



**FIRST INTERIM REPORT ON THE  
*MAIN ESTIMATES 2016-17***

**Standing Senate Committee on National Finance**

**FOURTH REPORT**

*Chair*

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## EXECUTIVE SUMMARY

### *MAIN ESTIMATES 2016–17*

The Standing Senate Committee on National Finance has an important role to play on behalf of Parliament and Canadians in ensuring that the government's spending plans are reasonable, take into account value-for-money, and will be effective in achieving the government's objectives. In order to fulfill this role, the Committee closely examines and presents reports on the government's spending plans that are provided to Parliament for its approval.

In *Main Estimates 2016–17*, which was tabled in the Senate on 23 February 2016, the government is requesting Parliament authorize \$89.9 billion in spending, as well as forecasting its statutory spending to be \$160.3 billion, for overall budgetary expenditures of \$250.1 billion in fiscal year 2016–2017.

In order to review these estimates, the Committee held five meetings with officials from 12 departments and agencies. The Committee noted and has decided to report on key issues during its meetings.

The federal government has the responsibility to manage public funds prudently.

- Fisheries and Oceans Canada is currently undergoing a \$7 billion recapitalization of its aging fleet. As it is re-building the shipbuilding industry in Canada from the ground up, there are considerable risks of escalating costs and delays in project completion.
- The Department of Finance manages the federal government's major transfers to the provinces and territories, but it does not appear to have examined the impact of the aging population on provinces and territories in different regions of the country.
- The Office of Infrastructure of Canada supports the development of public infrastructure in Canada by providing federal assistance to provinces, territories and municipalities, but its infrastructure funds are undersubscribed, which could mean that smaller provinces, territories and municipalities are having difficulty providing matching funds.
- Employment and Social Development is working to implement modifications to the Temporary Foreign Workers Program. While the number of applications to the program is diminishing, the cost of managing the program is increasing.

The government needs to report not just on the funds spent, but also on what results it is achieving with public funds.

- Almost three-quarters of Health's funding goes toward health care programs and services for First Nations and Inuit. The Committee applauds Health's efforts to provide services on a community basis, but the results achieved often appear to be of a lower standard than those achieved for non-Indigenous Canadians. Also, Health has a need for more nurses in remote and northern communities.
- The Public Health Agency relies upon community organizations to deliver some of its programs, such as the Aboriginal Head Start in Urban and Northern Communities. As long-standing relationships can stagnate over time, evaluations of these organizations could be more rigorous.
- While Indian Affairs and Northern Development spends considerable funds to improve housing, it needs to ensure that it has adequate accountability mechanisms in place to monitor building standards and improvements made to housing for First Nations and Inuit.

- The Canada Border Services Agency is seeking to facilitate the management of people across our borders by reciprocally sharing the biographical information of travelers with the United States through the Entry/Exit initiative. However, Canadians may perceive that their privacy could be compromised by tracking their comings and goings.

## 1 INTRODUCTION

As the federal government cannot spend funds without receiving the approval of Parliament, the Standing Senate Committee on National Finance (the Committee) has an important role to play on behalf of the Senate and Canadians in examining the federal government's spending plans, as outlined in the main and supplementary estimates. The Committee reviews and presents reports on the government's proposed spending in order to determine whether it is reasonable, takes into account value-for-money, and will be effective in achieving the government's objectives.

The [Supplementary Estimates \(C\), 2015–16](#) was tabled on 23 February 2016 in the Senate and represent the final supplementary estimates for 2015–2016. The [Main Estimates 2016–17](#) was tabled the same day.

In order to make the most efficient and effective use of its time, the Committee decided to combine its consideration of the *Supplementary Estimates (C), 2015–16* and *Main Estimates 2016–17*.

Over six meetings, the Committee examined the estimates of 14 departments and agencies, as follows:

On 24 February 2016:

- Treasury Board Secretariat

On 8 March 2016:

- Citizenship and Immigration
- Canada Border Services Agency
- Public Health Agency
- National Defence
- Health
- Office of Infrastructure of Canada

On 9 March 2016:

- Shared Services Canada
- Fisheries and Oceans
- Employment and Social Development
- Indian Affairs and Northern Development

On 10 March 2016:

- Foreign Affairs, Trade and Development
- Department of Finance
- Veterans Affairs

This report highlights issues discussed during the Committee's examination of the estimates and presents the Committee's observations on key concerns facing each department and agency.

## 2 OVERVIEW OF THE *SUPPLEMENTARY ESTIMATES (C), 2015–16* AND *MAIN ESTIMATES 2016–17*

As shown in Table 1, in the *Supplementary Estimates (C), 2015–16*, the government is requesting additional voted appropriations of \$2.8 billion. It also forecasts an increase of its statutory spending of \$2.3 billion, resulting in an increase of budgetary expenditures of \$5.1 billion. These increases would bring the proposed voted and statutory authorities to date for 2015–2016 to \$250.7 billion.

In the *Main Estimates 2016–17*, the government is requesting voted appropriations of \$89.9 billion and forecasts statutory expenditures of \$160.3 billion, for total budgetary expenditures of \$250.1 billion.

**Table 1 – 2014–2015 Expenditures, 2015–2016 Estimates, and 2016–2017 Main Estimates (\$ billion)**

	2014–2015	2015–2016			2016–2017
	Expenditures	Main Estimates	Supplementary Estimates (C)	Estimates to Date	Main Estimates
<b>Budgetary</b>					
Total Voted	84.2	88.2	2.8	95.0	89.9
<i>Statutory</i>	147.0	153.4	2.3	155.7	160.3
<b>Total Budgetary</b>	<b>231.1</b>	<b>241.6</b>	<b>5.1</b>	<b>250.7</b>	<b>250.1</b>

Sources: Table prepared using data from Treasury Board of Canada Secretariat, [Supplementary Estimates \(C\), 2015–16](#); and [Main Estimates 2016–17](#).

## 3 TREASURY BOARD SECRETARIAT

The Treasury Board Secretariat is responsible for preparing the estimates documents, ideally, in a form that enables and encourages parliamentary review of government spending.

### Committee Observations

The Committee believes that the information provided to Parliament about frozen allotments and statutory forecasts can be improved by:

- identifying which allotments have been frozen by program; and
- including more detail on statutory forecasts in the same document as the voted estimates.

