Direction, Control and Accountability of Crown Corporations: Review and Analysis of Government Proposals

Robert W. Sexty

Follow this and additional works at: http://digitalcommons.osgoode.yorku.ca/ohlj
Article

Citation Information
http://digitalcommons.osgoode.yorku.ca/ohlj/vol17/iss1/6

This Article is brought to you for free and open access by the Journals at Osgoode Digital Commons. It has been accepted for inclusion in Osgoode Hall Law Journal by an authorized editor of Osgoode Digital Commons.
DIRECTION, CONTROL AND ACCOUNTABILITY OF CROWN CORPORATIONS: REVIEW AND ANALYSIS OF GOVERNMENT PROPOSALS

By ROBERT W. Sexty*

I. INTRODUCTION

A series of events in recent years has motivated the Government of Canada to attempt formulation of a more adequate policy towards public enterprises. The Estey Inquiry into Air Canada and Parliamentary inquiries into Atomic Energy of Canada Ltd. and Polysar Ltd. all examined questionable business practices that embarrassed the Government. The Auditor General's 1976 Report included a financial management and control study of Crown corporations that was critical of accounting and financial reporting practices. The post-inflation control report, The Way Ahead: A Framework for Discussion, emphasized the lessening of the role of government, including "privatization" relating to Crown corporations.

There have been several developments as a result of these events. Specific legislation relating to Crown corporations, such as the Air Canada Act, 1977, has been passed or introduced in Parliament. The Royal Commission on Financial Management and Accountability is studying the whole question of fiscal control and responsibility in federal organizations. Finally, the Privy Council Office released a report, Crown Corporations: Direction, Control,
Accountability, containing the Government's proposals, including draft legislation on the management and control of Crown corporations.

The Government has stated that the proposals contained in the Privy Council report were designed to achieve four basic objectives:

1. to clarify the relationship between Crown corporations, the Government and Parliament;
2. to define within that relationship the respective duties and responsibilities of the boards of directors and heads of Crown corporations, individual ministers, Cabinet and Parliament;
3. to provide to the Government the means whereby ministers may fulfill their responsibilities for Crown corporations to Parliament; and
4. to ensure that Parliament is provided with sufficient information to hold the Government and Crown corporations accountable for their actions.

The purpose of this paper is to review the proposals and to analyze them to ascertain whether the proposals can fulfill the objectives established. The concluding section of the paper will examine the social audit as a mechanism for monitoring whether Crown corporations operate in the national interest.

II. SUMMARY OF THE REPORT

The report clarified several variables in the discussion of public enterprises in the Canadian setting. The difficulties identified by the report were:

1. the problem of defining a "Crown corporation;"
2. the need for independence if Crown corporations are to function effectively; and
3. the lack of consistency in the relationship between the Government and Crown corporations.

In an effort to ascertain exactly to which public enterprises the proposals were applicable, the report classified Canadian public enterprises into three types:

1. Crown corporations defined in the Financial Administration Act (FAA) as Schedule B (departmental corporations), Schedule C (agency corporations) and Schedule D (proprietary corporations);
2. enterprises partially owned by the Government, such as the Canada Development Corporation and Panarctic Oils Ltd.; and
3. wholly-owned government corporations not under the authority of the FAA, but incorporated under the Canada Corporations Act. Examples include Canadair Ltd. and de Havilland Aircraft of Canada Ltd.

The report points out the lack of consistency in classifying which public enterprises are Crown corporations and establishes that, for the purposes of the report and the draft legislation, those public enterprises considered to be Crown corporations will be those listed in Schedules B, C, and D of the FAA.

The report claims that Crown corporations require a degree of independence from the Government. Independence from Parliamentary scrutiny of the day-to-day operations is required for the following reasons:

1. to attract businessmen to the management of an entrepreneurial activity on behalf of the public;
2. to protect the commercial secrecy of Crown corporations operating in competitive circumstances; and
3. to remove the Crown corporation from the personnel and budgetary constraints that accompany departmental administration.

