guarantee them security of employment and seniority. See all National newspapers, especially Toronto Globe & Mail, Montreal Star, etc. week of 16/3/1970.
Flexibility can be a major problem both from the general government point of view and also as it affects individual departments. Within our parliamentary systems, departments contract and expand, functions change and demands for service change accordingly. However, some of the service functions, when looked at across the entire government, have changed very little, since reductions in demand by one department have usually been matched by increases in another department. As an example it can be shown from an examination of Public Accounts for the recent past, that personnel in the Public Service has been going up fairly steadily at approximately 3% per annum through a period when new departments were created, others amalgamated, etc. If each of these departments had been in the general habit of acquiring its own accommodation, the cost of organizational changes would very likely have been much higher.

Changes in the role of a specific department can be implemented more cheaply when it draws on only a small part of a larger pool of specialized service which would normally have some excess capacity to

91. Because of the uncertainty of future requirements many of the requirements would be met by short term leases which are expensive.
satisfy the comparatively small extra demands of any single department, or alternatively be able to absorb the excess created by reduction in demand by any one department.

When service functions, such as property management, are required to serve broad policy objectives such as location in regions in need of economic stimulus, or beautification of the National Capital, this can only be done effectively by centralized agencies. When one considers a recent speech by the Prime Minister indicating a need for investors to show confidence in Quebec, it is easy to visualize every individual department having its own real estate group determining that they will follow the recommendation and locate a branch or branches in Quebec. Without some kind of coordination and market investigation the result would obviously be chaos. The same argument falls true for beautification. While some monumental structures are undoubtedly justified, the possibility of every departmental building being an architect's individual dream is appalling both aesthetically and economically.

However, there are those arguments which Glassco identifies as in favour of a core or nucleus
of competence. 92

Those are usually advanced in favour of departmental operations versus buying on the open market, but a similar line of argument is often advanced against central service agencies in terms of lack of speed, complex procedures, inefficiency, etc. The aggressive Public Servant, just as his energetic counterparts in industry, will generally try to bring under his direct control all the elements necessary to support his operation and, in this context, contracting out is thought to limit operating freedom and flexibility. In the Public Service environment, particularly since the Bureau of Classification Revision has been established, where possibilities of promotion may depend, or may be thought to depend, upon the number of public servants being supervised, there is of course the extra incentive to obtain as many subordinates as possible, particularly if the manager thinks it will at the same time increase his operational efficiency. 93

92. Opus Cit Vol II p 320 Discussed in previous chapter

93. These points were all made by Glassco, Opus Cit, and are discussed in that context in the previous chapters supra pp 68,69.
One of the problems of evaluating whether or not economies of scale actually exist is of course the general problem pointed out in the Glassco Commission Report, which is still true today, that in general there is no true cost accounting being carried out within the government.

Although some of the charges cited at that time are no longer applicable, it would seem from the paper by Wadsworth94 that in actual fact at the present time the real cost of a Public Servant is of the order of 100% in addition to his salary.

One method of dealing with this costing problem for the accommodation function will be discussed in the proposal of a real property management organization.

If we now assume that the case has been established that, for any one or more of previously cited reasons, a particular service should be provided from within the government in preference to being bought on the open market, we can examine the type of management necessary within these government service activities.

There is of course a complete spectrum of possible management philosophies which are theoretically possible, but at the extremes we might consider at one end an emphasis on the effectiveness of federal government programs, while at the other end the emphasis will be placed on efficiency of federal government. The effectiveness approach implies that we know what the objectives of any specific government department or program are and that the primary concern of government is in whether or not these objectives are being met. Since objectives of government in general are never either simple or singular, this approach requires, as a prerequisite, a generalized systems approach to government.

Within this approach every program manager would generate and control his need for all service activities required to support this program, i.e. accommodation, personnel, material, information systems, computing services, etc.

The control agencies would not be particularly concerned with the efficiency with which these services

are being performed but would concentrate on the output of the program, and the extent to which it met its stated objectives within the overall budget allocated to the program manager.

At the other extreme end of the spectrum of management philosophies, a total emphasis on the efficiency of service activity would imply an organization of service departments concerned with special areas such as property management, material supply, computation, personnel services, etc. The control of federal government expenditures would be by the demonstrated efficiency with which these individual activities are performed, and the "government" programs would be implemented by the purchase of the required amount of service activity from the appropriate service departments.

Thus, central government would operate by making budgetary allocations to programs and the program managers would then buy packages of service activities from agencies whose "efficiency" satisfied the control agencies. Wadsworth then suggests that:

"an active stance of the federal government service department implies that it would not accept a request for services without questioning the request for use of the end product with the particular program. It would therefore be concerned with the
contribution of the service rendered to the effectiveness of the use of the program. Control within the service department would therefore be more concerned with the effectiveness provided by the service rather than the efficiency for performing the service, and would therefore involve the systems approach."96

A little later he suggests that:

"such an implied independence of the request of the service as described in section 2.1 requires that the active service department be supported by resources allocated from the federal budget, since, due to its questioning nature, it could not exist on payments provided for its service. Such a means of support incurs little competition from the private sector."97

On the other hand he suggests that:

"a passive stance of a federal government service department implies that it would accept a request for service without question. It would therefore be completely concerned with the efficiency of performing a service, which would be the mechanism of control. Its lack of questioning of requests for use of the service provided forfeits any semblance of a system approach. The dependence of the passive service department upon the user and its concern with efficiency renders it completely amenable to a self-sustaining or self-sufficient financial structure. Competition with the private sector has to be faced."98

96. Ibid p 4
97. Ibid p. 4
98. Ibid p. 6
It is suggested that this presents a grossly oversimplified view of the real situation. As is generally the case in real life situations the answer almost certainly does not lie at either extreme and may not even be in the middle, but may consist of parts of the various extremes plus a number of areas in between. Thus a service department may be, and perhaps should be, largely passive to its clients i.e. it will provide the services asked for at the minimum possible price. However at the same time it must be borne in mind that the "government" departments, with their rather tenuous and intangible objectives, are asking the government for an expenditure of resources which will largely be spent on the purchase of services. Thus, the control agencies must define and apply some standards of service compatible with general government policy and this in turn requires an enforcement capability of some type.

It is here that we come to the active stance of what is otherwise a passive department. Looking at the accommodation function for instance, the only source of information to the control agency of the standards, costs or other economic considerations of the accommodation requested by a government department, is the advice
provided to the control agency by the service department. Thus, even in a completely competitive environment where the deputy head of a government department is allowed to buy his services on the open market, the control agency would still require the existence of some type of service function to provide advice within its specialized field.

The philosophy of this paper is that service departments will remain essentially passive to the extent that a government department might specify its needs for accommodation not in terms of $X$ thousand sq. ft., at the corner of A and B avenues in C city, but preferably these needs should be expressed in terms that a number of personnel required to carry out the following functions need to be accommodated.

The service department would respond with a number of possible alternatives say:

Alternative A at a price of $X$
Alternative B at a price of $Y$
Alternative C at a price of $Z$

having ensured that all the alternatives fall within
an acceptable range (laid down by the control agency) of standards of accommodation and are located in line with general government policy and are also at a high level of economic efficiency.

If the departmental program manager is happy with any one of the alternatives offered, the service department would provide them and be recompensed from the program budget.

On the other hand if the program manager decides that for prestige, and/or other reasons he would actually like a solution defined as alternative X at a price of $G where G is considerably higher than any of the alternatives offered by the service department, and/or the standards are not in line with the control agency criteria, the service agency would advise the program manager accordingly and at the same time inform him that they have advised the central control agency in exactly the same way.

The Program Manager is then at liberty to make his case to the control agency of why his non-economic

99. It must be borne in mind however that due to the requirements of technical expertise, the standards would almost certainly have to be drafted by a service agency, preferably in consultation with its client, before promulgation by the central authority.
reason should be accepted and, since the control agency now has a professional appraisal of the "efficiency" of his proposal, a rational decision can be made.

If the control agency agrees with the program manager's proposal then of course the service agency will carry out his wishes.

It is quite likely that in this type of environment the type of decisions made will be exactly the same as at present. However, it has the advantage that decisions would be made on the basis of knowledge of at least the tangible factors so that a relationship can be determined between the intangible factors and the economic costs.

The discussion to this stage has assumed that a central service organization is desirable to manage the accommodation function. This was based on the implied assumption that economies of scale exist and, at least partially, on the recommendation of the Glassco report.100 There is however also the argument that the type of expertise necessary for realty management is so scarce, and the entire area is so vulnerable

100. Supra pp 60 and 62
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100. Supra pp 60 and 62
to mismanagement, that it is only possible to create one pool of competent manpower in the government. Weimer suggests that real estate resources are so different from the other resources used by a manager, that he often effectively gives up in despair and simply budgets whatever funds are required to cover the accommodation costs allocated to him without subjecting them to the same kind of analysis applied to the use of other resources. The problem is compounded of two parts. First of all, real estate resources are different from other resources used by management and, secondly, real estate markets are different.

At this stage it should be pointed out that government, as a user and/or purchaser of real estate is seriously affected financially by the state of the property market. If economies of the order of 10% of the current estimated annual expenditures of $1 billion on accommodation could be achieved, this would release enough funds to conceivably augment payments from the Old Age Security Fund by 5%.

Without going into a complete discussion of the real estate market, which is a major subject in

itself, it is worth defining some of the factors which make this particular resource unique. First of all, real estate is fixed in location and hence its value depends uniquely on the uses to which it may be put at this specific location. This means that the value of the investment is heavily dependent on local conditions which, in fact, may be changed by the investment.

Secondly, there is the characteristic of permanence for land and long physical life for buildings. Even hard headed business managers frequently forget that what really matters is the economic life of a building and not its physical life. In government this is exemplified by the use of old, non air conditioned buildings, where the loss of productivity by the occupants far exceeds any possible savings in rental costs.

Thirdly, transactions in real estate represent fairly large economic units and thus decisions are made, or should be made, at the very top of the organization. In government this is complicated by the fact that every major public work is "ipso facto" a political decision.

Fourthly, real estate, next to narcotics, is sometimes stated to be the commodity most regulated by
government. The market is affected by employment policies, income tax regulations, depreciation allowances, monetary policies, urban renewal and transportation programs, zoning regulations, building codes, etc.

This is not intended as an exhaustive analysis of the characteristics of this market but more as an indication of complexity and, hence, the level of expertise necessary to operate in this environment.

It is suggested that departments of government with specific program responsibilities do not really want to develop this type of expertise, particularly since it is doubtful whether enough capable manpower is available to allow such a course of action.

Carruth cites the Pennsylvania Central Railroad real estate manager as pointing out that

"Getting and keeping an in-house real estate entrepreneur - most corporations don't grow them in the home office - isn't easy. But the good one can make a - - lot of money for himself, so why should he come to work for you?"


The same article also suggests that when I.T.T. (International Telephone and Telegraph) bought the development firm of Levitt & Son, the primary objective was to acquire the real estate management capability more than the tangible assets.

In this type of environment it would therefore appear that the government might face serious problems in staffing even one realty management organization without individual departments trying to set up their own, competing, organizations. It is a basic premise of this paper, and this is supported by the Glassco Commission Report, that the potential savings from rational property management are so large that the most efficient organizational framework must be used and that, first of all, it must be one central organization.

The magnitude of the problem, the functional requirements to be met and the type of organization needed will be discussed in succeeding chapters.
CHAPTER IV

THE VALUE OF FEDERAL GOVERNMENT REAL PROPERTY ASSETS

A simplistic approach to the problem of devising the optimum functional organization to satisfy the management needs of the Federal Government accommodation function would be to accept that the basic organizational principles and management practices of most development companies also apply to the Government accommodation agency. If it is assumed that the overall size of this organization is comparable with, even if larger than, other companies in this field this might be an acceptable proposition if suitably modified for the non-economic requirements of government. However, if the size of the government property involvement differs by an order of magnitude or several orders of magnitude, it would be dangerous to assume that the same basic type of organization can be used.  