### 3.1 Estimates Overview

In *Supplementary Estimates (C), 2015–16*, the Treasury Board Secretariat is requesting voted adjustments of \$513,181,086 for four funding requirements, as well as one transfer resulting in a decrease of \$1,298,326 in authorities. The Secretariat also forecasts an increase of its statutory expenditures of \$5,622, for a net total of \$511,888,382 in budgetary expenditures.

In *Main Estimates 2016–17*, the Secretariat is requesting total voted authorities of \$6,099,785,836, which is a decrease of approximately \$322 million from the total voted authorities of *Main Estimates 2015–16*.

### **3.2 Service Income Security Insurance Plan**

The largest item for the Treasury Board Secretariat in *Supplementary Estimates (C), 2015–16* is \$435 million to address shortfalls in the Service Income Security Insurance Plan, which provides benefits to Canadian Armed Forces (CAF) members. The shortfall is due to an increase in medically-released CAF members, higher benefit payments, and the effect of persistent low interest rates.

According to officials from the Secretariat, this one-time “top-up” funding will ensure that the plan is whole and sustainable, as supported by actuarial forecasts from the Office of the Chief Actuary. The funding is also in response to a court decision that challenged the government’s policy decision to offset benefits provided to medically discharged members based on the receipt of a pension.

### **3.3 Frozen Allotments**

The Treasury Board Secretariat added a new document to the *Supplementary Estimates (C), 2015–16—[Frozen Allotments in Voted Authorities](#)*. This document outlines spending authorities that have been “frozen” by the Secretariat because allocations have been reprofiled, transferred or reduced. According to the Secretariat, the document gives Parliament an early indication of the lapse of spending authorities expected in 2015–2016.

However, the document does not indicate which projects or programs have been reprofiled, transferred or reduced.

### **3.4 Statutory Forecasts**

Approximately two-thirds of federal spending, such as Employment Insurance and the Canada Health Transfer, is authorized on an ongoing basis by previously adopted legislation. The estimates documents provide information to Parliament about forecasted statutory spending for each organization.

Some members of the Committee noted that the information on statutory spending is consolidated into an overall amount, as the details are included in a separate document. However, this makes it more difficult for members to dig deeper into the details of an organization’s spending. For many organizations, the statutory spending is related to employee benefits.

## 4 CITIZENSHIP AND IMMIGRATION<sup>1</sup>

Citizenship and Immigration is leading the federal government's initiative to bring 25,000 Syrian refugees to Canada by the end of February 2016, and an additional 10,000 government-assisted refugees by the end of 2016.

### Committee Observations

While the Committee recognizes the challenge of bringing Syrian refugees to Canada in a short period of time, Citizenship and Immigration needs to ensure that:

- government sponsored refugees receive adequate settlement support;
- refugees from different origins are treated equitably;
- there is clear reporting on total government expenditures for this initiative; and
- evaluations are conducted and followed by appropriate responses.

### 4.1 Estimates Overview

In *Supplementary Estimates (C), 2015-16*, Citizenship and Immigration is requesting voted adjustments of \$50,136,653 for seven funding requirements, as well as three transfers resulting in a decrease of \$9,394,524 in authorities. Citizenship and Immigration also forecasts a decrease of its statutory expenditure of \$23,013,142 for a net total of \$17,728,987 in budgetary expenditures.

In *Main Estimates 2016-17*, Citizenship and Immigration is requesting total voted authorities of \$1,770,181,102, which is an increase of approximately \$210 million compared to total voted authorities of *Main Estimates 2015-16*.

### 4.2 Canada's Response to the Syrian Refugee Crisis

In response to the humanitarian crisis in Syria, the federal government has committed to resettle more than 25,000 refugees from the Syrian civil war within a relatively short period of time.

In order to undertake this task, Citizenship and Immigration is requesting, in the *Supplementary Estimates (C), 2015-16*:

- \$17.7 million in support of temporary accommodation costs for refugees and other immediate supports; and
- the authority to transfer \$20 million from operating expenditures to grants and contributions for the Resettlement Assistance Program and for transportation services provided by the [International Organization for Migration](#).

The funds are in addition to the \$277.9 million Citizenship and Immigration received as part of *Supplementary Estimates (B), 2015-16*. In total, five federal organizations have requested \$429.9 million in *Supplementary Estimates (B) and (C), 2015-16* for this initiative.

Officials from Citizenship and Immigration told the Committee that through prudent management they managed to avoid some costs and expect to spend approximately 75% of the funding allocated for 2015-2016. They said all normal procurement practices were followed, and efforts were made to achieve value-for-money when procuring transportation and accommodation services.

<sup>1</sup> While the department is now called Immigration, Refugees and Citizenship Canada, its legal name is Citizenship and Immigration.

The Committee learned that transportation was handled by the International Organization for Migration and services at hotels and welcoming centres were provided by the Canadian Red Cross in Montreal and the Malton Group in Toronto. Across the country, funds have been provided to resettlement assistance providers. While refugees normally require a transportation loan to come to Canada, which is repaid to the government, the government is covering the cost of transportation for the Syrian refugees.

Additionally, officials said they were continuously tracking and measuring the performance of the initiative and will conduct several review exercises: an internal review at the end of March 2016, a broader review with federal government partners, as well as reviews with international partners and resettlement assistance providers.

Officials assured the Committee that they were committed to doing horizontal reporting across the federal government and will be working with their partners on compiling the results of the relevant post-mortem evaluations.

## 5 CANADA BORDER SERVICES AGENCY

The Canada Border Services Agency is responsible for managing the flow of people and goods across our borders in a manner that facilitates legitimate movement, while preventing the entry of potential threats.

### Committee Observations

As it moves forward with the Entry/Exit border initiative, the Committee expects that the Canada Border Services Agency will ensure that:

- the privacy of Canadians is protected; and
- the system is not used to track Canadians' comings and goings.

### 5.1 Estimates Overview

In *Supplementary Estimates (C), 2015–16*, Canada Border Services Agency is requesting voted adjustments of \$52,896,833 for six funding requirements, as well as three transfers resulting in a decrease of \$253,360 in authorities. The Canada Border Services Agency also forecasts an increase of its statutory expenditures of \$6,540,556, for a net total of \$59,184,029 in budgetary expenditures.