The report also discusses the lack of consistency in the existing relationship between the Government and Crown corporations. Most Crown corporations report to an “appropriate minister,” but the extent of control varies and might take any one of the following forms:

1. mere “reporting”;
2. approval of annual operating and capital budgets;
3. the power to direct the corporation respecting the exercise or performance of corporate powers; or
4. where the corporation is incorporated under letters patent, the exercise of considerable influence by the Minister acting as a shareholder.

---

10 R.S.C. 1970, c. C-32, as amended by c. 10 (1st Supp.).
11 The Government proposes to retain the existing classification of Crown Corporations under the FAA, but intends to eliminate the present criteria for identifying corporations that are to be included in each class. The Crown Corporations report states that “Crown corporations would then be listed in a particular Schedule, not by what they do, but by the degree of financial management and control over them required by the government.” (See supra note 7, at 39.) The Report of the Auditor General, 1976 asserts that the FAA classification should be re-examined, and that two different groups be created, “one for all financially dependent corporations or those carrying on operations of a governmental nature [and] the other for all corporations meeting the test of financial viability and carrying on commercial activities.” (See supra note 4, at 52.)
12 Crown Corporations, supra note 7, at 16.
13 Id. at 17.
<table>
<thead>
<tr>
<th>FEATURE</th>
<th>EXISTING PRACTICES</th>
<th>PROPOSED PRACTICES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Power of Direction</td>
<td>Parliament establishes some broad objectives in legislation setting up each Crown Corporation. Ministry may inform corporations of public policy objectives. No formal arrangement.</td>
<td>The Government has power to issue &quot;directives&quot; to insure achievement of certain objectives in the national interest.</td>
</tr>
<tr>
<td>Principle of Compensation</td>
<td></td>
<td>Government has clear right to overrule or direct Board of Directors on major issues.</td>
</tr>
<tr>
<td>Establishment of Subsidiary Corporations</td>
<td>Some reimbursement for undertaking noneconomic activities in the national interest.</td>
<td>Written directives to be issued by the Governor in Council, tabled in Parliament for scrutiny and debate.</td>
</tr>
<tr>
<td>Board of Directors</td>
<td>Some have legal power to establish and have used it. Financial statements of subsidiaries not always presented separately.</td>
<td>Directive power of unlimited scope for Schedule B and C corporations but of a general nature for Schedule D corporations.</td>
</tr>
<tr>
<td>Salaries of Chief Executive Officers</td>
<td>No standards of duties, responsibilities and general conduct for majority of Boards.</td>
<td>Directives intended as reserve power, not to be used continuously.</td>
</tr>
<tr>
<td>Creation of Crown Corporations</td>
<td>Little control.</td>
<td>Schedule C and D corporations to be reimbursed by government for losses sustained as direct result of implementation of a directive.</td>
</tr>
<tr>
<td></td>
<td>Control dispersed.</td>
<td>Before subsidiary established, approval of Governor in Council required.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Financial statements of subsidiaries to be published in financial reports of parent.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Directors and officers to be brought under general scheme of duties as specified by Canada Business Corporations Act, including:</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(1) fiduciary duty to act in good faith; and (2) duty of care enjoins director to use care, skill and diligence of a reasonably prudent person.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Role of Board to be responsible for management of the Crown corporation, subject to Governor in Council’s ability to remove a director and issue a directive.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Fixed by Governor in Council.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Creation must be approved by Governor in Council, the order in council to be public.</td>
</tr>
<tr>
<td>Corporate Budgets (applicable to Schedule C &amp; D corporations)</td>
<td>Schedule C corporations must submit annual operating budget for approval of Minister and President of Treasury Board. No operating budgets tabled in Parliament. Schedule C and D corporations' capital budgets must be approved by Governor in Council, then tabled in Parliament. In practice, inconsistency in presentation, inadequate information supplied, and in some cases, little relationship between forecast budgets and actual expenditures.</td>
<td></td>
</tr>
<tr>
<td>---</td>
<td>---</td>
<td></td>
</tr>
<tr>
<td>Corporate Plans</td>
<td>No requirements.</td>
<td></td>
</tr>
<tr>
<td>Annual Reports</td>
<td>Government feels annual reports inadequate in specifying corporate plans and policies, and deficiencies exist in financial statements. Statements found unacceptable by Auditor General.</td>
<td></td>
</tr>
<tr>
<td>Corporate Financial Statements</td>
<td>No requirements.</td>
<td></td>
</tr>
<tr>
<td>Interim Statements of Account</td>
<td>Done by variety of methods.</td>
<td></td>
</tr>
<tr>
<td>Appointment of Auditors</td>
<td>Vary with Crown corporation. Private borrowings not recorded in Public Accounts.</td>
<td></td>
</tr>
<tr>
<td>Borrowing Powers</td>
<td>Operating budgets be approved as before and tabled in Parliament if they entail substantial appropriations from Parliament. Schedule C and D corporations to submit capital budgets for approval of Governor in Council prior to tabling in Parliament. Any contract entailing an expenditure commitment not provided for in an approved budget would be null and void. Exceptions: minor variations might be authorized up to a specified limit; Treasury Board to authorize expenditures not in budget and beyond minor variation; possibility of submitting supplementary capital budget for approval of Governor in Council.</td>
<td></td>
</tr>
<tr>
<td>All Schedule C and D corporations to prepare a 3 to 5 year rolling corporate plan setting out projected corporate objectives and strategies with annual update. To be approved by Government.</td>
<td>More thorough explanation of corporate objectives and how these objectives further broad policy objectives to be required.</td>
<td></td>
</tr>
<tr>
<td>FAA amended to provide for Treasury Board approval of accounting principles and practices to be used.</td>
<td>Quarterly financial statements required.</td>
<td></td>
</tr>
<tr>
<td>Where auditor not named by Act of Parliament, auditor to be appointed by Governor in Council.</td>
<td>Borrowing authority to be expanded by allowing all Schedule C and D corporations access to capital markets. Schedule D corporation borrowing requires authorization of the Minister of Finance. Schedule C corporation borrowing requires prior approval of Governor in Council on the recommendation of the Minister of Finance. All borrowings of Crown Corporations to be recorded in the Public Accounts.</td>
<td></td>
</tr>
</tbody>
</table>