104. It was therefore decided to try and estimate the value of the Federal Government real property assets.

104. GAH Cadbury in "Industry in the 1980's" points out that "There would be little to say if large companies were just big versions of small companies; but they tend to be organized and run in a different way and so their demands -- are different too."

It is interesting to note that the Public Works Act defines the power of the Minister of Public Works as being:

"§) The Minister has the management, charge and direction of the following properties belonging to Canada, and other services in this section enumerated, namely:

- - - - - - - - -

d) The public buildings,

- - - - - - - - -

h) All other properties that now belong to Canada and the works and properties acquired, constructed, extended, enlarged, repaired, or improved at the expense of Canada, or for the acquisition, construction, repairs, extending, enlarging, or improving of which any public money is voted, and appropriated by Parliament, except works for which money has been appropriated as a subsidy only, and any work required for any such purpose."

This power is limited in section 10 which excludes any public works placed under the control or management of any other Minister or Department.

One might argue the point that even those properties not falling under the direction of the

105. R.S. c. 166, s.1
Minister of Public Works should nonetheless be identified in some form of inventory on the basis that the Minister of Public Works is after all that Member of Cabinet who, by the use of his staff, is in the best position to advise the government on matters of real property management. However, even ignoring this argument, one would expect at the very least that the Department of Public Works would have an inventory listing all the real property holdings, and some indication of their value, so that due account may be taken of them either in specific transactions when property is being acquired or disposed of or to provide a basis for decision when a choice has to be made perhaps between leasing, buying, building, etc.

There is also the situation that the statement of assets and liabilities as shown in the Auditor General's report values the total capital assets of the Federal Government at $1. While accepting that many of the properties of the Federal Government are not "marketable" within any normal meaning of the term, there are certainly other properties including office buildings, construction lands, industrial property, etc. which are certainly available for a variety of uses either by sale, or use for other government services
and should therefore be identified in the statement of assets and liabilities. This is particularly so since the net debt as listed for the financial year 1967/68\textsuperscript{106} is of the order of $17 billion while the estimates of real property holdings in this chapter come out in the general range of $10 to $20 billion. Thus with a realistic evaluation of marketable capital assets it may very well turn out that the real net debt which should be shown in the statement of assets and liabilities might be zero.

It is understood that at the present time the Department of Public Works is preparing an inventory of Federal Government real property assets but this is not yet complete and at the present time probably includes no current market values. The approach used therefore was to devise a number of general indicators of property acquisition and from these derive independent estimates of the total value of the real property inventory. If all the different approaches gave answers of the same order of magnitude one should then be able to state with some degree of confidence that the real total value of the property assets probably lies within

a certain range. This range can then be compared with the declared assets of a number of large companies engaged in the property business in order to determine whether the basic organizational standards of the smaller organizations are applicable to this specific problem.

One possible method of approach might have been to go back through the public accounts since confederation and identify all expenditures for buildings and land and then accumulate all these individual investments to the present by making due allowances for depreciation, demolition, disposal, land appreciation etc. This would have involved an amount of labour considerably higher than is really warranted by the validity of the results. First of all there is the problem that a certain amount of land was acquired by the Federal Government without ever being paid for, i.e. transfer of some ordnance lands, and secondly that there is a considerable range of land appreciation rates between different parts of the country at different times. One must also consider the effect of the very shaky assumptions which have to be made regarding depreciation factors on buildings. Since fairly gross assumptions are necessary with respect to these very critical values, it was felt that the
very precise data from identifying single packages of property were probably unjustified under the circumstances.

Some very valuable work has been done by O. Kemp107 who listed all building construction expenditures by the Department since Confederation and sorted them by provinces, by time, (generally decades) by type of buildings, by expenditures, etc. One of the factors from Kemp's analysis used several times in this paper is that the expenditures on land over the entire period since confederation were approximately 6.9% of the expenditures on buildings.108 Since we know from historical records that in many cases Federal buildings were erected on land already owned by the government and, working on the present day assumption that the value of the land is approximately 1/4 of the value of the building in any particular case, it was assumed for the purposes of all these analyses that extra land was brought into use from existing government holdings at any particular time in order to make up this deficiency in any specific year.


108. Ibid p 70
Furthermore, from a number of spot checks of public accounts, it was felt a reasonable estimate was that approximately 20% of the total expenditures in any one year for the "Construction and Acquisition of Buildings and Works" was for buildings and land, with the other 80% being essentially for civil engineering works or other expenditures of that nature which, however, were assumed to bring into use land to the value of some 10% of their expenditure in the way of industrial type property.

The detailed analyses of the three methods used, are given in Appendix A but it is of general interest to note that if one takes the Glassco Commission's assumption of Federal Government real property in 1962 as being $4 billion and assumes a 10% appreciation factor since then on those holdings only, the current estimate of the real property pool would be $8.57 billion. If one assumes that starting with the same $4 billion in 1962 and an increase factor of 10% on the balance in any one year but accompanied by the further acquisitions indicated in the estimates since that time, then the total estimated value for 1970 turns out to be $12.8 billion.
It is not suggested that any one of the figures developed is more correct than any of the others, or for that matter any one of them is correct in itself, but looking at the similarity in the order of magnitude it is probably fair to say that the current value of the Federal Government real property assets is somewhere of the order of $15 billion or more.

When this is compared with the largest real estate firms in Canada which measure their assets in terms of $2 - $300 million (see Appendix B) it becomes fairly evident that the type of organization eminently suitable for these companies may well be completely unsuitable for the Federal Government real property management agency. This becomes even more evident on considering the type of controls which may have to be imposed on this giant in order to limit its impact on the market.

This will be further discussed in a later chapter.
FUNCTIONAL REQUIREMENTS OF THE ACCOMMODATION AGENCY

Before discussing the specific functions of a government accommodation agency it is necessary to define the ground rules under which this agency must operate. In the recent past there have been a number of discussions regarding the "self-sufficiency" of service functions within the government without any specific definition of the term. These discussions have been phrased in terms of user charges, self-financing, self-sustaining, etc. Without expressing any preference of terminology, it is suggested for the purposes of this thesis that the concept of self-sufficiency with regard to a property management agency may be defined as:

"That there be no direct requirement of funds from parliamentary appropriations but that the agency be financed through charges to user departments who would be responsible for the total cost of their program."\(^{109}\)

It may as well be pointed out at once that this stage is not imminent and may well take some time.

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to achieve. Since no sinking fund exists for the replacement of obsolete or obsolescent property, sizeable infusions of new capital may be required for a number of years to finance new acquisitions and constructions, until some kind of an equivalent fund has been built up to meet the necessary capital requirements.

It may be possible that introduction of user charges at or near market rates will uncover sufficient mis-or under-utilized property which can be sold on the open market in order to satisfy this deficiency, but in our present state of knowledge this would be a dangerous assumption to make.

Among the more frequent criticisms of this concept has been that:

(a) since there would be a monopoly and monopsony situation between the property management agencies and clients, this would really only be going through the paper exercise which transferred budgetary responsibilities from the Department of Public Works to their clients. At the same time it would remove many of the controls from the Department of Public Works.
(b) that decisions regarding the location and construction of major federal government facilities are so much a part of the political process, that rational financial analysis is pointless.

Looking at the first criticism this question must be split into two main parts: first of all there is the situation in Ottawa, and then there is the completely different situation in other parts of the country.

The annual report of municipal statistics for the province of Ontario, 1967 shows (see Tables I & II) that the federal government exemptions for the entire province are approximately 3% of the total taxable assessment. If we assume that this is a reasonable ball-park figure to use across Canada, it is evident that there is enough other activity going on in property management to always provide a market equivalent, i.e. the going rental for a certain type of accommodation in a particular locality. (It is interesting to note that for metro Toronto the federal government figure is only 1% of the total taxable assessment.)

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<tbody>
<tr>
<td>Total</td>
<td>13,581</td>
<td>416</td>
<td>315</td>
<td>620</td>
<td>1,584</td>
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<tr>
<td>Metro Toronto</td>
<td>4,936</td>
<td>50</td>
<td>111</td>
<td>314</td>
<td>671</td>
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<tr>
<td>Cities</td>
<td>4,873</td>
<td>275</td>
<td>121</td>
<td>214</td>
<td>592</td>
</tr>
<tr>
<td>Ottawa</td>
<td>670</td>
<td>182</td>
<td>4</td>
<td>39</td>
<td>94</td>
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($Millions)

RELATIONSHIP OF FEDERAL GOVERNMENT PROPERTY HOLDINGS TO THE TOTAL MARKET

NOTE: It is appreciated that property market values are not a fixed ratio of assessed values but they are a reasonable indication of order of magnitude relationships.

TABLE I
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<tr>
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<tbody>
<tr>
<td>Total</td>
<td>3%</td>
<td>2%</td>
<td>4%</td>
<td>11%</td>
</tr>
<tr>
<td>Metro Toronto</td>
<td>1%</td>
<td>2%</td>
<td>6%</td>
<td>13%</td>
</tr>
<tr>
<td>Cities</td>
<td>5%</td>
<td>2%</td>
<td>4%</td>
<td>12%</td>
</tr>
<tr>
<td>Ottawa</td>
<td>27%</td>
<td>0%</td>
<td>5%</td>
<td>14%</td>
</tr>
</tbody>
</table>

TAX EXEMPT PROPERTY HOLDINGS AS PERCENTAGE OF TOTAL TAXABLE PROPERTIES BASED ON ASSESSMENT FIGURES.

TABLE II
In Ottawa of course the situation is entirely different. Using the same source, it indicates that the federal government holdings are equal to 27% of the total taxable assessment and, if we deduct the residential property from the assessment figure, it is fairly obvious that the federal government is far and away the largest property owner in the Ottawa area. Nonetheless, entrepreneurs have flourished in and around Ottawa primarily by building and leasing to the government and so at the present time there is a market equivalent. However, if and when a really rational and energetic government property management organization does come to pass, there can be a very definite danger that without some type of positive constraint for policy reasons, the major developers of office buildings may be driven out of business. It is not suggested that the government will engage in open market competition to satisfy non-government requirements, but it must be realized that in Ottawa the mainstay of the open market is the federal government and it is doubtful whether any entrepreneurs can remain in business very long if shut out from this area of business.
The second basic criticism, regarding the political input to property management, opens up the entire area of the concept of efficiency within the civil service. What is really the point at issue is a contrast between the passive and the active civil servant. The passive civil servant sees his function as carrying out the directions of his political masters and/or his departmental clients as well as possible regardless of cost. The active civil servant on the other hand, sees himself in the first instance as an advisor to his minister by providing as many options as possible, in each case relating the objective to be achieved to the cost of the achievement, accompanied by a firm recommendation. This enables the minister, in exercising his political judgement, to at least know what the economic and other costs of his decision are.

Once the decision has been made, the second stage comes into place, the carrying out of the minister's intent as efficiently as possible, i.e. with a minimum possible use of resources. In the absence of the first analytical stage, the minister is really forced into a choice between his subjective opinion and his advisor's subjective opinion with no indication of any economic
cost for whatever political benefit may be achieved. Under such circumstances, it would be surprising if the minister did not opt for the purely political decision in most cases.