In *Main Estimates 2016–17*, the Canada Border Services Agency is requesting total voted authorities of \$1,488,328,205, which is a decrease of approximately \$103 million from the total voted authorities of *Main Estimates 2015–16*.

### 5.2 Entry/Exit

As part of the federal government's [Beyond the Border Action Plan](#), which was announced in 2011, the Canada Border Services Agency received \$108 million over six years to implement the [Entry/Exit Initiative](#), which allows it to share information with the United States in order to monitor the entry and exit of individuals between the countries.

Officials from the Canada Border Services Agency told the Committee that the Agency has implemented the first two phases of the initiative, but it has not yet implemented the final two phases, as they require the adoption of additional legislation to permit the collection of information on Canadian citizens.

### 5.3 Temporary Foreign Worker Program and the International Mobility Program

As part of *Supplementary Estimates (C), 2015–16*, the Canada Border Services Agency is requesting \$2.2 million to implement [reforms announced in 2014](#) to the Temporary Foreign Worker Program and the International Mobility Program. The Canada Border Services Agency is also requesting an additional \$6.6 million in the *Main Estimates 2016–17* in order to continue to implement the reforms.

Officials from the Canada Border Services Agency told the Committee that the Agency takes measures to ensure that those abusing these programs and/or abusing temporary foreign workers are identified and penalized. The funds would be spent to increase the Agency's investigator base and to provide additional training to allow the Agency to follow through on potential tips, leads or intelligence that someone was in violation of the programs. According to officials, the Agency conducts approximately 50 investigations per year.

## 6 PUBLIC HEALTH AGENCY

The Public Health Agency provides more than \$200 million annually in grants and contributions to community organizations to meet its objectives of improving the overall health of the population and enhancing the ability of communities to respond to public health emergencies.

### Committee Observations

The Committee is concerned that some of the Public Health Agency's programs, such as the Aboriginal Head Start in Urban and Northern Communities, may not be as effective as they could be. As long-standing relationships can stagnate over time, the Committee believes that the Agency needs to:

- evaluate its programs more frequently; and
- evaluate the effectiveness of individual community organizations.

### 6.1 Estimates Overview

In *Supplementary Estimates (C), 2015–16*, the Public Health Agency is requesting voted adjustments of \$8,186,106 for four funding requirements, as well as six transfers resulting in an increase of \$5,119,436 in authorities, for a net total of \$13,305,542. The Public Health Agency also forecasts an increase of its statutory expenditures of \$354,132.

In *Main Estimates 2016–17*, the Public Health Agency is requesting total voted authorities of \$545,804,424, which is an increase of approximately \$22.4 million from the total voted authorities of *Main Estimates 2015–16*.

## 6.2 Aboriginal Head Start in Urban and Northern Communities

The Public Health Agency provides early childhood development support for Aboriginal preschool children ages three to five years old and their families living off-reserve through its [Aboriginal Head Start in Urban and Northern Communities](#) program, which has an annual budget of approximately \$32 million. In *Main Estimates 2016–17* the Public Health Agency is requesting an additional \$4.9 million for the program.

Officials from the Agency told the Committee that the program operates through community organizations at 133 sites, some of which have been in place for 25 years or more, and provides services to approximately 4,800 kids. According to the officials, the program is formally evaluated every five years and has been found to be very effective.

When asked how the Agency determines whether individual community organizations are effectively delivering services, officials told the committee that the Agency requests an annual report from organizations on their finances and activities. The Agency also conducts recipient audits based upon risk analysis and will do site visits when problems have been identified. When an organization cannot deliver its programs, the Agency transfers its allocation to another organization.

## 7 NATIONAL DEFENCE

National Defence is leading Canada's participation in overseas operations in Iraq and Syria, and in Ukraine. It is also working to replace aging equipment in order to maintain its combat capacity.

### Committee Observations

With respect to its overseas operations in Iraq and Syria and Ukraine, the Committee believes that National Defence needs to provide clear, timely reporting on:

- operational costs to date; and
- the estimated annual cost of continuing the operations.

Additionally, the Committee intends to monitor costs associated with replacing Canada's jet fighter capability and potentially withdrawing from the Joint Strike Fighter Program.

### 7.1 Estimates Overview

In *Supplementary Estimates (C), 2015–16*, National Defence is requesting voted adjustments of \$217,633,560 for two funding requirements, as well as 19 transfers resulting in a decrease of \$29,382,040 in authorities, for a net total of \$188,251,520. National Defence also forecasts an increase of its statutory expenditures of \$3,356,758.

In *Main Estimates 2016–17*, National Defence is requesting total voted authorities of \$17,325,670,008, which is a decrease of approximately \$348 million from the total voted authorities of *Main Estimates 2015–16*.

## 7.2 Operations IMPACT and UNIFIER

National Defence is leading Canada's participation in [Operation IMPACT](#)—the coalition fight against the Islamic State in Iraq and Syria. On 8 February 2016, the federal government modified Canada's role in the operation by ceasing airstrikes and increasing training and assistance to regional forces.

In *Supplementary Estimates (C), 2015–16*, National Defence is requesting \$208.7 million for various costs to support this operation, such as mission equipment support, ammunitions, repair and overhaul, overseas allowances, and engineering support.

In response to a request from the Government of Ukraine, Canada is also helping to train and build the capacity of Ukrainian forces, in coordination with the U.S. and other countries, as part of [Operation UNIFIER](#). National Defence is requesting \$6.8 million in *Supplementary Estimates (C), 2015–16*, for the costs associated with deploying 200 personnel to Ukraine. Canada will be providing improvised explosive device defeat training, medical training and equipment, logistic training and flight safety training.

Some members of the Committee enquired about the funding of Operation IMPACT in light of the decision to cease airstrikes and instead provide logistical support and training to the regional forces fighting the Islamic State of Iraq and Syria. Officials from National Defence indicated that the budget will be allocated on an annual basis. Funding for the operations in 2016–17 will be included in subsequent supplementary estimates.