This Table was drawn from the Report, *Crown Corporations: Direction, Control, Accountability* report. Features appear in the same sequence as discussed in Report.
The report concludes that Crown corporations, as instruments of the Crown, are represented by the appropriate Minister and the Governor in Council. The purpose of the proposals in the report is to clarify and to increase the consistency in the relationships between the Government and Crown corporations.

The role of Crown corporations is discussed in the report. It states that since Crown corporations are instruments for the advancement of broader policy objectives, each Crown corporation "must pursue whatever national objectives are defined by Parliament." A draft of the proposed legislation, to be known as the Crown Corporations Act, contains a declaration that the corporations are wholly owned by the Government and that they are to serve as instruments for the advancement of the national interest. The clause reads:

Role of Crown Corporations
4. It is hereby declared that every Crown corporation is constituted an instrument for advancing the national interests of Canada, and that in order to best advance those national interests, it is the duty of the directors of every Crown corporation when managing the Crown corporation to take into consideration the national interests of Canada as well as the interests of the Crown corporation and, within the scope of their powers and the powers of the Crown corporation, to pursue those corporate policies that best advance such national interests.15

In an effort to define Crown corporations more adequately, to grant them some independence, and to clarify reporting relationships, and yet at the same time to ensure that Crown corporations serve in the national interest, the Government's proposed legislation will establish the appropriate Minister as the "focal point in the government's policy direction, control and accountability of a particular corporation."16

The Table summarizes existing and proposed direction, control and accountability practices for Crown corporations. Some of the rationales for the proposed changes and difficulties associated with them are discussed in the following section.

III. EXAMINATION OF THE PROPOSALS

In implementing directive powers, the Government is seeking a process whereby it may, on a continuous basis, "communicate broad policy objectives to the corporations and whereby the corporations must account to government and Parliament for the achievement of those objectives."17 The Government feels that directive power is essential if Crown corporations are to be effective instruments in the achievement of broad policy objectives, that is, in furthering the national interest.