This then brings up the question of central control of government agencies which do not require government appropriations for their own use. It is suggested that there are two basic forms of criteria which can be assessed without too much difficulty, at least from a conceptual point of view, although there may be definite practical problems. First of all there is client satisfaction. The deputy head of a client department would have to be satisfied that he had been provided with accommodation at or below the going market rate where he is located. For this criterion to work in the Ottawa area it may be necessary, as has been pointed out previously, that as a matter of policy the government should continue to do a certain amount of leasing, even though direct ownership may be cheaper,\textsuperscript{111}

\textsuperscript{111.} See J.A. Bristow, "Should the government buy or rent its offices?" Administration, Eire, Spring 1969 who discusses some of the other factors, apart from the micro economic, which may affect the governments decisions in this area.
simply in order to maintain a market for the purposes of measurement.

It has been suggested that this particular aspect could be controlled by allowing the deputy head of a client department the option of purchasing his accommodation directly on the open market. However it would appear to be better in this kind of situation when the two parties i.e. the property management agency and the client department, cannot come to an agreement, that in properly substantiated cases Treasury Board or some other control agency should require the property management agency to provide accommodation at the determined market price.

The measurement of efficiency of the property management agency in the situation may well be the return on investment (ROI) on the basis of the value of fixed assets plus working capital. Some of the difficulties inherent in this approach will be discussed more fully in the next chapter.112 It is appreciated that although the concept is very simple, there may be some very serious problems of application, particularly

112. See also S.B. Henrici "Eyeing the ROI" HBR May/June 1965 and P. Welter "Put policy first in DCF analysis" HBR Jan/Feb 1970.
with regard to placing a value on some assets which have no market equivalent, (such as where buildings are being utilized primarily because of historical or sentimental reasons and the economic solution might be to tear them down). There is also of course the problem that the ROI is primarily a basis for comparison and there is no real comparison with the government property management agency. Nonetheless, it is suggested that this problem is far from insoluble and there are a number of possible devices of selective write-off for what has been defined elsewhere as policy expenditures.

If this concept of self-sufficiency is extended to the entire area of self-financing, it may be necessary to consider a large range of financing (or capital acquisition) options for real property, possibly independent of but coordinated with the Department of Finance. As previously mentioned there may be a continuous requirement for a number of years for a sizeable infusion of capital for new acquisition in construction. It is conceivable that this capital could be raised by direct borrowing by the department, mortgages, leaseback arrangements, joint ventures, leases of government
property to the private sector, and a semi-infinite number of other financing options. At the end of the spectrum one might well visualize a Crown Corporation set up under the Companies Act with a specific requirement that accommodation must be provided to federal government departments at current market values and, possibly, that surplus funds be banked in a special account with the Department of Finance.

To summarize, the concept of self-sufficiency covers an entire spectrum of options ranging from a department which has no Parliamentary budget allotment, except for possibly a revolving fund, and deriving all its operating funds from its clients, right through to a virtually autonomous corporation with a small number of limitations or directives in its Charter. "Policy" expenditures can probably be dealt with on the basis of documented advice supported by analysis being overridden by the minister or other authority and then being included in the return on investment calculation. Treasury Board in this situation would have the role of a corporate headquarters in evaluating the performance of a major operating division.

113. However see the implications of this as discussed in Ch. VI - infra p
As a basis for the detailed discussion of the functions required to manage the real property, and the possible organization structure which might be most suitable, it is probably best to explicitly state the basic assumptions and/or prerequisites on which this paper is based.

Assumptions

That real property is a valuable asset and the users of this asset, i.e. government departments and agencies, will be charged an economic rate for its use.

That the acquisition, disposal and control of government property is best done by one central agency.

That a form of leasing, or commitment for the supply and use of property will be introduced. This would not inhibit changes of policy but would clearly identify the economic costs associated with such changes.

That "Policy expenditures", i.e. monumental buildings, economic or political policy locations, special features, etc., will be directly and explicitly charged to the originating authority in each case.

That the operation and maintenance of Government property can be done either by "Client" organizations or the property management agency and the specific decision in any case will be made on its merits.
Any organization, whether Crown Corporation or department, operating under these assumptions will require:

a. An awareness of market conditions;
b. Quick responses;
c. Responsible management;
d. "Entrepreneurial" instinct;
e. Flexibility in staffing to allow the kind of compensation and conditions to attract the personnel required;
f. The avoidance of second guessing by control agencies except insofar as the total results of the total organization are concerned.

The attached chart No. I illustrates in schematic form the specific functions which must be carried out if this property management agency is to function properly. It must be pointed out that this functional chart is not an organization chart nor does it include any indication of the lines of information flow.
FUNCTIONAL REQUIREMENTS FOR
A CENTRAL PROPERTY MANAGEMENT AGENCY

Chart I
Chief Executive

The Chief Executive, in the simplest sense, is the man responsible for running the real property activity on the basis of satisfying the accommodation requirements of all departments and agencies of the federal government at a cost not exceeding the going market rate for equivalent accommodation and, at the same time, satisfying any economic or political policies of the government. He would demonstrate his operational efficiency by producing some kind of a return on the investment entrusted him. In order for this executive to achieve his objectives, it must be borne in mind that, whatever the organizational structure, he is running a "business" with approximately $20 billion worth of assets and $1 billion per year turn-over.

Without going into the question of his personal compensation it must be realized that to operate a business of this type he must be allowed flexibility in staffing and compensation and reasonably long term financial planning, i.e. not be tied to the normal one year cycle of government budgets.

In connection with the control to be exercised over the chief executive, it is important to bear in
mind that while a normal audit of the propriety and legality of expenditures is obviously necessary just as in any other business, the kind of public critique sometimes exercised by the Auditor General in his comments on the "wisdom" of expenditures, and what the Auditor General identifies as non-productive expenditures,114 would be a very effective method of either persuading the chief executive to look for greener pastures or else to change the entire organization into a non risk taking lethargic group.

One of the weaknesses of department type of organizations subject to powerful control agencies has been that virtue is equated with avoidance of sin.115 On the other hand entrepreneurial success depends to a large extent on an acceptance that mistakes and errors will occur, but that on the balance of probabilities the return on investment will meet the corporate goal. If the chief executive is to do his job properly, he will be assessed on the quality of service provided to his clients and the use of the capital entrusted to him. He in his turn will assess his subordinates on

114. See Report of the Auditor General to the House of Commons for the year ended March 31, 1968, Queen's Printer, Ottawa, 1961
115. See Glassco Commission Report, Discussed in Chapter II
their efficiency in carrying out the functions delegated to them. Mistakes will occur at all levels but the yardstick of performance should not be the avoidance of mistakes but the overall efficiency in carrying out the assigned function.

**Program Evaluation (Operational Audit)**

The internal inspection of the organization on behalf of the chief executive would be done by a program evaluation group. Essentially this group is analogous to the inspection function in the manufacturing type of operation and must therefore be completely separated from the operating groups within the department and report directly to the chief executive. They would be responsible for relating the delegated responsibilities and authority of each major section of the organization to its output, and would probably also be the first level of contact for serious complaints from clients.

It is not suggested that the program evaluation group get involved in a specific complaint that the ashtrays have not been cleaned or that the carpenter has not fixed the hinges on the door. However, they might
well become very interested if a client department complains that the rental they are being charged is in excess of the market rate.

Aesthetics Advisor

This is a highly debatable function and it is not at all certain that it should exist or, if it does, that it should be located at this point. Nonetheless, as a basis for discussion it is included at this stage.

The basis of the entire organization has been stated to be to satisfy the functional requirement of the client departments and agencies at minimum cost. Since the federal government will be far and away the largest developer in Canada, it may be argued that there is a social responsibility to make buildings aesthetically satisfying as well as functional. Since one of our basic assumptions is that "policy expenditures" should be specific and be charged to an originating authority, it may well be that the property management organization should actually budget for aesthetic improvement as a percentage of the total construction budget in any one
year. These funds would be applied to changes to specific projects on the basis of recommendations to a group possibly chaired by the aesthetics advisor.

The purpose of separating this function from the normal design function is to enable the chief executive and/or the Board to make definite decisions as to whether, how much and where to spend money on purely aesthetic policies.

Discretionary spending approved by the aesthetics advisor would of course be fully recovered in internal operations. Aesthetic or policy spending directed by outside authorities, i.e. NCC or political direction, would be written off at the time of construction and would not be charged to the client.

116. However many, if not most, Architects will argue that aesthetics is part of a building design and cannot be imposed afterwards. The rationale for this function is that if a project architect exceeds his budget for a building, he could appeal for financial support from the "aesthetics budget" because of the special qualities of his project.
Planning and Analysis

This group is the key stone of the proposed organization. At the present time for all practical purposes it does not exist in government for the property management function and yet, without it, it is suggested that it is impossible to carry out the objectives suggested.

While it is not suggested that the heads of the various operating groups should have any specific rank, or for that matter, that there should be such a thing as a senior vice president or senior A.D.M., it is proposed that the head of Planning and Analysis would be the "primus inter pares" among the heads of the operating groups.

Strategic Planning

In view of the long lead time required in many construction projects, and also the long life of the investment, it is particularly important in property management to have a strong, capable strategic planning group. Their functions would include the preparation of forecasts of future government accommodation requirements, future market conditions, and studies of the possible impact of present and future policy decisions.
The responsibilities of this group would include the forecasting of the possible changes in social organization, i.e. more or less urbanization, the trend toward satellite towns, the trends towards larger or smaller families, as well as the economic forecasts of market conditions, break-throughs in technology and possible fluctuations in the financial market. These variables would then have to be subjected to some type of sensitivity analysis to determine their effect on property management policy\textsuperscript{117} and would result in general long term recommendations regarding tradeoffs between renting and acquisition and their variations.

In all likelihood this function would have to be carried out by a multi-disciplinary group including skills of a high order in all the aforementioned areas but not necessarily of highly skilled technicians wearing the blinders of any of these specific professions.

Generally, in the development and construction industry it seems to be disregarded that when an owner constructs a building and amortizes it over twenty-five

\textsuperscript{117} An interesting discussion of this point and methods of application is presented in "What would be the result if - - -?" by L.J. Clarke in Systems and Procedures Journal, September/October 1968
years, he is making a prediction of socio economic conditions in the future. This paper predicates that any such assumptions will be made explicitly.

As a typical example one might consider a major metropolitan area where replacements plus future accommodation of one million sq. ft. have been indicated. The strategic planning group would verify the need for space, the need in the particular location, prepare the forecast of property market and money market trends, and prepare general policy guidelines for the criteria to be used in project decision-making. The background for those recommendations would be developed from the continuing studies of socio economic trends in Canada.118

The current analysis group would then do the detailed analysis of alternatives, i.e. build, purchase, lease, lease-back, joint venture, etc. and present them in an order of preference, indicating the costs and benefits of each alternative and making a firm recommendation. Although there is always likely to be a considerable political input to this kind of project, the decision-maker will at least know the economic cost.

118. See "Some recent experiences in corporate planning" by L. Hynes, presented at Management Improvement Conference, Ottawa 1969.
of the political decision where the economic consideration does not govern.

**Current Analyses**

In the normal course of events virtually all projects requiring expenditure of funds will have to be supported by analysis of some type. The degree of sophistication would obviously be related to the size, and/or implications of the project and might vary all the way from a simple memorandum by the officer concerned, "that because of circumstances (a), (b) and (c) I wish to expend $X00 and acquire so and so. signature".

At the other end of the spectrum there may well be a requirement for an analysis of the economic impact of a project on a specific area. The current analysis group would only be generally concerned with high level expenditures or decisions with long term implications.

Apart from direct services within the planning and analysis division, they would also act as consultants to other major groups within the organization, or client agencies wishing to make the case for specific capital expenditures. When acting as consultants to outside agencies, the clients would of course be charged a normal consulting fee including overhead and profit as well as the direct labour cost.
In addition to this client advisory service, in case of strong disagreement with a client department, this group would submit their advice to the central control agency, (which may be Treasury Board). It would then be up to the client department to persuade Treasury Board that other factors on their side outweigh the economic assessment by the property management agency.