## 7.3 Joint Strike Fighter Program

The [Joint Strike Fighter Program](#) is a United States-led multinational effort to build a next generation, stealth fighter aircraft. Canada has participated in the program since 1997. Each participating country pays annual fees for the development of the aircraft based on the notional number of aircraft it would acquire, which for Canada is currently 2% of the non-recurring costs associated with production sustainment and follow-on development. Participation in the program allows firms to bid on contracts for the development and construction of the aircraft.

Officials from National Defence told the Committee that the federal government has contributed about \$300 million since the beginning of the program. Canadian firms had been awarded \$750 million in contracts to date. Should Canada decide to no longer participate in the program, there is no specific cancellation fee; rather, there would be a negotiation with the remaining participants for the cost of withdrawal from the program. The federal government's next payment for the program is due in May 2016.

## 8 HEALTH

Nearly three quarters of Health's spending goes to funding First Nations and Inuit health care.

### Committee Observations

The Committee applauds the work done by Health to manage numerous programs at the community level to support the health care of First Nations and Inuit.

However, as its results appear to be of a lower standard than those achieved for non-Indigenous Canadians, the Committee believes that Health needs:

- a more rigorous follow-up process to ensure that its funds are used as intended and the impact on the health of First Nations is maximized; and
- more precise information on the results achieved by the programs that support the health of First Nations and Inuit.

### 8.1 Estimates Overview

In *Supplementary Estimates (C), 2015–16*, Health is requesting voted adjustments of \$29,985,224 for five funding requirements, as well as seven transfers resulting in an increase of \$915,973 in authorities, for a net total of \$30,901,197. Health also forecasts an increase of its statutory expenditures of \$1,960,451.

In *Main Estimates 2016–17*, Health is requesting total voted authorities of \$3,579,694,337, which is an increase of approximately \$95.2 million from the total voted authorities of *Main Estimates 2015–16*.

### 8.2 Spending on First Nations and Inuit Health Care

In *Main Estimates 2016–17*, the three main expenditure items (by strategic outcome and program) represent 72% (\$2.7 billion) of Health's planned spending:

- \$1.2 billion for supplementary health benefits for First Nations and Inuit;
- \$844 million for First Nations and Inuit primary health care; and
- \$684 million for health infrastructure support for First Nations and Inuit.

### 8.3 Funding for Programs Associated with First Nations and Inuit Health

In *Main Estimates 2016–17*, Health is requesting \$684 million for contributions for First Nations and Inuit health infrastructure support. In *Supplementary Estimates (C), 2015–16*, Health is requesting \$13.8 million for funding to maintain health promotion, disease prevention and health system transformation programs for Aboriginal populations.

The officials explained that approximately half of the funding for First Nations and Inuit health is paid out by Health in the form of contribution programs to more than 1,000 organizations, of which 650 are associated with First Nations. For some programs, Health transfers the money directly to First Nations authorities, who oversee its use, while for others, specific objectives must be attained in order to receive funding. According to Health, 75% of the organizations that receive contributions produce appropriate audit reports.

The officials from Health explained that their department has implemented sound financial controls to ensure that funding is used in accordance with program parameters. The Committee nevertheless expressed some concern with regard to the results obtained by certain programs associated with First Nations and Inuit health, particularly when funding is transferred directly to organizations. With that in mind, the Committee asked Health to submit all of its performance outcomes and indicators for the years 2013–2015.

## 9 OFFICE OF INFRASTRUCTURE OF CANADA<sup>2</sup>

The Office of Infrastructure of Canada supports the development of public infrastructure in Canada by providing federal assistance to provinces, territories and municipalities to support their infrastructure priorities through a number of initiatives, including the [New Building Canada Fund](#) and the [Gas Tax Fund](#).

### Committee Observations

The Committee is concerned that provinces, territories and municipalities have not fully utilized federal infrastructure funds available. Thus, the Office of Infrastructure of Canada needs to examine:

- the timeliness of its project approvals; and
- the ability of small provinces, territories and municipalities to match funding.

### 9.1 Estimates Overview

In *Supplementary Estimates (C), 2015–16*, the Office of Infrastructure of Canada is requesting voted adjustments of \$61,848,010 for one funding requirement, as well as one transfer resulting in a decrease of \$25,000 in authorities, for a net total of \$61,823,010.

In *Main Estimates 2016–17*, the Office of Infrastructure of Canada is requesting total voted authorities of \$1,791,617,874, which is an increase of approximately \$137 million from the total voted authorities of *Main Estimates 2015–16*.

### 9.2 Timing of Program Funding

One of the issues noted by members was how funding for the Office's programs varied considerably from year to year, such as Infrastructure Investments in Small Communities and Rural Areas, which is decreasing to \$131.9 million in 2016–2017 from \$171.3 million in 2015–2016.

Officials from the Office of Infrastructure of Canada explained that for most of its infrastructure programs, the Office's expenditure stream matches the pace at which funding partners build their infrastructure projects and subsequently submit claims for eligible expenses. If claimed expenses are below forecasted levels for a given fiscal year, the Office reprofiles program funding to future-year appropriations to meet the cash flow requirements of program partners; the funds do not lapse. Alternatively, the Office may need to request supplementary estimates if project partners submit more claims than forecasted during the year.

<sup>2</sup> While the department is now called Infrastructure Canada, its legal name is the Office of Infrastructure of Canada.

Additionally, some of the programs are coming to their completion. The Building Canada Fund—Major Infrastructure Component will receive \$603.9 million in 2016–2017, down from \$909.9 million in 2015–2016. Close to 90% of the funds available under this program, which has been in place since 2002, have been committed or disbursed.

### 9.3 Ability of Municipalities to Match Funding

On the other hand, some programs have considerable funds uncommitted. The New Building Canada Fund will provide \$14 billion to provinces, territories and municipalities over ten years, but only \$1 billion has been committed since 2013–2014.

In fact, the Office has never faced a situation where its programs have been oversubscribed or overcommitted. If anything, there have not been enough projects.

Some committee members raised the possibility that this undersubscription was due to provinces or municipalities lacking sufficient funds to match the federal government's infrastructure program requirements. Officials attributed the undersubscription to changing priorities around capital plans or asset management.