The Air Canada Inquiry Report recommended that the Government give consideration "to the redesign of the Air Canada Act to establish a channel whereby the Executive Board of Government can issue to the Board of Directors of the corporation policy directives where the national interest from time

---

14 Id. at 22.
15 Id. at 50.
16 Id. at 21.
17 Id. at 23.
to time requires."18 The Auditor General recommended that Governmental objectives and priorities, detailed enough to provide appropriate guidance, "should be communicated formally to Crown corporations on a timely basis."19 In his 1977 report, the Auditor General felt the Government's proposals both recognized the problem and provided the means for its resolution.20

Even though the Government wants a continuing mechanism to communicate broad policy objectives, it does not intend to resort to the use of the directive in a continuous fashion. It is assumed that Crown corporations will, in most cases, operate in a satisfactory manner as controlled by budgets and reports. It is not clear how pointed the directives will be, and since broad policy objectives are difficult to define, there would appear to be a considerable area of discretion for the management of Crown corporations. This is particularly true in the case of Schedule D corporations where directives are to be of a general nature. The approach appears to differ little from that in operation now, and will rely on the good judgment and competence of management.

The report's discussion of the principle of compensation presents some problems in administration. The report states that the efficiency and projects of Schedule D corporations are to be measured by commercial criteria. This is the rationale reimbursing corporations for losses sustained from carrying out uneconomic activities as a direct result of a government directive. The report states:

[T]he profit and loss statements of such Crown corporations [Schedule D] can provide to the government and Parliament a clear and objective method by which the performance of corporate management may be assessed. The Government wishes to encourage the management of proprietary Crown corporations to operate on a sound commercial basis, to promote their efficiency and maximize the return on the investment of the Canadian taxpayer.21

Yet, in the following paragraph, the report states:

The policy as defined above is not meant to imply that Schedule D corporations should pursue commercial objectives and maximize returns on investment in the same way as would a private sector corporation or that the corporate financial statements would be judged on the same basis as occurs in the private sector.22

Since some policies and objectives, such as those of the Official Languages Act,23 are to be achieved as a matter of course with no expectations of compensation for any losses that might occur, the report continues by stating that:

Corporate management will be judged on the basis of their performance in the pursuit of such public policy objectives as well as those of a commercial nature. Since such objectives are seldom viable in a strictly commercial sense, it would

---

18 Air Canada Inquiry Report, supra note 1, at 281.
21 Crown Corporations, supra note 7, at 25.
22 Id.
be unfair to expect Schedule D corporations to achieve the same level of return on investment as their private sector congeners.24

For the management of Schedule D corporations, these statements must present a contradiction. The Government appears to be saying "yes" to profits and then inserting a "maybe" qualifier. It is doubtful that profit and loss statements will provide the clear and objective method of assessment envisaged.

The mechanisms for determining the amount of compensation and thus, profits, are not specified. One question will be whether the Government expects Crown corporations to receive compensation equal to the costs of carrying out the non economic directive, or compensation equal to costs plus some margin of profit. Another question involves who will ascertain the amount of the compensation a Crown corporation should receive: the minister, the corporation, or an independent adjudicator.

Regulating the creation of subsidiary companies is intended merely to control their proliferation, and to obtain knowledge of their existence. Financial reporting will also have to be separate from that of the parent corporation so that subsidiaries can be evaluated independently. These regulations are not unreasonable, and subsidiary accounting is being advocated even in the private sector.

The Government wishes the role of the directors to be an active and effective one in the management of Crown corporations. Of course, the board of directors is a source of real control over Crown corporations as directors are appointed and can be dismissed by the Government. The proposed Act describes the directors' duties as:

20. (1) Every director and officer of a Crown corporation in exercising his powers and discharging his duties shall:
   (a) act honestly and in good faith with a view to the best interests of Canada and, in so far as is not incompatible with the best interests of Canada, the best interests of the Crown corporation; and
   (b) exercise the care, diligence and skill that a reasonably prudent person exercises in comparable circumstances.25

This requirement places a legal burden on directors to ascertain what is in the best interests of Canada. It would be more appropriate to limit the responsibility of directors to carrying out the directives of the Government which presumably should incorporate the national interest. It might be argued that this section of the draft legislation be replaced with the comparable section from the Canada Business Corporations Act that applies to directors in the private sector.26

The Public Accounts Committee of the House of Commons has recommended that the “responsible ministers be adequately represented on boards

---

25 Id. at 56-57.
26 Canada Business Corporations Act, S.C. 1974-75, c. 33. Section 117 provides that they must “... act honestly and in good faith with a view to the best interest of the corporation; and (b) exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.”
of directors of Crown corporations.” The size and composition of the board of directors could be an important control mechanism, yet no mention of these was made in the Government’s proposals.

