



**REPORT ON THE
SUPPLEMENTARY ESTIMATES (B), 2017–18**
Standing Senate Committee on National Finance

Chair
The Honourable Percy Mockler

Deputy Chairs
The Honourable André Pratte
The Honourable Mobina Jaffer

December 2017

TABLE OF CONTENTS

EXECUTIVE SUMMARY	2
INTRODUCTION.....	3
1 SHARED SERVICES CANADA	4
2 DEPARTMENT OF FOREIGN AFFAIRS, TRADE AND DEVELOPMENT	5
3 INDIGENOUS AND NORTHERN AFFAIRS CANADA	6
4 DEPARTMENT OF NATIONAL DEFENCE	7
5 CANADA REVENUE AGENCY	8
6 TREASURY BOARD OF CANADA SECRETARIAT	10
APPENDIX A – ORDER OF REFERENCE	12
APPENDIX B – WITNESSES WHO APPEARED BEFORE THE COMMITTEE	13

EXECUTIVE SUMMARY

Supplementary Estimates (B), 2017–18

As part of its oversight role, the Standing Senate Committee on National Finance considered and examined the *Supplementary Estimates (B), 2017–18*, which were tabled in the Senate on 31 October 2017 and referred to the committee for study on 23 November 2017. These supplementary estimates request Parliament's approval for an additional \$4.5 billion in voted expenditures and forecasts statutory expenditures of \$395.3 million.

In order to examine the *Supplementary Estimates (B), 2017–18*, our committee held three meetings since 28 November 2017 and questioned officials of six organizations that are requesting total appropriations of nearly \$2.9 billion, which is 65% of the total voted amount requested in the *Supplementary Estimates (B) 2017-18*.

Our committee is reporting on the key issues raised at its meetings.

INTRODUCTION

The Standing Senate Committee on National Finance (our Committee) has an important role to play on behalf of Parliament and Canadians in examining the federal government's spending plans, as outlined in the main and supplementary estimates. Our Committee reviews and presents reports on the government's proposed spending in order to examine whether it is reasonable, takes into account value-for-money, and will be effective in achieving the government's objectives.

As the main estimates, which are presented on or before 1 March, do not contain all of the government's spending needs for the year, the government also presents supplementary estimates to Parliament for approval, usually in the spring, fall and winter.

As shown in Table 1, the *Supplementary Estimates (B) 2017-18* provides information in support of \$4.5 billion in voted authorities, an increase of 4.4% over the *Main Estimates 2017-18*. The *Supplementary Estimates (B), 2017-18* also provides information on the \$395.3 million increase in statutory budgetary expenditures. Table 1 compares the authorities set out in the 2016–2017 and 2017–2018 estimates.

Table 1 - Main Estimates and Supplementary Estimates, 2017–2018 (\$)

	2016-2017	2017-2018			
	Estimates to date	Main Estimates	Supplementary Estimates (A)	Supplementary Estimates (B)	Proposed Authorities to Date
Budgetary					
Voted	103,183,394,319	102,139,294,300	3,722,404,244	4,486,681,809	111,018,989,067
Statutory	153,982,900,171	155,778,340,286	62,015,996	395,259,298	156,264,066,411
Total	257,166,294,490	257,917,634,586	3,784,420,240	4,881,941,107	267,283,055,478
Non-Budgetary					
Voted	57,103,001	26,703,002	30,400,000	—	57,103,002
Statutory	-92,065,228	- 246,167,112	625,000,000	—	378,832,888
Total	-34,962,227	- 219,464,110	655,400,000	—	435,935,890

Source: Table prepared by the authors based on data from Treasury Board of Canada Secretariat, [Supplementary Estimates \(B\), 2017-18, p. I-3](#).

1 SHARED SERVICES CANADA

Shared Services Canada (SSC) was established on 4 August 2011 to lead the transformation of the way the Government of Canada manages its information technology infrastructure. SSC provides consolidated, standardized e-mail, data centre, network and technology workplace services to departments and agencies to support the delivery of Government of Canada programs and services.¹

1.1 Overview of the Estimates

In the *Supplementary Estimates (B), 2017-18*, SSC is requesting \$23.5 million in voted appropriations. This is an increase of 1.3% from the total authorities already obtained by SSC in the *Main Estimates 2017-18* and the *Supplementary Estimates (A), 2017-18*.