## 10 SHARED SERVICES CANADA

The creation of Shared Services Canada in 2011 brought together people, technology resources and assets from 43 federal departments and agencies to improve the efficiency, reliability and security of the government's information technology infrastructure.

### Committee Observations

The Committee recognizes the challenges encountered by Shared Services Canada in developing a new model for the delivery of information technology services to the federal government.

In light of weaknesses identified by the Auditor General of Canada, the Committee will monitor Shared Services Canada's progress to ensure that it:

- clarifies its roles and responsibilities with respect to the security of information technology;
- improves its methodology for calculating and reporting on costs and savings;
- clarifies and reports against its service-level expectations; and
- addresses issues identified by its customer satisfaction survey.

### 10.1 Estimates Overview

In *Supplementary Estimates (C), 2015–16*, Shared Services Canada is requesting voted adjustments of \$33,039,932 for five funding requirements, as well as nine transfers resulting in an increase of \$20,811,147 in authorities. Shared Services Canada also forecasts an increase of its statutory expenditures of \$363,228, for a net total of \$54,214,307 in budgetary expenditures.

In *Main Estimates 2016–17*, Shared Services Canada is requesting total voted authorities of \$1,460,491,433, which is an increase of approximately \$87 million from the total voted authorities of *Main Estimates 2015–16*.

## 10.2 The Carling Campus

The Government of Canada undertook the [Carling Campus initiative](#) in 2010 in order to consolidate a large part of National Defence's headquarters functions. This consolidation is supposed to generate net savings of more than \$900 million, which will require close monitoring.

In *Supplementary Estimates (C), 2015–16*, Shared Services Canada is requesting \$8.8 million for the provision and installation of information technology infrastructure and equipment for the Carling Campus re-fit project. In *Main Estimates 2016–17*, Shared Services is asking for an additional \$53.4 million for the Carling Campus project. This amount includes, however, a reprofile of \$34.2 million from the previous year.

Officials from Shared Services Canada explained that funding for the Carling Campus for 2015–2016 had to be reviewed and that some funds were reprofiled to 2016–2017 due to delays in the planned work. The Carling Campus is expected to be completed in 2019–2020, and the costs for Shared Services Canada are expected to total \$73 million.

## 10.3 The Auditor General's report

The Committee questioned Shared Services Canada officials with regard to the Auditor General's criticisms in his [recent audit](#) of the department. The officials explained that they had already taken action to address the weaknesses identified by the Auditor General. They had:

- finalized and distributed the service management strategy;
- published the service catalogue for all partner departments;
- finalized and clarified the department's roles and responsibilities with regard to information technology security;
- implemented a cost management framework;
- published expectations for service levels (for most services); and
- conducted a client satisfaction survey.

Finally, the officials from Shared Services Canada indicated that their department is currently conducting an in-depth review of all its services.

## 11 FISHERIES AND OCEANS

Fisheries and Oceans, which includes the Canadian Coast Guard, is currently undergoing a \$7 billion recapitalization project to replace 23 vessels of its 116 vessel fleet.

### Committee Observations

As there are considerable risks involved in re-building a shipbuilding industry from the ground up, the Committee believes Fisheries and Oceans needs to report regularly and publicly on each component of its recapitalization project, including:

- initial budget and timeline;
- revised budget and timeline;
- reasons for adjustments to the budget and timeline; and
- funds allocated to date and projected allocation of funds in future fiscal years.

### 11.1 Estimates Overview

In *Supplementary Estimates (C), 2015–16*, Fisheries and Oceans is requesting voted adjustments of \$180,969,881 for 12 funding requirements, as well as 13 transfers resulting in an increase of \$1,753,441 in authorities, for a net total of \$182,723,322. Fisheries and Oceans also forecasts an increase of its statutory expenditures of \$1,762,180.

In *Main Estimates 2016–17*, Fisheries and Oceans is requesting total voted authorities of \$2,113,685,666, which is an increase of approximately \$347 million from the total voted authorities of *Main Estimates 2015–16*.

### 11.2 Fleet Recapitalization

Fisheries and Oceans operates a fleet of 116 vessels, 43 of which are large ships. As many of the ships are aging, Fisheries and Oceans is currently undergoing a \$7 billion recapitalization plan to replace 23 vessels. A full recapitalization of its aging fleet would cost another \$15 billion. As part of this plan, Fisheries and Oceans is requesting:

- \$116.1 million in *Supplementary Estimates (C), 2015–16* and a further \$181.8 million in *Main Estimates 2016–17* for the construction of three Offshore Fisheries Science Vessels for the Canadian Coast Guard. In 2014–2015, the Treasury Board approved a revision to the total estimated cost for the project to \$594.0 million.<sup>3</sup>
- \$10.8 million *Supplementary Estimates (C), 2015-16* and a further \$25.4 million in *Main Estimates 2016–17* to purchase 15 search and rescue lifeboats for the Canadian Coast Guard. The total estimated cost of this project is \$175 million.
- \$23.3 million in *Main Estimates 2016–17* related to Canadian Coast Guard's Offshore Oceanographic Science Vessel, which is expected to cost \$144.4 million.

<sup>3</sup> Fisheries and Oceans Canada, *Report on Plans and Priorities 2015–16*, Supplementary Information Tables, [Status Report on Transformational and Major Crown Projects](#).

Officials from Fisheries and Oceans told the Committee that the recapitalization project has experienced a number of delays. In 2007–2008, two major requests for proposals failed because there was not a competitive shipbuilding industry in Canada at the time. Since then, the government launched the [National Shipbuilding Procurement Strategy](#) and awarded the contract to build the fisheries vessels to the Vancouver shipyard. However, the shipyard has had to rebuild the yard from the ground up, and it is experiencing growing pains due to learning a new process—it is the first time the yard is building a large ship.

## 12 EMPLOYMENT AND SOCIAL DEVELOPMENT

Employment and Social Development delivers a range of programs and services that affect Canadians in all stages of their lives. The [Temporary Foreign Worker Program](#) and the [Canada Student Loans Program](#) are two such programs.

### Committee Observations

The Committee supports Employment and Social Development's efforts to reform the Temporary Foreign Worker Program. However, while the number of applications to the program is diminishing, the cost of managing the program is increasing.