The report specifically discusses the salaries of chief executive officers. Because of the inconsistency in and lack of control over salaries, the Government is proposing that approval be required for chief executive officers’ salaries. This feature takes on significance when it is recalled that a section of the report argued for the independence of Crown corporations from the personnel and budgeting constraints that accompany departmental administration. The establishment of chief executive salaries in effect establishes salary levels for all persons in the corporation. Furthermore, consideration must be given to the competitiveness for managerial talent in a particular industry. The establishment of chief executive salaries would best be left as the responsibility of the board of directors.

In the future, no Crown corporations are to be created without the approval of the Governor in Council. This appears to be another procedural mechanism for maintaining control of the numbers and types of Crown corporations created.

The Government intends to extend its direction, control and accountability of Crown corporations through the more effective use of corporate budgets, corporate plans, annual reports, corporate financial statements and interim statements of accounts. All these mechanisms have been utilized by large business corporations for some time. The amount of information that could be extracted from Crown corporations through these mechanisms and made public appears to be inconsistent with the Government’s desire not to harm the competitive position of those Crown corporations operating in a commercial environment. Management, in the private or public sectors, have control over the information to be supplied and can influence the range and quality of what it must tell. Reports, and even financial statements, will be stated in ways to make the corporation look as good as possible. Even with an elaborate set of reporting mechanisms, the Government may not obtain the information that they feel they need. It should be remembered that obtaining information is only one aspect of accountability. Meaningful utilization of the information by the Government is another matter. No matter how elaborate the reporting system, there is no assurance that the information will be used effectively.

There are other considerations of importance in the reporting mechanisms proposed. The various reporting requirements may present some timing problems for all concerned. It will be difficult to reconcile the submissions of various reports with government and corporation year-ends and Parliamentary sessions. Finally, the reporting requirements could be simplified by having all reports submitted to the appropriate Minister, who in turn would forward them to other agencies. Likewise, requests for reports should come through the appropriate Minister. On this matter of financial plans, the Auditor Gen-

---

eral stated that such plans should be presented to Parliament, particularly where a Crown corporation needs significant amounts of public funds.\textsuperscript{28} The Auditor General also proposed that "a central agency should be responsible for monitoring Crown corporation results."\textsuperscript{29}

Two other matters of substance were dealt with in the report: the appointment of auditors and borrowing powers. The appointment of auditors is to be more formalized and consistent. If the procedure for naming an auditor is not specified by an act of Parliament, the Governor in Council will appoint an auditor. In its July 7, 1977 Report, the House of Commons Public Accounts Committee recommended that:

The Board of Directors of each Crown corporation should form an audit committee of directors at least a majority of whom are not otherwise connected with the Crown corporation.\textsuperscript{30}

The Auditor General agreed with this recommendation and pointed out that the \textit{Canada Business Corporations Act} requires private sector corporations to have audit committees.\textsuperscript{31} The suggestion for an audit committee appears reasonable and should be incorporated into future revisions of the Act.

Crown corporations are to be allowed greater freedom in borrowing in the capital markets, but there are also clearly established procedures to follow. The Government wants to give Crown corporations greater flexibility in their financing, thus exposing them to the demands of the private capital markets, and curtailing the cash drain when Crown corporations borrow from the Government. Nonetheless, the end result may be the same: Crown corporations will be borrowing on their own resources, but resources guaranteed indirectly by the Government. If the Crown corporation could finance itself in the capital markets, it could be independent of government control. The Government may have anticipated this possibility and thus required certain borrowing approval mechanisms.