A typical case might be where a "client" department requests accommodation qualitatively or quantitatively in excess of accommodation standards laid down by Treasury Board. It would then be up to the client department to justify its request to Treasury Board in terms of specific operational requirements.

Similarly, a demand for central location in a metropolitan area might be met with an offer by the property management agency for functionally equal but cheaper accommodation a short distance away. If no agreement could be reached between the two parties, the central control agency would be asked for a decision based on consideration of the analysis of the property management agency and the specific submission from the client.
Inventory

One of the most basic items of information in running a business is to determine just what stock is on hand. At the present time the federal government property inventory is not yet complete, and the information within it is not easily available. It is estimated that it may be as much as two years before the inventory is complete but at the present time it is not proposed to even make an estimate of the current value of the properties listed.

It is appreciated that a completely appraised, up-to-date inventory will be difficult and expensive to obtain, but, in the first stage, regional indices can probably be used in many cases. This however is not as urgent as having the inventory COMPLETE.

Appraisals and Valuations

As mentioned previously, if an inventory is to mean anything it must include values. Thus it would be reasonable to expect that the appraisals and valuation function or group would be the biggest of its kind in Canada and, in line with the other general proposals, the most efficient.
It may well be that once the property management organization is fully organized it would be carrying out appraisals and valuations for other agencies of government such as, CMHC, Veterans Land Act, etc. It may also turn out to be impossible to carry out all the work necessary using government staff and, in fact, it may even be undesirable to do so. This group would therefore have contact with consulting appraisers and valuers right across the country. This should produce an additional payoff in the way of contacts and information from non-government sources about non-government activities and also the impact of government activities on the property market.

Client Relations

Since the single most important contact with the client organizations would essentially be on relating requirements to market conditions and identifying alternative methods of economically satisfying the requirements, it is proposed that client relations be handled within the general realm of planning and analysis. This functional group would then introduce the special skills from design, construction, O and M, or other as required.
As will be pointed out again later when dealing with design, if a client is having problems defining functional requirements, the client relations officer could arrange to second an architect and/or engineer on a consulting basis to help the client develop his requirements more fully.

**Acquisitions and Disposals**

It has been previously suggested that the Planning and Analysis Group should control the inventory. It therefore seems logical to have the acquisition and disposal functions within the same general area, i.e. they would know what is currently owned, the appraisal and evaluation group would know what it is worth, the strategic planning people would be making the forecast of future needs, and the current analysis group would provide the necessary backup for negotiation.

It is not proposed that "acquisition and disposal" would only cover simple buying and selling, but within the general context of this paper, the interpretation of the function includes a variety of financial devices, including leases, lease-backs, joint ventures,
etc. Essentially the working group would consist of highly skilled negotiators capable of dealing with builders, developers, etc. in their own language and understanding and being able to use, the support available from within the federal government property management agency in general.
Design and Construction

This is a technical service function with economic constraints which can be carried out either within the organization or by external consultants. Strictly speaking, this is the consulting, architectural and engineering arm of the organization and is available to design and supervise the construction of specific projects, to advise clients on a consulting basis in preparing their requirements and to correlate the performance criteria for federal government property with those used in industry. This means that if the government is prepared to lease a building with certain performance criteria with regard to lighting, heating, air-conditioning, etc. as being a grade A office building, the same general criteria should be followed when designing and constructing a grade A office building for the government's own use.

Design

Apart from the conventional functions of architecture and engineering design, it is visualized that this group would provide consulting services on problems such as space layout, furniture, environmental control,
internal communications in some instances, etc. In a single project design these costs would of course be charged to the project. However the group would also be responsible for providing and/or obtaining consulting services for client departments on an ad hoc recompense basis.

As a general practice the design group should be large enough to deal with the normal work volume using consultants only for peak demands, highly specialized or unusual problems or at the specific request of a client for a special single purpose building (in which case normally the client would pay the consultant directly)

**Construction and Inspection**

Since it is not envisaged that the property organization will get involved in actual building, but will be more a supervision of construction agency, the two functions of construction and inspection really come very close together. Thus these two groups would prepare the contract documentation, keep track of the construction schedule, supervise the construction, make payments on the contract, and enforce the contract
provisions. On the basis of their construction expertise, they would have a strong input into the design group, and, to a large extent, would be one of the major points of entrance of new technology into the organization.

This function of course would also include the materials testing responsibility and would be a prime supplier of current construction cost data to the Planning and Analysis Group.
Operations and Maintenance

This group would be very close to a normal maintenance contracting organization. When a single department is the sole user of a building, it may be best to have them carry out their own operation and maintenance. Where there are services provided to other departments, it would be at normal commercial cost, and the O & M group would be assessed on the basis of their profitability compared to the position of industrial firms in the same business.

When requested by a client department to organize a move, the client would pay for the cost of the move itself plus the cost of a consultant or organizer from the O & M group charged at the usual rate.
Finance

This is a difficult area to assess without having at least a general idea of the organizational and financial structure which might actually be produced. If it is decided to continue operating as a department, it would be necessary to design one type of financial structure. If it is to be a crown corporation based largely on equity capital held by the government, there would be another kind of financial structure. If it is to be a crown corporation financed by debt to the federal government, there would be a third kind. If it is to be a crown corporation financed by debt on the open market there would be yet a different structure.

Apart from these major groupings there is a close to infinite number of more or less subtle variations of financial structure, and it is not proposed to list all these possibilities in detail. Nonetheless, there are certain basic functions which must be fulfilled and these are briefly discussed in the following sections.

Capital Financing

This of course depends on the financial structure of the organization. If the organization is to be run as a normal government department, this function probably does not even exist. Even if there is a revolving fund, since the balance at any time might revert to be consolidated revenue fund, there may be no real capital management.

At the other end of the scale, if property management is to be set up in a crown corporation environment, with equity financing for the existing assets, but with all new debt to be obtained on the open market, the capital financing function becomes exceedingly important. In fact under these circumstances it could very easily become one of the most important functions of the entire organization.

If the organization is to become a crown corporation in debt to the federal government for its current assets, and with all future borrowings to be made through the Department of Finance, the capital financing function again becomes considerably less important.
At this stage it is not proposed to make any specific recommendations as to the kind of structure to be used, since this is a very complex problem which must include the total environment of all the other functions.

Cost Accounting

If the entire organization is to be run on a "businesslike basis" and management is to be judged by results, it is obviously necessary to have a reliable cost ascertainment program. While the organization as a whole can, if necessary, be judged by some type of return on total capital, effectiveness criteria, or other, as we go further down the organization this is not always possible. In some areas the assessment will have to be made on the basis of revenue versus costs, in others by benefits to other parts of the organization versus cost, etc.

The cost accounting group will have to devise satisfactory breakdowns and methods of costing for all the different functions and, at the same time, they will need to be fast enough to be a part of the management process as opposed to a historical research unit.
Financial Administration

This is essentially what we think of as the bookkeeping function, keeping proper records of income and expenditures, preparing balance sheets, profit and loss statements, checking invoices, stores, inventory, etc. The only point in which this would vary from normal government financial administration is that some attention must be paid to the relationship between the cost of keeping records and the value of the information recorded. In general there is a problem of relating the cost of acquiring data or of carrying out analysis to their value in the decision making or control processes, and this would have to be carefully examined in designing the organization to carry out these specified functions.

Presumably, in accordance with the Financial Administration Act, the operations of this functional group would have to be discussed in some detail with representatives of the Treasury Board, the Auditor General, and possibly the Comptroller of the Treasury and, if a departmental organization is chosen, the agreement of these authorities would be absolutely necessary if a rational system of management is to be achieved.
Personnel

In looking at the organization charts of various government departments one can find as many as ten different sub-headings under personnel. It is felt that such specialization may have been carried to ridiculous extremes. This paper suggests a rather broader and more comprehensive view of the overall function and it has therefore been broken down under just two headings, i.e. Staffing and Labour Relations. These are discussed under the succeeding headings.

Staffing

The term staffing has been interpreted in this paper to include all the functions necessary in providing staff to carry out their jobs and also to evaluate the individuals concerned. Thus it includes recruiting, compensation and working conditions, training, planning, performance appraisal, etc.

Since the organization could easily run to 8,000 or 9,000 people, it would cover skills ranging from pushing a broom to senior economists and financial executives. It is obviously a very responsible and wide
ranging function and should be staffed at a level compatible with the implications of potential error.

Since there is a market equivalent for this function, it can presumably be appraised on the basis of whether or not it is being carried out successfully and whether it costs less than the market equivalent.

**Labour Relations**

In an organization of this size and with collective bargaining, it is obvious that a labour relations function is necessary and important. If it is decided to keep a departmental type of organization, this function would continue to be carried out by the Personnel Policy Branch of the Treasury Board. However if any type of a crown corporation is chosen, this is one of the new functions for which a capability might have to be created. This is a very sensitive area since it is easy to imagine the chaos which might be caused if, for instance, all the operating engineers in the heating plants went on strike.
Legal

As with any other major organization, the property management agency will have a requirement for both specialized legal advice and fairly routine legal work. There are a number of possible locations for this function within the organization or, for that matter, it could even be split among other major functional groups.

In order to have a basis for discussion, within this paper it is proposed to include the fairly routine legal functions with finance & personnel while the question of corporate legal advisor(s) has been left open.

Contracts

On reading the Auditor General's report, one gets the impression that contracts in government are not always drawn up with the care and foresight which the importance of this function indicates.120 In any case, as a crown corporation, the property management agency would probably not be bound by the government contract regulations and would have to establish its own competence to draw up and enforce its contracts.

120. See Auditor General's Report, 1968, Particularly Paras 109, 116, 127, etc.
Quite conceivably, the agency might farm out a lot of its work, but the optimum distribution of in house to external legal work would be determined by some type of cost and factor analysis.

Land Acquisition and Disposal

In view of the complexity of land holding laws and their development in Canadian history, a highly competent central staff would probably have to be established to advise the agency in this field. Legal work for specific transactions could well be carried out by outside lawyers but it is recommended that a strong central group be available within the agency.

Since the function of acquisition and disposal has been related to Planning and Analysis, it may well be advisable to attach a legal support group directly in preference to concentrating all legal services.

The decision on the breakdown between in-house and external services for routine work would be largely based on an analysis of all the factors involved at any specific time.
This preceding schema has only attempted to outline some of the functions which may be necessary in a real property management organization. The treatment has been deliberately superficial since the details can only be determined after it has been decided which type of agency is desired. Specifically it must be decided whether to continue operating on a departmental basis or, alternatively, what type of crown corporation might be most suitable.

This will be discussed at some length in the next chapter.
CHAPTER VI

CROWN CORPORATION OR GOVERNMENT DEPARTMENT

Having defined the basic functions to be carried out by the federal accommodation agency, it next behoves us to examine the alternative operational and organizational structures which are feasible within our political environment. In some of the literature the alternatives are presented very simply - as in the title of this chapter - as though it were an either/or situation, i.e. on the assumption that there is one type of crown corporation and one type of government department, and the choice is between one and the other. In practice of course this is not the case. The Financial Administration Act identified three major groups of Crown Corporations and even within this classification system there are probably as many differences as similarities between the companies within any one group.

There are also of course the Crown Corporation(s) not listed at all in the Financial Administration Act (one will be discussed later in this paper) which have a character all of their own.

On the other side when we look at government departments, there is a range of organizations varying from departments with only a staff budget and limited
program responsibility to other departments with large capital budgets, some operate with revolving funds while others are restricted to annual appropriations, some serve the public directly while others are internal government staff organizations, etc. Thus when we talk about a choice of crown corporation versus government department we are really considering the optimum point in a continuous spectrum of organizational structures. It may well be that in actual fact a number of points may be used for specific parts of the total function depending on the operational needs and government policies in each area.