1.2 IBM Supercomputer Contract

The largest funding item for SSC is the renewal of high performance computing for the Environment and Climate Change Canada Project. Requesting \$8.7 million, the officials for Shared Services Canada said this project signifies the department's effort to renew and consolidate aging IT infrastructure.

Our Committee expressed concerns over the fact that the \$430 million, eight-year contract for the supercomputer for Environment and Climate Change Canada was awarded to IBM, the same company that was responsible for the Phoenix payroll system. The officials could not explain why they used IBM, given the problems with Phoenix; in fact, they did not have direct knowledge of IBM's role in the Phoenix system. However, they assured our Committee that despite the complex nature of the supercomputer project, the project is progressing in accordance with the contract.

1.3 Security of Government Information Technology

The second largest item is funding to improve the security of government information technology and cyber systems. The department is seeking \$3.8 million for this project, and \$1.2 million to fund the incremental cost of providing core information technology services. SSC officials stated that the department has made progress in improving client experiences by adopting a new service management strategy and delivery approach.

1.4 Email Transformation Project

While SSC is not requesting funding for the Email Transformation Project in these supplementary estimates, our committee asked for an update. Officials informed us that the project has been effectively stalled since November 2015, with the exception of two recent migrations, as a result of difficulties in the delivery of expected functionalities.

Our Committee was troubled that SSC has spent \$57 million on a project that is now stalled, as well as \$53 million to maintain legacy systems. SSC needs to ensure that the system is fully functional before migrating more departments and creating further problems.

¹ *Main Estimates 2017-18*, page II-248.

2 GLOBAL AFFAIRS CANADA²

According to Global Affairs Canada (GAC), the department “is responsible for the conduct of Canada's international relations, which includes, among other things, international development, consular services to Canadians and the global network of Government of Canada missions abroad.”³

2.1 Overview of the Estimates

In the *Supplementary Estimates (B), 2017-18*, GAC is seeking voted authorities of \$450.2 million, an increase of almost 7.4% over the total authorities already obtained by GAC in the *Main Estimates 2017-18* and the *Supplementary Estimates (A), 2017-18*. The department also expects statutory expenditures of \$2.6 million.

According to departmental officials, this funding will increase the effectiveness of how the department can respond to urgent humanitarian crises, protect Canadian staff abroad, and provide life-saving vaccines. The increase in funding is needed in response to increased humanitarian need.

2.2 Crisis Pool Quick Release Mechanism

Of this request, \$264 million is to go towards the Crisis Pool Quick Release Mechanism. This fund provides emergency services for food assistance, health care, water and sanitation services. The officials said a large portion of their budget has already gone towards these types of crises, and this money would allow them to top up the funds and continue to respond to emergency situations. The officials stated that the department committed \$25 million for the Rohingya crisis and responded to humanitarian needs resulting from the impact of hurricanes Irma and Maria. The increase in funding will enable the department to respond to crises in Nigeria, Somalia, South Sudan, Yemen and neighboring countries and ensure that the government respects its obligations of \$760 million over six years starting in 2017-2018 and \$127 million annually thereafter as forecasted in Budget 2017.

When asked about the decision process for using this crisis fund, the officials explained that the criteria include a natural disaster, a famine or a crisis due to conflict, political instability or a sudden intensification of a conflict. As well, the Finance Minister, the International Development Minister and the Foreign Affairs Minister are consulted prior to the use of the funds.

Our committee is concerned about the adequacy of the funding to respond to emergency situations around the world and that funds may be diverted from development assistance when new crises arise.

² The department today uses the name “Global Affairs Canada” but its legal name remains: Department of Foreign Affairs, Trade and Development.

³ *Main Estimates 2017-18*, page II-101.