\textbf{IV. IMPLICATIONS OF THE PROPOSALS}

There are several implications arising from the proposals contained in the legislation that should concern the Government. The first implication involves the commercial criteria for evaluation purposes. The evaluation of Crown corporations' performance on commercial criteria raises the question of the meaning and goals of public enterprise. Pressure for efficiency, that is, profits, might lead to a disregard for the very purpose for the existence of public enterprises. It can lead to arbitrary management decisions to reduce losses through reduced services. If the return on investment criteria are to be identical in the public and private sectors, it is questionable whether public ownership is necessary. If return on investment is the goal, management

\begin{itemize}
\item\textsuperscript{30} \textit{Second Report of the Standing Committee on Public Accounts}, supra note 3, at 16.
\item\textsuperscript{31} \textit{Report of the Auditor General of Canada, 1977}, supra note 20, at 121.
\end{itemize}
would be tempted to exploit any monopolistic position it enjoys. These and other problems will occur if Crown corporations are under strong pressures to resemble closely the private commercial enterprises they replace. The proposed legislation avoids this issue, and thus leaves Crown corporation management in a dilemma.

Natural conflict occurs between the outside accountability and the internal flexibility and innovativeness of Crown corporations. The Government appears to want both accountability and internal flexibility. Outside review of the operations of Crown corporations is bound to be incomplete. Total accountability, or full disclosure, should be considered neither possible nor efficient. Supervision for direction, control and accountability purposes is costly and could damage, as well as promote, performance in the public interest. It has to be assumed that the Crown corporation's very being is premised on its carrying out broader policy objectives and that management will behave in good faith and to the best of their ability. Complete direction, control and accountability may inhibit a Crown corporation's internal flexibility and innovativeness, and as well create the possibility of abuse on the part of the Government for political purposes.

The optimum package of control and accountability depends very much on the conditions of the specific case. The Government has recognized this to some degree. But, the Government might have been wise in suggesting that Crown corporations may have a variety of objectives such as: covering operating costs, providing new employment opportunities, promoting regional development, prevention of foreign control, and institution of pricing choices and controls. Imposing commercial criteria may be an overly simplistic approach, and may fail to consider the situation in an individual Crown corporation.

The Government and the Crown corporation have specific motivations, internal conditions, outside constraints, differing versions of the broader policy objectives, and their own internal interests. As a result, the interests of the Crown corporation are not necessarily congruent with those of the Government or the broader policy objectives which the Government supposedly espouses. The question arises whether the mechanisms or procedures provided in the Government's proposals are sufficient to resolve possible differences. The Government is preoccupied with many aspects of the public interest and ministers are burdened with administrative and political obligations. These differences might be resolved through the reporting mechanisms proposed. Whether sufficient time and effort will, or can, be devoted to the examination of each Crown corporation's budgets and plans is doubtful.

Finally, the whole matter of the “broader policy objectives” arises. It is questionable whether the Government has clearly defined these itself. The reason for this is simple: it is a very complicated and difficult task with public attitudes evolving over time, and the Government's perceptions of the national interest changing. How the Government intends to give directives relating to broader policy objectives when it may not have adequately defined them should be interesting. Furthermore, Crown corporations are capable of bearing only a certain amount of the broader policy objectives burden. In the direction, control and accountability of units in business corporations, man-
agement must know what its objectives are and the broad limits within which it can formulate its own objectives. Objectives assist in developing criteria for measuring performance and motivating management. In the case of Crown corporations, this presents an even greater challenge for the Government as it must transmit both its commercial criteria and the broader policy objectives to management.

V. A SOCIAL AUDIT APPROACH

The Government's proposals and the features of the draft legislation provide mechanisms for the financial direction, control and accountability of those public enterprises considered to be Crown corporations. From this review and analysis, the area of difficulty for the Government would appear to be in the direction, control and accountability of Crown corporations with respect to social objectives, that is, what is in the national interest. It is assumed that all Crown corporations have been established for social purposes; otherwise, the tasks they carry out may as well be performed by the private sector.