Traditionally the advantages of crown corporations have been cited as being flexibility, independence, initiative, freedom from red tape, the ability to attract business oriented senior staff (particularly in so far as paying higher salaries than allowed by public service scales), freedom from political interference, a greater degree of personal responsibility by the executives and a dynamic approach to management. It is not suggested that this list is comprehensive but it does indicate the general trend of the arguments usually advanced in favour of using a crown corporation type of organization in any specific case.
One of the purposes of this paper is to examine the validity of these arguments in the case of the accommodation function of the federal government in order to determine the best type of organizational structure for this function.

At this stage it may be worth while to examine at least the broad outlines of some of the organizational options which are available within the government environment. The Financial Administration Act\textsuperscript{12} defines four major groups:

(a) **Departments** -

The FA Act applies virtually in its entirety and departments hold no assets in their own name and all cash transactions take place through the Consolidated Revenue Fund. The Treasury Board, Comptroller of the Treasury and the Auditor General have power of control and regulation of their finances and accounting records and all appropriations lapse at the end of each fiscal year;

(b) **Departmental Corporations** -

Under the FA Act, Part VIII states that a departmental

\textsuperscript{12} RS 1952 c 116 as amended to 1, December, 1969 From now on referred to as the FA Act.
Corporation is a servant or agency of Her Majesty in right of Canada and is responsible for supervisory or regulatory services of a governmental nature. These corporations are listed in Schedule B of the Act and include:

- Atomic Energy Control Board
- Dominion Coal Board
- National Gallery of Canada
- National Research Council etc., to a total of 13.

The only section of Part VIII of the Act which applies to departmental corporations is that which empowers the Governor in Council to add corporations, or to remove them from, Schedule B. For all other purposes of the Act, departmental corporations are classed as departments, with the results that they hold no assets in their own name and all their cash transactions take place through the Consolidated Revenue Fund. The Treasury Board, the Comptroller of the Treasury and the Auditor General have powers of control and regulation of their finances and accounting records, and all appropriations lapse at the end of each fiscal year. The only exception to this last requirement is the National Gallery Act which allows unspent appropriations to be carried forward.
In practice departmental corporations probably have more points of difference than points of similarity in their organizations. In some areas, a corporation will be virtually autonomous and free from scrutiny by Parliament except when the Annual Report is presented, while others are under much more stringent control.

(c) **Agency Corporations**

The FA Act defines this type of corporation as an agent of the crown which is responsible for the management of trading or service operations on a quasi-commercial basis or for the management of procurement, construction or disposal activities on behalf of the Crown. These corporations are listed in Schedule C of the Act and include:

- Atomic Energy of Canada Ltd.
- Defence Construction Ltd.
- National Capital Commission etc. to a total of 17.

In general, the agency corporations are subject to the provisions of the FA Act, but, in the event of conflict between the FA Act and the specific departmental act, the provisions of the departmental act prevail. All corporations
whose names include the word "Limited" are incorporated under the Companies Act and the directors are elected by the shareholders; i.e. since the shares are held in trust for the Crown, the directors are effectively appointed by the Governor in Council.

Legal action may be brought or taken in the name of all these corporations, except the National Battlefields Commission and the National Harbours Board, in any court which would have jurisdiction if they were not agents of the crown. In general the responsible ministers have supplied information freely and directly when requested in Parliament. The employees of these corporations are appointed by the boards which manage them and not by the Public Service Commission, and all the corporations, except the National Harbours Board may, with the approval of the Minister of Finance, maintain accounts in their own names in any bank of which he may approve.

(d) Proprietary Corporations -

The FA Act defines this type of organization as one which is responsible for the management of lending or financial operations involving the production of or dealing in goods and services to the public and which
is normally required to conduct its operations without Parliamentary appropriations. The corporations are listed in Schedule D of the Act and include:

Canadian Broadcasting Corporation
Canadian National Railways
Central Mortgage and Housing Corporation
Polymer Corporation Ltd. etc. to a total of 16.

As with the agency corporations, all the proprietary corporations are subject to the FA Act only in so far as it does not conflict with any other Act (such as the specific company act, the Government Companies Operations Act, etc.) Employees are appointed by the boards which manage the corporations, independently of the Public Service Commission, and actions may be brought by or against these corporations in any court which would have jurisdiction if the corporations were not agents of the crown.

The FA Act requires each corporation to submit an annual capital budget to the minister responsible and some of them also require approval for the operating budget. An annual report must be submitted for the Minister within three months of the end of the financial year and he must lay it before Parliament. This annual
report must contain such information as it required from a company under the Companies Act and no free services are provided by government departments for these corporations.

The obvious implications of the FA Act are that the services of at least the proprietary corporations should be provided at a price which would enable them to break even. This presumably means that they should also be expected to pay the going rate of interest on the capital invested in them. A corollary to this point, which will be discussed in more detail later, is brought up by Ashley & Smails, who state that the question of what to do about operational losses or what to do with an operating profit has not been sufficiently studied by Parliament nor have they looked at the implications of competition between crown owned corporations and private industry. Presumably, private companies could be driven out of business by an efficient, highly organized and publicly financed corporation.

Considering the definitions in the FA Act, the division between proprietary corporations as listed in

schedule D and the agency corporations in schedule C seems to depend essentially on the primary clientele of the specific organizations. The proprietary corporations are responsible for services dealing with the public and, especially important, are normally required to conduct their operations without Parliamentary appropriations. Agency corporations on the other hand are responsible for quasi-commercial trading or service operations on behalf of the crown and there is no particular stated requirement to operate without Parliamentary appropriations. In practice, agency corporations often receive revolving funds which means that after the original financial structure has been set up, the organization should continue to support itself by sale of its services.

From these definitions it would therefore appear that the choice for an accommodation agency really lies between an agency corporation and a normal department, since it is not selling a product or service to the public, except incidentally, and hence does not appear to be eligible as a proprietary corporation. At the same time there do not appear to be any advantages in favour of a departmental corporation.
Having thus narrowed the field we can examine the relative advantages of the two approaches more critically. In the private sector the main objectives for the creation of a corporate organization, as opposed to private ownership or partnership, are usually assumed to be limited liability for the owners, continuity and access to larger amounts of capital. From a government point of view none of these reasons can be held to apply. It is inconceivable that a government organization should be bankrupt as long as the government itself is solvent, continuity is not a real problem, nor is access to capital, since the credit of the particular agency will generally be no better and no worse than that of the government itself.

We must thus look for other reasons, which are peculiar to government to establish a rationale for using the corporate form. As stated previously there are a number of standard arguments in favour of crown corporations which essentially boil down to managerial autonomy or "hire the right man and let him do the job". Doing the job is assumed to entail achieving the specific objectives of the organization, hiring and firing personnel and doing all this in "a business like manner".
The underlying assumption of course is that this cannot be done in a departmental structure because of "politics", "red tape", "the civil service mentality", etc.

To examine the validity of this assumption in this particular case the approach will be what is referred to in systems analysis as the "a fortiori" approach. This means that the first assumption or series of assumptions will all be in favour of a corporate status. To determine the framework for analysis it is first of all necessary to clarify, or restate, the objectives of the organization in a form which lends itself to analysis. Two basic approaches have been suggested at various times which may be paraphrased as:

(a) Provide government accommodation at minimum cost.

(b) Provide government accommodation at market rates and make the maximum possible profit.

It is assumed "a priori" that for alternative (a) the minimum cost is below the normal market rate, since otherwise the obvious solution is to dissolve the function within the government and buy on the open market.
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A strong case can be made that alternative (a) is unacceptable in the present environment with the advent of PPB, since the government is interested in knowing the true cost of its programs and thus Parliament would want to see accommodation, just as any other costs, clearly identified with no hidden subsidies. However the particular choice of objective does not affect the basic argument to follow except that obviously the performance criteria in the two situations would be different.

Considering alternative (b), that the objective is to provide government accommodation at normal market rates while making the maximum possible profit, the most common performance criterion in the private sector is probably the ROI (Return on Investment). Since we are contemplating a business to carry out this function for the government this would seem to be a reasonable criterion to be used in this case. From the point of view of the government as shareholder and client there are two main points of interest. On the one hand there is the effectiveness of the organization as measured by the number and type of complaints of lack of service or poor service, while on the other hand there is the measure of efficiency in the use of resources as measured by the ROI. If client
departments can accurately specify their accommodation needs, there are no conceptual problems in specifying effectiveness criteria, although there may be a considerable number of practical problems.

The problem of efficiency is more critical and complex. The ROI approach has a certain seductive appeal because of its combination of a simple indicator with as much sophistication of analysis as is desired. The basic problem in this case however is that it can really only be used as a basis of comparison (e.g. an ROI of 12% is better than one of 10%) but we have no real basis for comparison. Continuing the a fortiori process, if it is assumed that the crown agency is completely free to operate and compete on the open market, it would be the largest real estate operator in N. America (The G.S.A in the United States holds more property but does not compete on the open market). In an industry where the largest firms measure their assets in hundreds of millions of dollars, this organization would measure its assets in tens of billions of dollars i.e. a hundred times as big.123

123. See Chapter IV supra - Value of Real Property Assets - and Appendix B
If this corporation has access to government funds - as most crown corporations have if only on a loan basis - there would be at the present time a 2% spread in the interest rates it would have to pay on its loans compared to what its competitors would be paying. If this simply were to be cut off in response to political pressure - which would certainly develop since entrepreneurs would feel that they were in competition with their own tax money - the corporation would certainly rate as an AAA credit risk and would therefore be able to raise funds on the market at, say, 1 3/4% less than most of its competitors. Thus as a basis for comparison the ROI can probably not be used directly in relationship to what entrepreneurs are earning in the same industry.

However, this remains quantifiable to the extent that some control agency can calculate the anticipated spread between general industry profits and the special situation of this corporation (It is worth bearing in mind that at the present time the accounting profession is doing a lot of soul searching in this area since it has been frequently suggested that the traditional financial reports can give positively misleading results
for real estate companies. A more significant factor is the fact that a 2% spread in interest rates can easily mean a 10% spread in economic rental rates. Thus the crown corporation has a much larger bargaining range with its tenants than any of its competitors and can thus expect to operate at a much lower vacancy rate. The expected ROI under these circumstances would be impossible to determine analytically and would be a subjective assessment.

If the corporation restricts itself to satisfying government occupancy needs the problem still remains manageable. However a rational management approach means making allowances for future expansion and also enough slack in the system to allow for changes in government program requiring sudden location changes. Since this space can not be left idle if the organization operates within the stated objectives, it would normally be released on the open market in competition with space being provided by private businessmen. With the inherent economies of scale, the government corporation should

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124 See discussion in newspapers, particularly in Toronto Globe and Mail as a result of some of the problems of Revenue Properties Ltd. The criticisms were directed more at the "accepted" accounting practices used by the profession and their weakness in the particular situation of real estate developers.
always be able to underbid its competitors and should therefore take the cream of the market, particularly since by having the federal government as its guaranteed tenants, there is a vast amount of negotiating flexibility in dealing with other potential tenants.

To this stage we have only considered a fairly passive organization which is restricting itself to its basic objective of providing government accommodation. If the corporation decides that it has a responsibility to maximise its ROI apart from the purely accommodation function, a much more serious situation can develop. This is perhaps best illustrated by an example. If the government owns a site in a metropolitan area where certain departments require accommodation, a number of approaches are possible. First of all the corporation can build a structure to meet the present needs of its government clients. Politically this is acceptable although even in this case there are likely to be complaints that the government should rent from private developers in preference to building its own accommodation.