It is important that Canadian students have access to financial support for their post-secondary education, but a number of Employment and Social Development's loans are written-off.

The Committee expects that Employment and Social Development will:

- manage the Temporary Foreign Worker Program efficiently; and
- undertake efforts to reduce the percentage of student loans that are written-off.

### 12.1 Estimates Overview

In *Supplementary Estimates (C)*, 2015–16, Employment and Social Development is requesting voted adjustments of \$238,647,937 for eight funding requirements, as well as six transfers resulting in a decrease of \$2,170,643 in authorities, for a net total of \$236,477,294. Employment and Social Development also forecasts an increase of its statutory expenditures of \$4,703,577,519.

In *Main Estimates 2016–17*, Employment and Social Development is requesting total voted authorities of \$2,300,443,404, which is an increase of approximately \$26 million compared to total voted authorities of *Main Estimates 2015–16*. From 2015–2016 to 2016–2017, statutory forecasts are increasing by \$7.3 billion, to \$59.7 billion.

### 12.2 The Temporary Foreign Worker Program

In *Supplementary Estimates (C)*, 2015–16, Employment and Social Development is requesting \$42 million, primarily to continue to implement and administer reforms to the Temporary Foreign Worker Program.

In *Main Estimates 2016–17*, Employment and Social Development is requesting \$46.6 million more for its operating expenditures than in 2015–2016. This increase is mainly related to additional resources to administer the Temporary Foreign Worker Program.

According to the departmental officials, overall demand for temporary foreign workers has decreased significantly since the Temporary Foreign Worker Program was introduced in 2011, although demand for certain categories of worker, such as agricultural workers, has increased:

- 53,000 applications were received for [agricultural workers](#) in 2015, compared with 45,000 applications in 2011—an increase of 18%;
- 11,000 applications were received for workers in [low-wage positions](#) in 2015, compared with 58,000 applications in 2011—a decrease of 81%; and
- the number of applications received for workers in [high-wage positions](#) has decreased by 50% from 2011.

Some Committee members wondered why expenditures for the Temporary Foreign Worker Program are increasing while demand for the program is decreasing. The officials explained that in the context of the reform, Employment and Social Development had made investments in order to make better use of labour market information and prevent abuse. The average cost to process each application has therefore increased.

According to the officials, revenues from the Foreign Temporary Worker Program in 2014–2015 were \$41 million, which represents approximately 60% of the total expenditures associated with this program that year.<sup>4</sup>

### **12.3 Debts Owed to the Crown for Unrecoverable Canada Student Loans**

Employment and Social Development must regularly apply to Parliament for authorization to write off loans made by the federal government in the context of the Canada Student Loan Program that are deemed to be unrecoverable. In 2014–2015, the Department asked for and received authorization to write off [\\$287.4 million](#) in loans to Canadian students.

In the context of *Supplementary Estimates (C) 2015–16*, Employment and Social Development is requesting \$176 million to write off unrecoverable loans. The departmental officials explained that when these loans were made, they were assets for the government. When they are written off, they become a budgetary expenditure for the government.

The departmental officials indicated that this request is primarily (91% or \$160 million) attributable to claims against borrowers who have not made payments since 2008, and against whom recovery efforts have failed.<sup>5</sup>

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<sup>4</sup> The officials from Employment and Social Development Canada will provide the Committee with the 2015–2016 revenues and expenses of the Temporary Foreign Worker Program once they become available.

<sup>5</sup> Section 6 of the [Debt Write-off Regulations](#) describes the criteria for debt write-offs.

## 13 INDIAN AFFAIRS AND NORTHERN DEVELOPMENT<sup>6</sup>

Each year, Indian Affairs and Northern Development spends approximately \$8 billion on Indigenous and northern issues.

### Committee Observations

In order to ensure that its funds are spent effectively, the Committee believes that Indian Affairs and Northern Development needs to have:

- appropriate accountability mechanisms in place to monitor building standards and improvements made to housing on First Nations reserves; and
- a detailed breakdown of its plans for remediating contaminated sites.

### 13.1 Estimates Overview

In *Supplementary Estimates (C), 2015–16*, Indian Affairs and Northern Development is requesting voted adjustments of \$232,055,492 for 11 funding requirements, as well as 18 transfers resulting in a decrease of \$1,267,944 in authorities, for a net total of \$230,787,548. Indian Affairs and Northern Development also forecasts an increase of its statutory expenditures of \$2,497,071.

In *Main Estimates 2016–17*, Indian Affairs and Northern Development is requesting total voted authorities of \$7,352,398,685, which is a decrease of approximately \$688.9 million from the total voted authorities of *Main Estimates 2015–16*.

### 13.2 Housing on First Nations Reserves

According to its *2016–17 Report on Plans and Priorities*, Indian Affairs and Northern Development plans to spend \$161.5 million in 2016–2017 to help First Nations design, construct and acquire new housing units, as well as renovate existing housing units.<sup>7</sup>

As the quality of housing on First Nations reserves has been a long-standing concern, some members of the Committee wanted to know what accountability mechanisms the department had in place to ensure federal funding for housing is spent for its intended purpose. Officials from Indian Affairs and Northern Development told the Committee that in most cases, the First Nations chief and band council are responsible for managing the housing stock and ensuring that houses are built to code. The department maintains accountability through funding agreements, quarterly reports and recipient audits.

### 13.3 Contaminated Sites

The federal government has identified over [22,000 sites](#) that have concentrations of substances that are likely to pose a threat to human health or the environment. According to officials from Indian and Northern Affairs, the department is responsible for approximately 1,900 sites, which range from large, complicated sites, such as [Faro Mine](#) and [Giant Mine](#), to more easily addressed sites, such as diesel

<sup>6</sup> While the department is now called Indigenous and Northern Affairs and Canada, its legal name is Indian Affairs and Northern Development.

<sup>7</sup> Indigenous and Northern Affairs Canada, [2016–17 Report on Plans and Priorities](#), Ottawa, 2016, p. 50.

fuel tank spillage. In 2014–2015, Indian Affairs and Northern Development remediated 125 sites, and in 2015–2016, it is assessing, monitoring or remediating approximately 130 sites.