The private sector is today expected to consider social objectives, usually referred to as the social responsibilities of business. If private sector corporations are being called upon to meet social responsibility requirements, it should not be unreasonable to require public enterprise to do the same. Private sector management are considering a variety of techniques that will enable them to respond to their social responsibilities. One of these techniques, the social audit, might be utilized to measure social objectives of public enterprise. The social audit concept involves accountability for social responsibilities, or social performance, through a systematic and audited reporting system similar to that practised with financial statements. A comparable approach could be used to measure a public enterprise's discharge

---


of its responsibilities in the national interest where an attempt is made to qualify values contributed to society (assets) and detriments to society for action taken or not taken (liabilities). The asset or liability contributions might be measured for such elements as: technological development and knowledge creation; employment opportunities; environment and natural resource development and exploitation; community welfare and development; contribution to taxation revenues; international trade and development; provision of infrastructure; and provision of venture capital.

A technique somewhat similar to the social unit is currently being used for project appraisal by the Programme Evaluation Groups at the Departments of Industry, Trade and Commerce and Regional Economic Expansion. The approach attempts to assess commercial viability from the private sector perspective and economic viability from the public sector perspective while taking into consideration such external economic factors as taxation, foreign exchange, labour benefits and foreign investment. Through this approach, the project’s contribution to society is measured and the level and type of public support is determined according to the total project viability.

The social audit approach is not without its difficulties as indicated in the literature cited. Implementation would present problems, but would also present a challenge and provide an example to the private sector. Much of the information required for such audits is most likely already available. It would force cabinet ministers, civil servants, and managers to think through the purpose for a public enterprise, and it would provide a method of evaluation of the contribution of the public enterprise to the national interest as well as provide a basis on which to plan future courses of action. The type of analysis required in a social audit would not need to be done annually, but possibly on a five-year basis with one-fifth of the public enterprises being assessed each year.

Implementation details would require formulation, but the concept of the social audit adapted to the accountability requirements for Canadian public enterprises might well provide the mechanism for identifying and assessing whether the national interest is being served.

VI. MORE OR LESS INDEPENDENCE?

The proposed legislation clearly is attempting to increase Government influence over the financial and policy direction, control and accountability of Crown corporations. This might be considered to be a logical event in light of embarrassing incidents with Crown corporations in recent years. At the same time, there are contradictions. The Government indicates that it wishes Crown corporations to be independent so that they might attract entrepreneurially-minded management, yet it strictly controls chief executive salaries. It holds Crown corporations responsible for broader social goals while evalu-

---

ating performance on commercial criteria. Commercial secrecy is to be preserved by a degree of independence, but the Government demands thorough reporting mechanisms and procedures, most of which enable the materials produced to be made public.

The Government clearly intends to control the public enterprises referred to as Crown corporations, and to insure that they operate in the national interest. If all else fails, the Government power of direction is capable of clearly defining the role of the Crown corporation.

The proposed legislation would apply to approximately fifty public enterprises. There are still hundreds of mixed enterprises and wholly-owned corporations to which the legislation does not apply. For Crown corporations the result would appear to be less independence. But, it should be remembered that the Government is seeking to create viable commercial enterprises of such Crown corporations as Air Canada and Canadian National Railways. These efforts, through legislation, would remove such a corporation from the Schedules of the FAA and, in effect, grant greater independence. The Government's announced process of "privatization" would also grant greater independence.

It is questionable whether the proposals will fully accomplish their objectives. The Government's intention to clarify its relationship to public enterprises and to clear up the inconsistency and confusion relating to direction, control and accountability is a desirable one. If the proposed legislation were enacted and strictly implemented, it would provide a coherent, on-going review of Crown corporations instead of the \textit{ad hoc} interventions of the past. In order for this to occur, the same interpretation of the legislation would be required by all concerned. The procedural requirements of the legislation can be met, but there is reason to believe that, on the matters of broader policy objectives versus commercial criteria, power of direction, principle of compensation and borrowing powers, less unanimity will occur and problems in direction, control and accountability will remain.

But, the proposals are only a start. Regulating the remaining public enterprises in an effective manner so as to ensure commercial viability and responsiveness to broader policy objectives will be an onerous task.