The second alternative would be to plan for future needs and construct enough space to allow for future expansion. If the corporation is expected to maximize
its ROI it will have to dispose of this temporarily surplus accommodation on the open market and the repercussions from private developers are easy to imagine. If the corporation works on the assumption that government employment (or space needs) will expand by 3% per year and its investment policy is to build for the five year forecast, the building constructed will have a surplus of approx. 16% in the year it is constructed. If the general level of occupancy in the area is, say, 90% and the government corporation starts off with a guaranteed occupancy of 86% (100/116) it is obviously in a very powerful marketing position compared to its competitors who have no guarantees at all. When this is added to the advantageous financing position, the competitive position of the government organization becomes overwhelming.

The third alternative would be to build to the optimum density allowed by the site and market conditions. Assuming for the moment that in a specific metropolitan location the government has a prime location (say close to Bay St. in Toronto) where its present and future requirements would indicate a structure of 300,000 sq. ft. The zoning limitation on the site
however allows a structure of a million sq. ft. or more. For a profit maximising corporation the approach is simple. If the market forecasts indicate that the extra accommodation can be disposed of profitably it will build to the maximum density possible. The building might then well be designed with two floors of shops at street level (which would possibly never be required by the government), twenty or twenty-five storeys of office space, some of which would be permanently surplus to requirements and, perhaps, ten or fifteen storeys of luxury apartments, (Under certain circumstances there are decided economic advantages to this "vertical village" concept.)

It is suggested that with this alternative, if not earlier, we have reached the point of reductio ad absurdum since, under our political system, it would be intolerable for a government agency to compete with the private sector in this manner. This argument is not based on emotion but on the fact that this organization would tend in the long term not only to be the government accommodation agency but possibly the only developer in the country, its only competition being, possibly,
the real estate arms of the chartered banks who might be pursuing the same philosophy (One major bank is already doing this but not yet to an extent where it has become highly visible).

If this competitive policy is not acceptable to the government, it will be necessary to either spell out in detail the conditions under which the corporation may or may not compete or, alternatively, to pass on every major investment proposal as it occurs. It is probably impossible, or at least very difficult, to predetermine a set of rules or by laws (guide lines would not be sufficient) for decisions to be made in the future under conditions we cannot determine at the present time. At the same time if the corporation is to be commercially successful it must look to long term planning, particularly with respect to land acquisition.

125. For a discussion of the method of handling this problem in the UK see "The Pricing Policies of the Nationalized Industries in Britain" by R.P. Seth, Canadian Public Administration (Ref.31). Originally these industries were "to be free to operate as commercial concerns, paying their way and meeting their capital charges. -- They were expected to act freely while evolving and adjusting their pricing policies to fulfil their financial and commercial obligations to break even over a period of time." As the author points out the industries in practice are not "free" by any stretch of the imagination and not only are they
If "government" reserves the right to reverse long standing investment plans for political considerations, the entire concept of efficiency control by ROI becomes meaningless. It may be argued that the efficiency of the corporation could still be assessed by making allowances for the "cost" of the government decision but this becomes of very doubtful validity. This approach implies that there is necessarily a one to one correlation between the corporation's market forecast and what would have happened in practice. No businessman would ever assume such perfection. Generally you win some, you lose some, and on the whole, with good management, you make a profit. For the government to essentially "buy" the potential profit of an investment from the corporation at 100% would be a negation of the type of practicality it is trying to achieve.

If general rules cannot be laid down, the government would have to decide on every major investment as it is proposed, always taking into consideration the specific

125 cont'd

legally bound to accept the minister's directions under a general "national interest clause", they are also subject to powerful "suggestions" from the Minister on pricing policies, purchase policies and investment planning. These suggestions or requests are not regarded as directives but failure to comply "would obviously be so serious that the question of his resignation would be bound to arise".
political factors as well as the economic costs of the proposal. Since one of the basic philosophies of PPB is to identify the economic costs of political objectives, this brings us back to a type of control which can be exercised as well with a government department as with a corporation.

Since commercial profitability cannot be the objective for using the corporate form of organization we can next examine the argument of administrative efficiency and freedom from red tape. The basis for this argument is usually that competition, present in business but lacking in government, makes private enterprise naturally more efficient since the inefficient perish. Appleby\textsuperscript{126} suggests first of all that efficiency is entirely relative and must be assessed in relation to the objectives of the specific organization. Thus in government pure commercial efficiency can never be the absolute criterion. Secondly,\textsuperscript{127} with regard to red tape, he points out that in any large organization rules

\textsuperscript{126.} P.H. Appleby Big Democracy, pp 8, 50
See also M.W. Sharpe, Measurements of Efficiency of Government & Business, Canadian Public Administration June, 1960. See also discussion on Glassco Commission Report supra Chapter II

\textsuperscript{127.} Ibid, pp. 57,58
and procedures are laid down, and necessarily so, and that this is what is referred to as red tape in government. In practice of course the entire subject of bureaucracy and red tape has become an emotional issue which public accountability has made a convenient scourge for the opposition of the day to beat the government. There is also the basic problem that in the public eye a government dollar is some kind of different currency than a private dollar and must be accounted for in a different manner.

At the same time, it must be agreed that the rules and regulations of accountability in the public service are so much more complex than in industry that it would appear at first sight that substantial economies could be achieved by changing to corporate status. Perhaps the real problem lies in the fact that the general regulations with regard to accountability are applied in a uniform manner across the entire spectrum of departments and no one has really taken advantage of the fact that Treasury Board can delegate virtually all its financial control functions to departments. By doing this in a selective manner, a reasonably efficient system could be devised without the
apparent inherent problems of detailed input control as presently practised.

This is allowed for in the FA Act which states that:

"Subject to any other act, the Treasury Board may make regulations:
(a) for the purpose of ensuring effective coordination of administrative functions of services among and within departments;
(b) for the establishment of general administrative standards of performance and respecting the assessment of a performance of portions of the public service in the light of such standards;
(c) respecting the collection, management and administration of, and the accounting for, public money;
(d) respecting the keeping of records of public property
(f) any other purpose necessary for the effectent administration of the Public Service."

It is suggested that the operative phrase in this clause is may make regulations, i.e. in drafting regulations they may be specific to certain departments or organizations and do not necessarily need to cover the entire public service.

128. Opus Cit. Section 6.
The staffing function is very often presented as the clinching argument in favour of corporate status. This argument is usually in the form that Government departments do not have the necessary flexibility in hiring, firing, rates of pay, working conditions etc. and furthermore that the process of classification and recruitment is so slow that management is seriously impeded in its functions. However, if the comparison between a crown corporation type of organization and a government department is made on the basis of comparing the best commercial practice with the poorest examples of Government practice this is hardly a reasonable basis for comparison. Perhaps we should be looking for a comparison with a departmental type of organization with clearly stated objectives and exercising all the flexibility of management allowed by statutes.

To begin with, let us consider the staffing function. The Public Service Employment Act\textsuperscript{129} states that

"The Commission shall:

(a) Appoint or provide for the appointment of qualified persons to or from within the Public Service in

\textsuperscript{129} 14-15-16 Elizabeth II Chapter 71."
accordance with the provisions and principles of this Act;

(b) operate and assist deputy heads in the operation of staff training and development programs in the Public Service;

(c) engage competent persons to assist the Commission in the performance of its duties;

(d) establish boards to make recommendations to the Commission on matters referred to such boards under section 6, to render decisions on appeals made to such boards under sections 21 and 31 and to render decisions in matters referred to such boards under section 32;

(e) report to the Governor in Council upon such matters arising out of or relating to the administration or operation of this Act and the regulations as the Commission considers desirable; and

(f) perform such other duties and functions with reference to the Public Service as are assigned to it by the Governor in Council."

However, this is modified by a later section which states:

130. Ibid, Section 5.
"(1) The Commission may authorize a deputy head to exercise and perform, in such manner and subject to such terms and conditions as the Commission directs, any of the powers, functions and duties of the Commission under this Act, other than the powers, functions and duties of the Commission in relation to appeals under section 21 and 31 and inquiries under section 32."131

The Section 21 referred to is, of course, the one dealing with appeals in case of appointment with or without a competition. Clause 31 deals with dismissals or demotions, and 32 deals with political activity by civil servants.

In sub-section 5 of the same clause, provision is made for the deputy head to sub-delegate his entire jurisdiction to persons under his authority while, of course, remaining responsible for their exercise of his jurisdiction.

With regard to compensation and conditions of employment, the Financial Administration Act states that:

131. Ibid Section 6
"The Treasury Board may act for the Queen's Privy Council of Canada on all matters relating to:

(e) personnel management in the public service, including the determination of terms and conditions of employment of persons employed therein and . . ."\textsuperscript{132}

and further that:

". . . The Treasury Board may . . .

(c) provide for the classification of positions and employees in the public service;

(d) determine and regulate the pay to which persons employed in the public service are entitled for services rendered, the hours of work and leave of such persons and any matters related thereto; . . ."\textsuperscript{133}

but this again is modified by the statement that:

"The Treasury Board may authorize the deputy head of a department of the chief executive officer of any portion of the public service to exercise and perform, in such manner and subject to such terms and conditions as the Treasury Board directs, any of the powers and functions of the Treasury Board in relation to personnel

\textsuperscript{132} Opus Cit. Section 6

\textsuperscript{133} Ibid Section 7
management in the public service
and may, from time to time as it
sees fit, revise or rescind and
reinstate the authority so granted."134

and further is Sub-section 4 of the same clause it states
that:

"Any person authorized pursuant to
subsection (2) or (3) to exercise
and perform any of the powers and
functions of the Governor in Council
or the Treasury Board may, subject
to and in accordance with the
authorization given to him, authorize
one or more persons under his juris-
diction to exercise or perform any
such power or function."135

Strictly speaking, within the wordings of the
specific Acts there seems to be no reason why the accommo-
dation function, operating as a department, should not
be able to exercise virtually the same amount of flex-
ibility in its staffing program as any commercial cor-
poration. Admittedly, there are limits of policy on
the range of compensation and conditions as well as,
possibly, the maximum number to be employed, but it
would be reasonable to assume that these kinds of limi-
tations need not necessarily be any more stringent than
those which might be applied to a commercial corporation

134. Ibid
135. Ibid
by its board of directors.

With regard to dismissals, the Public Service Employment Act states:

"The tenure of office of an employee is during the pleasure of Her Majesty subject to the provisions of this and any other Act and the regulations thereunder and, unless some other period of employment is specified, for an indeterminate period." 136

This clause, of course, immediately establishes one method of exercising flexibility by making term appointments which might be a particularly suitable method in senior executive positions. With regard to non-term appointments, the main screening will be carried out during the probation period, which may well be a year, and this is provided for where the Act states that:

"The deputy head may, at any time during the probationary period, give notice to the employee and to the Commission that he intends to reject the employee for cause at the end of such notice period as the Commission may establish for any employee or class of employees and, unless the Commission appoints the employee to another position in the Public Service before the end

136. Opus Cit. Section 24
of the notice period applicable
in the case of the employee, he
ceases to be an employee at the
end of that period."137

The Deputy Head is required to advise the Com-
mission of his reasons for rejection but it is interesting
to note that rejection during probation is not subject
to appeal.

Once an employee has passed his probationary
period, presumably the Deputy Head would only want to
dispose of an employee because his services are no
longer required because of lack of work, he has become
incompetent, or incapacitated. In regard to layoffs or
redundancies, there seem to be no statutory limitations
on the authority of the Deputy Head to determine that
a particular job is no longer required. The problems
of incompetence and incapacity are covered in the
Public Service Employment Act which states:

"7. Where an employee, in the opinion
of the Deputy Head is incompetent in
performing the duties of the position
he occupies or is incapable of perfor-
mimg those duties and should
(a) be appointed to a position at a
lower maximum rate of pay, or
(b) be released,

137. Ibid Section 28 subsection 3
the deputy head may recommend to the Commission that the employee be so appointed or released, as the case may be."138

Such demotion, or firing, is of course subject to the right of appeal to the Public Service Commission, but with today's situation with respect to collective bargaining, general labor relations, white collar unionism, etc. I would suggest that this is really no greater hardship than would be experienced by a commercial corporation.