According to the *Main Estimates 2016–17* Indian Affairs and Northern Development's 2016–2017 funding allocation will decrease by \$147.1 million due to the sunset of targeted funding for the assessment, management and remediation of federal contaminated sites. As the department is in the process of renewing its contaminated sites plan, officials indicated that this funding may be restored in subsequent supplementary estimates.

## 14 FOREIGN AFFAIRS, TRADE AND DEVELOPMENT<sup>8</sup>

The 2013 merger of the Canadian International Development Agency and the Department of Foreign Affairs and International Trade created Foreign Affairs, Trade and Development, which is responsible for the conduct of Canada's international relations, including the administration of Canada's international aid program.

### Committee Observations

Foreign Affairs, Trade and Development will provide \$168 million to the Green Climate Fund, as part of the government's \$2.65 billion in assistance during the next five years to developing countries to tackle climate change.

As numerous departments are involved in the government's efforts to combat climate change, it is challenging for the Committee to:

- have an overall picture of how much the federal government is spending in this area; and
- understand what results it is achieving with those funds.

### 14.1 Estimates Overview

In *Supplementary Estimates (C), 2015–16*, Foreign Affairs, Trade and Development is requesting voted adjustments of \$460,981,906 for 12 funding requirements, as well as seven transfers resulting in an increase of \$11,748,109 in authorities, for a net total of \$472,730,015. Foreign Affairs, Trade and Development also forecasts an increase of its statutory expenditures of \$52,773,049 for a net total of \$525,503,064 in budgetary expenditures.

In the *Main Estimates 2016–17*, Foreign Affairs, Trade and Development is requesting total voted authorities of \$5,162,948,628, which is a decrease of approximately \$16.1 million from the total voted authorities of the *Main Estimates 2015–16*.

### 14.2 Green Climate Fund

[On 27 November 2015, the government announced](#) that it would be contributing a total of \$2.65 billion over the next five years to help developing countries address climate change. Of that amount, \$300 million will be invested in the [Green Climate Fund](#).

<sup>8</sup> While the Department is now known as "Global Affairs," its legal name is Foreign Affairs, Trade and Development.

In *Supplementary Estimates (C) 2015–16*, Foreign Affairs, Trade and Development is requesting \$168 million for the Green Climate Fund. The government will have to pay \$132 million in 2018–2019 in order to complete its \$300-million contribution to the Green Climate Fund.

The Committee wanted to hear about the mechanisms that Foreign Affairs, Trade and Development will be using to ensure that the money invested in the Green Climate Fund is used appropriately. The departmental officials explained that a federal government representative sits on the Green Climate Fund Board, and is helping to put in place performance indicators to evaluate not only how funds are invested, but also how the organization performs.

### 14.3 Canadian Dollar

Foreign Affairs, Trade and Development is present and providing services in 109 countries. The Department is also responsible for Canada's payment—generally in foreign currencies—of assessed contributions to a number of international organizations.

In *Supplementary Estimates (C), 2015–2016*, the Department is requesting \$121 million in funding for foreign currency fluctuations from the payments of assessed contributions to international organizations and from operations incurred at missions abroad. In *Main Estimates 2016–2017*, Foreign Affairs, Trade and Development is requesting \$102.4 million to fund these same fluctuations.

The Committee wanted to know how the Department manages its international activities, particularly at a time when the Canadian dollar has been, and remains, highly devalued in comparison with the American dollar. The officials explained that a quasi-legislative framework has been established, in cooperation with the Treasury Board, to ensure that the Department can use the estimates process to receive an adjustment to compensate for exchange rate fluctuations. This is done to ensure that the Department can meet its currency requirements. They added that the Department refunds money to the consolidated fund when the value of the Canadian dollar is higher than forecast.

## 15 FINANCE

The Department of Finance manages the federal government's major transfers to the provinces and territories, such as the Canada Health Transfer and the Canada Social Transfer.

### Committee Observations

As the age of the population varies in each of Canada's regions, which has a significant effect on the health of public finances, the Committee believes that the Department of Finance needs to:

- examine the impact of the aging population on provincial and territorial finances; and
- re-consider the adequacy of the current funding formulas for federal transfers.

### 15.1 Estimates Overview

In *Supplementary Estimates (C), 2015–16*, Finance is requesting voted adjustments of \$4,452,906 for six funding requirements. Finance also forecasts a decrease of its statutory expenditures of \$2,451,467,613.

In *Main Estimates 2016–17*, Finance is requesting total voted authorities of \$90,740,546, which is a decrease of \$12.2 million from the total voted authorities of *Main Estimates 2015–16*.

## 15.2 Transfer Payments to the Provinces and Territories

The federal government transfers funds to the provinces and territories for health care and other social programs through the [Canada Health Transfer](#) and the [Canada Social Transfer](#). These transfers are part of the Department of Finance’s statutory expenditures.

Some committee members expressed concern that the funding formula governing the Canada Health Transfer will soon change. In 2016–2017 the transfer will grow at 6%, but after that it will grow at the three-year rolling average of nominal gross domestic product, with funding guaranteed to increase by at least 3% per year.

The Canada Social Transfer, on the other hand, is legislated to grow by 3% per year, and a review of the funding formula is expected to take place in 2023–2024.

## 15.3 Impact of the Aging Population on Public Finances

Some members expressed concern that as the general population ages, the growing demand for health services and income support would impose an ever greater burden on federal, provincial and territorial public finances, crowding out other important budgetary priorities, and straining available financial resources.

Additionally, the annual growth of transfer payments for health care could become insufficient to meet the growing needs of a rapidly aging population, which differs in each of Canada’s regions. Officials noted that the transfers are made on a per-capita basis.

## 16 VETERANS AFFAIRS

Veterans Affairs is responsible for designing and delivering services to veterans who have risked their health and well-being to protect the safety and security of Canadians.

### Committee Observations

In recognition of their considerable contributions to Canada, the Committee believes that Veterans Affairs needs to make every effort to ensure that veterans:

- have timely access to necessary support services; and
- continue to receive specialized care in Ste. Anne’s hospital after it is transferred to provincial control.