3 INDIGENOUS AND NORTHERN AFFAIRS CANADA⁴

According to Indigenous and Northern Affairs Canada (INAC), it “supports First Nations, Inuit, Métis and Northerners in their efforts to improve their well-being and economic prosperity; build healthy and more self-sufficient communities; and participate fully in Canada's political, social and economic development.”⁵

3.1 Overview of the Estimates

In the *Supplementary Estimates (B), 2017-18*, INAC requests voted appropriations of \$442.7 million. This is an increase of almost 4.1% from the total authorities already obtained by INAC in the *Main Estimates 2017-18* and the *Supplementary Estimates (A), 2017-18*. The department also expects statutory expenditures of \$2.5 million.

The voted appropriations requested by INAC in the *Supplementary Estimates (B), 2017-18* mainly relate to the following items:

- \$200 million for the third and final payment under the terms of the 2008 New Relationship Agreement between the Government of Canada and the Crees of Eeyou Istchee;
- \$91.8 million for the negotiation and implementation of comprehensive land claims, as well as treaty and self-government agreements;
- \$52.2 million for specific claims settlement;
- \$23.7 million for Urban Programs for Indigenous Peoples; and
- \$21.6 million to support Métis rights and Métis relations with the federal government.

3.2 Transformation into Two New Departments

The Prime Minister announced on 28 August 2017 that Indigenous and Northern Affairs Canada will be transformed into the Department of Crown-Indigenous Relations and Northern Affairs and the Department of Indigenous Services. The former will be responsible for achieving reconciliation objectives and making policies on northern and Arctic communities while the latter will be tasked with improving the delivery of Indigenous programs and services. According to officials, the Department of Crown-Indigenous Relations and Northern Affairs will receive \$432.6 million, while the Department of Indigenous Services will receive \$12.6 million. The officials believed that the creation of these two departments is a significant effort towards reconciliation.

Our Committee expressed concerns regarding the lack of an assessment of the cost of separating the department into two separate departments, and the lack of a plan to undertake the separation. The officials should send, as they agreed, the assessment to our Committee once it becomes available, though they noted it is a long-term project. In addition, the officials explained that the long-term goal is to eliminate this department and transfer control of its programs and services to

⁴ The department uses the name "Aboriginal and Northern Affairs Canada" but its legal name remains: Department of Indian Affairs and Northern Development.

⁵ *Main Estimates 2017-18*, page II-110.

Indigenous institutions. They stated that the federal government will continue to provide funding and costs will possibly be reduced as accountability will be at the community level.

Nonetheless, our Committee is concerned about the department's ability to implement the separation without adversely affecting program delivery. As the assessment of the costs involved is important, we will be following this issue closely.

4 DEPARTMENT OF NATIONAL DEFENCE

The Canadian Armed Forces and the Department of National Defence are ready to fulfill three essential roles: to defend Canada by achieving excellence in Canada; defend North America by remaining a strong and reliable partner of the United States for the defence of the continent; contribute to international peace and security by showing leadership on the international stage.⁶

4.1 Overview of the Estimates

In the *Supplementary Estimates (B), 2017-18*, the Department of National Defence is requesting \$1.0 billion in voted authorities. This is an increase of almost 5.6% from the total authorities already obtained by the department in the 2017-2018 *Main Estimates* and *Supplementary Estimates (A)*. The department also expects statutory expenditures of \$69.4 million, which is 5.8% more than the authorities obtained in this capacity prior to the 2017-2018 *Supplementary Estimates*.

4.2 New Funding Method for Capital Costs

The Department of National Defence's largest funding request in these estimates is \$668 million and relates to capital assets. Departmental officials reported that 333 capital projects are included in its defence policy and that it has adopted a new cash management approach approved by the Treasury Board Secretariat. The new approach provides more flexibility and enables the department to use excess amounts from one project to fund another project rather than return the unused funds and submit a new funding request.

In the *Supplementary Estimates (B), 2017-18*, the department is requesting funding for 27 capital projects. According to officials, because of the Treasury Board's approval schedule, the department will return to Parliament to seek additional funding for other defence policy initiatives in the *Supplementary Estimates (C), 2017-18*.