Admittedly there would be problems in the executive levels and it might be difficult and unpleasant for a deputy head to dispose of any incompetent or incapable executives he might have, particularly in view of the inherent rigidity in the Public Service Superannuation system. Nonetheless, the mechanism exists, and one of the functions of top management is, after all, to do the difficult and unpleasant.

This then leaves us with the argument that past history has created a psychological attitude amongst many Civil Servants that the overriding consideration

138. Ibid Section 31
is not efficiency in achieving objectives, but the avoidance of error which may be brought up in the Auditor General's Report or in the House. Thus, original or revolutionary ideas have tended to be discouraged and natural innovators, at least in major areas of significance, have had to learn to hide their lights under a bushel, conform or leave. The argument runs that starting with a department organized in the traditional manner of highly centralized management with detailed directives for day-to-day operations and where virtue is equated with adherence to regulations, this would lead to a self-filtering system to develop a typical departmental personality. It is doubtful whether the mere act of changing the name to a crown corporation would have any inherent effect on the organization.

For the accommodation function to operate effectively there are certain basic operations which must be carried out whether it becomes a crown corporation or remains a government department. First of all, there is the problem of strategic planning. Since

139. This was discussed in more detail in the preceding chapter and will be only briefly reviewed here.
we are talking of a capital investment of the order of tens of billions of dollars and with real property being amortized over 20 to 40 years, it is obviously necessary to have a fairly clear idea of the kind of socio-economic structure in which the organization expects to be operating within this time frame. Essentially, there is no real difference in the need for this function between the two types of organization and, with the salary scales presently in force, it is doubtful if there is even a pay differential involved except at the top levels. Once the long term objectives have been defined, the shorter term proposed expenditures over 5 to 10 years can be related to these long term objectives. The present system of program review, possibly modified by some form of a cash flow forecast, would then probably be the kind of document which an industrial organization would also require for its financial forecasting.

It is suggested that within the general philosophy of PPB, or management by objectives, with an aggressive and innovative management in the accommodation organization, proper long-term planning accompanied by proper use of the program review both from the departmental point of view, and by Treasury Board giving
approval in principle for long term plans, there is no real reason why a crown corporation should be any more efficient than a government department.\textsuperscript{140} Without these factors a crown corporation cannot operate either, and even with them there are the additional complications of having to set up an independent collective bargaining structure, a financing structure and other specialized services which are now being provided by other agencies of government.

The real problem in either case appears to be in the mental attitudes and qualifications of the senior staff. With the right staff and a correct environment there is no real problem to operate as either a government department or a crown corporation. Without the right staff neither type of organization can begin to operate effectively.

\begin{footnote}
\textsuperscript{140} Considerable flexibility could of course be provided a departmental organization if it were supplied with a revolving fund. This would also solve the problem of what to do with profits since any funds surplus to requirements could be stripped off directly to the Consolidated Revenue Fund without having to go through the legal fiction of declaring a dividend. See Revolving Fund Regulations, Circular No. 1970-7 TB 693949 dated January 8, 1970.
\end{footnote}
Thus, in conclusion, it is suggested that at the present time the case for a crown corporation type of structure is certainly not overriding if it exists at all. It would seem that at the present time a departmental structure using existing legislation with the delegative powers in existence and possibly some type of revolving fund can satisfy all the government's requirements. If a special vehicle is required to allow joint ventures with industry, mortgages, lease backs etc., this already exists in the Public Works Land Corporation Ltd. which is allowed to:

"to acquire, purchase, lease, hold improve, manage, exchange, sell, turn to account or otherwise deal in or dispose of real or personal property or any interest therein

borrow money upon the credit of the Company

limit or increase the amount to be borrowed

issue debentures or other securities for such sums and at such prices as may be deemed expedient and

mortgage, hypothecate, charge or

---

pledge all or any of the real and
personal property, undertakings
and rights of the Company to secure
any such debentures or other
securities or any money borrowed
or any other liability of the
Company."

The argument to this stage has been essentially
on an objective basis, looking at the organizational
problems to be solved and the statutory tools and
political limitations which may affect the type of
solution to be chosen. There is however another area
of major concern which may completely reverse the
arguments presented to this stage. This essentially
is the psychological problem of the difficulty which
individuals may have in changing their point of view
from a situation where they see themselves as civil
servants carrying out an primarily political function,
to one where they see themselves as members of a comm-
ercial organization competing aggressively in business.
From this personnel view it may be easier if the name
and legal structure of the organization is changed,
since this may convince the existing staff that a real
change has taken place.

There is of course the basic problem that it
may be difficult to change whatever security of employ-
ment (or implied security of employment) pension conditions, medical insurance and all other employee benefits, etc. which now exist, under a different organizational environment. Nonetheless, if this proves necessary and can be done there may be definite psychological advantages in changing the type of organization.

At the same time there would be the added advantage that with a change from a departmental to a corporate type of structure most of the staff would expect a fairly drastic internal organizational change which might be strongly resented if it took place in the absence of the change in structure.

If it is felt that these psychological factors are of major importance, these factors in themselves may well justify the adoption of the corporation structure even if only on a temporary basis. It may well be that in the light of later experience with the amount of political control necessary to operate the accommodation function of the government, a department structure may be more effective. In that case, in five or ten years from now it may be necessary to reverse the process in order to bring the organization back under more effective control of the central control agencies.
At the same time it should be remembered that a past Liberal Government stated that:

"if they did not have monopolies they would be cor. wn companies in a competitive field which is contrary to government policy."142

This is admittedly referring to synthetic rubber production (Polymer) and uranium mining and refining (Eldorado) where circumstances have now changed in the opposite direction to a competitive environment. Nonetheless this is different from setting up a corporation dedicated from its inception to achieve competition with the private sector.

APPENDIX A

METHODS OF CALCULATION

TO DETERMINE VALUE OF FEDERAL

GOVERNMENT REAL PROPERTY ASSETS
Assumptions:

(1) That Buildings and Building Land are approximately 20% of the dollar values of the budgetary item "Construction and Acquisition of Buildings and Works including Land."

(2) Expenditure on land acquisition is approximately 7% of the dollar value of Buildings and Building Land.

(3) Imputed Land investment i.e. land purchased plus land brought into use from existing inventory is approximately 25% of the dollar value of Building construction and/or acquisition.

(4) Building depreciation is 5% of its residual value in any one year.

(5) Land appreciates by approximately 10% p.a.
NOTE:-

The time frame of this method (1950/51 to 1968/69) was determined by the phrasing of the object of expenditure which remained constant during this period. A different time span would have involved either imputing different factors to each object of expenditure or detailed reference to Public Accounts. As discussed in the text this was not considered justifiable in this case within the overall accuracy of the study.
COMPUTATION PROCESS

Step 1: Budgetary year and dollar expenditure on "Construction or Acquisition of Buildings and Works including Land". N and C.A. (1969/70 = 1 1950/51 for N)

Step 2: Building Budget (B.B.) = 20% of C.A.

Step 3: Building Structure Investment (B) = .93 of B.B.

Step 4: Present Building Value (1969/70) = \[ \sum_{N=1}^{20} B_n (1-.5)^N \]

Step 5: Building Land investment (L_B) = 25% of B

Step 6: Present Building Land Value (1969/70) = \[ \sum_{N=1}^{20} (L_B)(1+.10)^N N \]

Step 7: Engineering Construction Budget (C.B) = 80% of C.A.

Step 8: Construction Land investment (L_C) = 10% of C.B.
Step 9: Present Construction Land Value (1969/70) =

\[ \sum_{N=1}^{20} (Lc_N)(1+.10)^N \]

**NOTE:**

In 1969/70 the wording of the object of expenditure was changed to "Construction and Acquisition of Land Buildings and Equipment" which may not be an entirely valid comparison with the previous item name of "Construction and Acquisition of Buildings and Works including Land." For the purposes of this calculation and within the overall accuracy of the procedure it was decided to use the average of the years 66/67, 67/68 and 68/69 as a reasonable approximation of the investment in 69/70. This turned out to be $393.3 millions.
<table>
<thead>
<tr>
<th>YEAR</th>
<th>EXPENDITURE C.A.</th>
<th>BUILDING BUDGET C.A.x.20x.93</th>
<th>DEPRECIATED PRESENT VALUE OF BUILDINGS</th>
<th>N</th>
</tr>
</thead>
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<tr>
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<td>393.3</td>
<td>73.15</td>
<td>69.7</td>
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</tr>
<tr>
<td>67/68</td>
<td>417.7</td>
<td>77.69</td>
<td>67.1</td>
<td>3</td>
</tr>
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<td>66/67</td>
<td>372.9</td>
<td>69.36</td>
<td>57.1</td>
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<td>50/51</td>
<td>203.4</td>
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NOTE: All values in $(MILLIONS)$
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<th>Year</th>
<th>Building (Estimated 20% of C.A.)</th>
<th>Land Imputed Budget</th>
<th>Present Appreciated Value of Building</th>
<th>Land</th>
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**NOTE:** All values in $(MILLIONS)$
<table>
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<tr>
<th>Year</th>
<th>Engineering Construction Budget (Est. 80% of C.A.)</th>
<th>Industrial Land Imputed Budget (10% of C.B.)</th>
<th>Present Appreciated Value of Industrial Land</th>
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<td>104.5</td>
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</table>

NOTE: All values in $(MILLIONS)$
SUMMARY
Method I

Present value of real property investments 1950/51 to 1969/70 inclusive

<table>
<thead>
<tr>
<th>Description</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Buildings</td>
<td>$ 860.9 million</td>
</tr>
<tr>
<td>Building Land</td>
<td>$1107.9 million</td>
</tr>
<tr>
<td>Industrial Land</td>
<td>$1906.2 million</td>
</tr>
<tr>
<td>Total</td>
<td>$3875.0 million</td>
</tr>
</tbody>
</table>

If we now assume that any buildings erected prior to 1950 effectively have no value today and that the total land acquisition between confederation and 1950 is perhaps three times what has been acquired since 1950,* the estimated value of the real property assets of the federal government in 1970 would be $13.1 billion.

* From Kemp's analysis of DPW expenditures assumed to be true for Government in general.
Method II

Assumptions:

(1) That the Glassco Commission estimate of the Federal Government real property holdings in 1962 of $4 billion dollars was correct for the end of the fiscal year 61/62.

(2) That all these assets are appreciating at 10% p.a. (Downtown property in Toronto, Ottawa and Calgary and suburban property in Ottawa have been appreciating at approx. 20% p.a. during this time period.)

(3) That assets have been increasing by the annual expenditure on "Construction and Acquisition of Buildings and Works including land."
<table>
<thead>
<tr>
<th>YEAR</th>
<th>EXPENDITURE C.A.</th>
<th>TOTAL ASSET VALUE</th>
<th>APPRECIATED ASSET VALUE</th>
</tr>
</thead>
<tbody>
<tr>
<td>61/62</td>
<td></td>
<td>$ 4,000 million</td>
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</tr>
<tr>
<td>62/63</td>
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<td>4,758.3</td>
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<td>69/70</td>
<td>393.3</td>
<td>11,633.9</td>
<td>12,797.3</td>
</tr>
</tbody>
</table>

All values in $ millions.
This is the most sophisticated of the three approaches which may lend it some additional credibility, but in practice it is of course no more reliable than the previous two methods since, of necessity, the assumptions are just as crude. Nonetheless the analysis is presented in detail as an indication of the type of technique which may be used in this kind of situation in the absence of reliable data.