### 16.1 Estimates Overview

In *Supplementary Estimates (C), 2015–16*, Veterans Affairs is requesting voted adjustments of \$110,590,515 for four funding requirements, as well as two transfers resulting in a decrease of \$200,000 in authorities, for a net total of \$110,390,515. Veterans Affairs also forecasts an increase of its statutory expenditures of \$3,820,339.

In *Main Estimates 2016–17*, Veterans Affairs is requesting total voted authorities of \$3,596,110,397, which is an increase of approximately \$101.4 million from the total voted authorities of *Main Estimates 2015–16*.

## 16.2 Service Delivery

Some members of the Committee noted that veterans have expressed concerns about their ability to access the services they require. For example, in 2014, the Auditor General of Canada found that eligibility decisions for veterans under the Disability Benefits Program were not timely.<sup>9</sup>

In response to these concerns, Budget 2015 announced \$193.4 million over five years to improve the delivery of services, in part by hiring 100 permanent case managers and 100 disability benefits staff in order to reduce caseloads and to ensure veterans receive faster decisions on Disability Benefit applications.<sup>10</sup> In *Supplementary Estimates (C), 2015–16* Veterans Affairs is requesting \$25.5 million to enhance the delivery of services and benefits to Canadian Armed Forces personnel, veterans and their families.

## 16.3 Transfer of St. Anne's Hospital

Some veterans receive specialized health care services at [Ste. Anne's Hospital](#) in Quebec. On 1 April 2016 Veterans Affairs will transfer management of the hospital to the Province of Quebec. Officials from Veterans Affairs said that the transfer agreement includes payments to the province for the transfer, and funds will be provided on a per diem basis for the care of every veteran at the hospital.

Some members of the Committee expressed concern that the cultural shift caused by the transfer could result in a loss of expertise in terms of chronic care for veterans, as well as services relating to post-traumatic stress disorder for veterans of Bosnia, Serbia and Afghanistan.

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<sup>9</sup> Auditor General of Canada, "[Chapter 3–Mental Health Services for Veterans](#)," *2014 Fall Report of the Auditor General of Canada*, Ottawa, 2014, para. 3.25.

<sup>10</sup> Department of Finance Canada, [Strong Leadership, A Balanced Budget, Low-Tax Plan for Jobs, Growth and Security](#), Ottawa, April 2015, p. 277.

## **APPENDIX – WITNESSES WHO APPEARED BEFORE THE COMMITTEE**

### **Canada Border Services Agency**

Christine Walker, Vice President, Comptrollership Branch  
 Caroline Xavier, Vice President, Operations Branch  
 (2016-03-08)

### **Citizenship and Immigration**

Stefanie Beck, Assistant Deputy Minister, Corporate Services Sector  
 David Manicom, Associate Assistant Deputy Minister, Strategic and Program Policy Sector  
 Tony Matson, Assistant Deputy Minister, Chief Financial Officer, Finance Sector  
 (2016-03-08)

### **Employment and Social Development**

Michel Racine, Senior Director, Planning and Expenditure Management  
 Alain P. Séguin, Chief Financial Officer, Chief Financial Branch  
 Paul Thompson, Senior Assistant Deputy Minister, Skills and Employment Branch  
 (2016-03-09)

### **Finance**

Leah Anderson, General Director, Financial Sector Policy Branch  
 Richard Botham, Assistant Deputy Minister, Economic Development and Corporate Finance  
 Branch Miodrag Jovanovic, General Director, Tax Policy Branch  
 Diane Lafleur, Assistant Deputy Minister, Federal-Provincial Relations and Social Policy Branch  
 Randy Larkin, Assistant Deputy Minister, Corporate Services Branch  
 Christopher Meyers, Executive Director, Financial Management, Corporate Services Branch  
 Glenn Purves, Director, Economic and Fiscal Policy Branch  
 Rick Stewart, Assistant Deputy Minister, International Trade and Finance Branch  
 (2016-03-10)

### **Fisheries and Oceans**

Jeffery Hutchinson, Deputy Commissioner, Strategy and Shipbuilding  
 Marty Muldoon, Assistant Deputy Minister and Chief Financial Officer  
 Kevin Stringer, Senior Assistant Deputy Minister, Ecosystems and Fisheries Management  
 (2016-03-09)

### **Foreign Affairs, Trade and Development**

Jeffrey Johnson, Acting Director General, Financial Resource Planning and Management Bureau  
 Arun Thangaraj, Assistant Deputy Minister and Chief Financial Officer  
 (2016-03-10)

### **Health**

Jamie Tibbetts, Assistant Deputy Minister and Chief Financial Officer, Chief Financial Officer  
 Branch  
 (2016-03-08)

### **Indian Affairs and Northern Development**

Françoise Ducros, Senior Assistant Deputy Minister, Policy and Strategic Direction  
 Daniel Leclair, Director General, Community Infrastructure Branch, Regional Operations

Paul Thoppil, Chief Financial Officer  
(2016-03-09)

**National Defence**

André Fillion, Chief of Staff (Materiel)  
Major-General John Madower, Chief of Programme, Vice Chief of the Defence Staff  
Claude Rochette, Assistant Deputy Minister (Finance) and Chief Financial Officer  
(2016-03-08)

**Office of Infrastructure of Canada**

Darlene Boileau, Assistant Deputy Minister, Corporate Services and Chief Financial Officer  
Thao Pham, Assistant Deputy Minister, Federal Montreal Bridges  
(2016-03-08)

**Public Health Agency**

Carlo Beaudoin, Chief Financial Officer  
Elaine Chatigny, Branch Head, Health Security Infrastructure Branch  
Kim Elmslie, Assistant Deputy Minister, Health Promotion and Chronic Disease Prevention  
Branch  
(2016-03-08)

**Shared Services Canada**

Graham Barr, Director General, Strategic Policy, Planning and Reporting  
Manon Fillion, Director General and Deputy Chief Financial Officer, Corporate Services  
(2016-03-09)

**Treasury Board Secretariat**

Brian Pagan, Assistant Secretary, Expenditure Management Sector  
Marcia Santiago, Executive Director, Expenditure Management Sector  
(2016-02-24)

**Veterans Affairs**

Maureen Sinnott, Director General, Finance, Human Resources and Corporate Services  
Elizabeth Stuart, Assistant Deputy Minister, Human Resources and Corporate Services  
(2016-03-10)