Assumptions: 1. From an analysis of the Public Accounts, the mean expenditure on "Construction and Acquisition of Buildings and Works including Land" as a percentage of total Expenditures for 1950/51 to 1967/68 was 7.13%. The median value for the same period is 7.8%. The percentage is also reducing with time. Furthermore in the early history of Canada the major expenditure of government was on public works. It is therefore a conservative assumption that the construction and acquisition item has averaged 7% of the government budget since confederation.
2. A regression analysis of Federal Govt. expenditures (from Public Accounts) with time gives an index of determination of .94 for an annual growth of 6.79% from 1867 to 1967 inclusive. It is therefore assumed that an annual growth rate of 6% from the 1867 budget of $13.7 million is a conservative value.

3. The wage index is a more reliable, though still conservative, indication of land price trends than the price index since the supply of land is inelastic and the prices today tends often to be related to wages (at least for housing). A regression analysis of general wage indices from 1901 to 1960 gave an index of determination of .92 for an annual growth rate of 3.58%. This was taken as the land appreciation rate. (The price index had a growth rate of 2.88% p.a. with an index of determination of .81.)

4. All other assumptions as in Method I.
COMPUTER PROGRAM FOR METHOD III

010 PRINT "REAL PROPERTY ASSET VALUATION FROM REGRESSION ANALYSIS"
020 PRINT "OF SPENDING PATTERNS IN GOVERNMENT BUDGET"
030 PRINT
040 PRINT "ASSUMPTIONS"
050 PRINT
060 PRINT "(A) CONSTRUCTION AND ACQUISITION OF LAND, BUILDINGS AND"
070 PRINT " WORKS = .07 OF FEDERAL GOVT. BUDGET (AVERAGE)"
080 PRINT
090 PRINT "(B) BUILDINGS AND ASSOCIATED LAND = .20 OF C+A. BUDGET"
100 PRINT
110 PRINT "(C) BUILDING LAND COST = .07 OF BUILDING AND LAND COSTS"
120 PRINT
130 PRINT "(D) REAL VALUE OF LAND BROUGHT IN TO USE = .25 OF BUILDING"
140 PRINT " COST WITH REMAINDER BEING TAKEN FROM CROWN OWNED LAND"
150 PRINT
160 PRINT "(E) INDUSTRIAL LAND BROUGHT IN TO USE = .10 OF WORKS BUDGET"
170 PRINT
180 LET A=13.7*0.07*80*.10
190 LET B=13.7*0.07*20*.93*.25
200 LET C=13.7*0.07*20*.93
210 PRINT
220 FOR R=.0288 TO .0358 STEP .0070
230 PRINT "LAND APPRECIATION FACTOR PER ANN. = " , R
240 PRINT
250 LET Y=1867
260 LET I=1
270 LET M=0
280 PRINT "YEAR", "TOTAL VALUE", "TOTAL VALUE", "TOTAL VALUE", "TOTAL VALUE"
290 PRINT "", "OF", "OF BUILDING", "OF BUILDINGS", "OF REAL"
300 PRINT "", "CONSTRUCTION", "LAND", " PROPERTY ASSETS"
310 PRINT "", "", "", "", ""
320 PRINT
330 LET X1=1.06*(1+R)
340 LET X2=(1-X1)/(1-X1)
350 LET V=A*X2
360 LET W=B*X2
370 LET M=(M/1.05)+C*(1.06*I)
380 LET S=V+W+M
390 PRINT Y, V, W, M, S
400 LET Y=Y+1
410 LET I=I+1
420 IF Y=1971 THEN 900
430 GO TO 340
900 NEXT R
999 PRINT
1000 PRINT "TO USE DIFFERENT LAND APPRECIATION FACTOR REWRITE LINE 220"
1010 PRINT "TO READ FOR R = A TO B STEP C, WHERE A, B+C ARE THE"
1020 PRINT "DECIMAL VALUES WANTED"
Summary

Method III

<table>
<thead>
<tr>
<th>Description</th>
<th>Value</th>
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</thead>
<tbody>
<tr>
<td>Buildings</td>
<td>$ 752.6</td>
</tr>
<tr>
<td>Building Land</td>
<td>$ 7,564.0</td>
</tr>
<tr>
<td>Industrial Land</td>
<td>$ 13,013.4</td>
</tr>
<tr>
<td>Total</td>
<td>$ 21,330.0</td>
</tr>
</tbody>
</table>
APPENDIX B

A REVIEW OF REAL ESTATE OPERATIONS IN THE PRIVATE SECTOR
Appendix B

A Review Of Real Estate Operations

In the Private Sector

The Financial Post Survey of Industrials for 1969 indicates the current assets of major corporations in this field as obtained from the company balance sheets and annual reports. A listing of the largest companies referred to is shown in Table 1 which gives the name of the company, the value of the total assets and the affiliation with or control by other major corporations and/or financial institutions.

It is appreciated that some of the backing organizations, such as Cemp Investments, T. Eaton Limited, etc. have very large resources but this survey does not indicate that they are active in real estate to any large extent on their own account as opposed to investing in other companies.

With regard to Marathon Realty Limited, there is no indication of the value of their capital assets, but when one considers that the total asset value of Canadian Pacific Investments Limited is $791.7 million and this covers Canadian Pacific Oil & Gas
Limited and an investment of over $200 million in Cominco Limited, it is probably reasonable to assume that Marathon's assets do not exceed $200 million.
<table>
<thead>
<tr>
<th>Company</th>
<th>Total Assets</th>
<th>Affiliations or control</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trizec Corporation Limited</td>
<td>240.6</td>
<td>Eagle Star Insurance Company, etc.</td>
</tr>
<tr>
<td>Revenue Properties Limited</td>
<td>174.2</td>
<td></td>
</tr>
<tr>
<td>Cadillac Development Company Limited</td>
<td>171.4</td>
<td></td>
</tr>
<tr>
<td>Place Ville Marie Corporation</td>
<td>127.3</td>
<td>(Subsidiary of Trizec) wholly owned</td>
</tr>
<tr>
<td>Canadian Interurban Properties Limited</td>
<td>106.3</td>
<td>Power Corporation Limited</td>
</tr>
<tr>
<td>Ivanhoe Corporation</td>
<td>105.4</td>
<td>Owns Steinberg Properties Limited, etc.</td>
</tr>
<tr>
<td>T. Eaton Realty Company Limited</td>
<td>100.6</td>
<td></td>
</tr>
<tr>
<td>Campeau Corporation Limited</td>
<td>95.3</td>
<td>Power Corporation Limited</td>
</tr>
<tr>
<td>MEPC Canadian Properties Limited</td>
<td>52.1</td>
<td>MEPC London, England</td>
</tr>
<tr>
<td>Markborough Properties Limited</td>
<td>50.8</td>
<td>Gulf Oil, Investors Group, Alcan</td>
</tr>
<tr>
<td>Allarco Developments Limited</td>
<td>48.1</td>
<td>Conglomerate</td>
</tr>
<tr>
<td>Company Name</td>
<td>Ownership</td>
<td>Notes</td>
</tr>
<tr>
<td>------------------------------------------------</td>
<td>-----------</td>
<td>-----------------------------------------------------------------------</td>
</tr>
<tr>
<td>Bramalea Consolidated Development Limited</td>
<td>47.5</td>
<td>Keiller MacKay, Lord Tweedsmuir et al.</td>
</tr>
<tr>
<td>Loblaw Leased Properties Limited</td>
<td>39.9</td>
<td>Holding Company</td>
</tr>
<tr>
<td>Block Brothers Industries Limited</td>
<td>36.4</td>
<td>Ceiling Investment, Cadillac &amp; Canadian General Securities Limited</td>
</tr>
<tr>
<td>Canadian Equity &amp; Development Company Limited</td>
<td>34.3</td>
<td>Ceiling Investment, Cadillac &amp; Canadian General Securities Limited</td>
</tr>
<tr>
<td>Victoria Wood Development Corporation Limited</td>
<td>27.4</td>
<td>Revenue Properties</td>
</tr>
<tr>
<td>Dominion Realty Company Limited</td>
<td>26.1</td>
<td>Canadian Imperial Bank of Commerce</td>
</tr>
<tr>
<td>Toronto Dominion Realty Company Limited</td>
<td>24.0</td>
<td>Toronto Dominion Bank</td>
</tr>
<tr>
<td>Peel Elder Limited</td>
<td>23.9</td>
<td>Canadian Goldale - See below</td>
</tr>
<tr>
<td>Cambridge Leaseholds Limited</td>
<td>21.7</td>
<td>See below</td>
</tr>
<tr>
<td>Pacific Center Limited</td>
<td>20.9</td>
<td>Ceiling, T. Eaton, Toronto Dominion Bank</td>
</tr>
<tr>
<td>Consolidated Building Corporation Limited</td>
<td>20.7</td>
<td>Ceiling, T. Eaton, Toronto Dominion Bank</td>
</tr>
<tr>
<td>O.S.F. Industries Limited</td>
<td>20.6</td>
<td>Ceiling, T. Eaton, Toronto Dominion Bank</td>
</tr>
<tr>
<td>Canadian Goldale Corporation Limited</td>
<td>18.6</td>
<td>Ceiling, T. Eaton, Toronto Dominion Bank</td>
</tr>
<tr>
<td>Monarch Investment Limited</td>
<td>17.5</td>
<td>Ceiling, T. Eaton, Toronto Dominion Bank</td>
</tr>
<tr>
<td>Orlando Realty Corporation Limited</td>
<td>17.1</td>
<td>Ceiling, T. Eaton, Toronto Dominion Bank</td>
</tr>
<tr>
<td>Imperial General Properties Limited</td>
<td>15.7</td>
<td>Ceiling, T. Eaton, Toronto Dominion Bank</td>
</tr>
<tr>
<td>Company</td>
<td>Percentage</td>
<td>Description</td>
</tr>
<tr>
<td>----------------------------------------------</td>
<td>------------</td>
<td>--------------------------------------</td>
</tr>
<tr>
<td>Wall &amp; Redekop Corporation Limited</td>
<td>15.6</td>
<td>Small Conglomerate</td>
</tr>
<tr>
<td>S.B. McLaughlin Associates Limited</td>
<td>14.7</td>
<td></td>
</tr>
<tr>
<td>Canadian Allied Properties Investments Limited</td>
<td>14.4</td>
<td>Grosvenor, Laing, Marathon, etc.</td>
</tr>
<tr>
<td>Western Heritage Properties Limited</td>
<td>14.1</td>
<td>Great Northern Capital Corporation Limited (20.2)</td>
</tr>
<tr>
<td>Sifton Properties Limited</td>
<td>12.2</td>
<td></td>
</tr>
<tr>
<td>Major Holdings &amp; Developments Limited</td>
<td>10.9</td>
<td></td>
</tr>
<tr>
<td>Imperial Bank Realty Company Limited</td>
<td>9.3</td>
<td>Canadian Imperial Bank of Commerce</td>
</tr>
<tr>
<td>Cemp Investments Limited</td>
<td></td>
<td>No data, private company</td>
</tr>
<tr>
<td>Cemp Holdings Limited</td>
<td></td>
<td>No data, private company</td>
</tr>
</tbody>
</table>
NOTE

Canadian Pacific Investments Limited include:

- Pacific Logging Company Limited
- Marathon Realty Company Limited
- Canadian Pacific Hotels Limited
- Canadian Pacific Oil & Gas Limited
- Cominco Limited (53.2%)
  ($443.6 million)
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   Appendix no 49 - Analysis of transport project
   Appendix no 58 - Ordonance Property
   Appendix no 59 - Various Acts respecting Public Works listed
   Appendix no 70 - Inventory including costs and methods of acquisition


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