4.3 Canadian Forces Members' Pay

Nearly all of the increase in the Department of National Defence's operating costs – that is, \$333.1 million – is the result of the new compensation agreement with members of the Canadian Forces, which applies retroactively from 2014 to 2017. Under the agreement, Canadian Forces members will receive an annual increase of 1.25%. The total increase amounts to 5.34% over the four-year agreement.

⁶ *Main Estimates 2017-18*, page II-122.

Department of National Defence officials explained that a pay freeze effective in fiscal years 2014–2015 and 2015–2016 requires it to absorb \$290 million of the cost internally. The \$333.1 million requested in these estimates reflects the value of the pay increase during the period of the agreement when no pay freeze was in effect, which enables the department to seek a reimbursement from the Treasury Board Secretariat.

4.4 Supply Vessel

According to the Government, the supply requirements for the navy and coast guard have been thoroughly studied and are subject to long-term planning, which does not include a second interim supply vessel.⁷ This announcement last November has disappointed many and is likely to lead to layoffs at the shipyard in Lévis, Quebec, where Davie operates.

Our Committee wanted to learn more and understand the reasons that led the Department of National Defence to its decision. Officials indicated that they were not aware of an official document that justifies the decision, but it was the result of a two-year process that has been studied several times, due to the large sums involved.

They went on to say that there are other projects that Davie can bid on in the future.

Our Committee finds unacceptable the unclear answers it obtained about the future of the Davie shipyard in Quebec. Unfortunately, the department's explanations did not reassure our committee or the many workers affected directly, or indirectly, by the department's decision. Our committee will continue to study this matter and may ask the Department of National Defense to appear again in the coming weeks.

4.5 Fixed Wing Search and Rescue Aircraft Replacement

The Department of National Defence is requesting \$161.6 million in voted appropriations for the Fixed-Wing Search and Rescue Aircraft Replacement project. According to officials, the department is planning to replace its fleets of CC-115 Buffalo and CC-130H Hercules aircraft by acquiring 16 new Airbus C295 aircraft. The first aircraft are expected to be delivered in 2019, with final delivery in 2022. The entire project is valued at \$2.4 billion.

Our Committee was concerned that it took 11 years from beginning the process in 2011 to final delivery in 2022. Additionally, officials were unable to say how long it will take the planes to reach the Arctic for search and rescue missions, which some have suggested could be as long as a day-and-a-half.

5 CANADA REVENUE AGENCY

According to the Canada Revenue Agency (CRA), it administers tax, benefits and other related programs on behalf of governments across Canada. In carrying out its duties, the CRA ensures that Canadians comply with tax obligations, receive benefits and have the appropriate means to resolve disputes.

⁷ Radio-Canada, [24 November 2017](#): According to Byrne Furlong, press secretary to Defence Minister Harjit Sajjan, in an email sent to Radio-Canada.

5.1 Overview of the Estimates

In the *Supplementary Estimates (B) 2017-18*, the CRA is requesting \$44.9 million in voted authorities. This is a 1.3% increase over the total authorities already obtained by the CRA in the *Main Estimates 2017-18* and the *Supplementary Estimates (A), 2017-18*. The CRA also expects statutory expenditures of \$7.0 million.

5.2 Responding to Tax Evasion and Tax Avoidance

The CRA is requesting \$43.9 million in voted appropriations for the implementation and administration of various measures to respond to tax evasion and tax avoidance. Our Committee learned that this figure consists of the following items:

- \$29 million to hire income tax auditors to target more taxpayers at high risk of tax avoidance or evasion, including multinationals;
- \$13 million to increase the number of GST/HST audits of large businesses at high risk of tax avoidance or evasion; and
- \$1.9 million to expand business intelligence activities.

In accordance with Budget 2017, this funding request would be the first of five annual requests for funding to respond to tax evasion and aggressive tax planning. Our Committee will continue to monitor closely the use of this funding and the CRA's performance in addressing tax evasion and tax avoidance in order to ensure that the CRA is achieving sufficient benefits to justify the increased costs.

5.3 Concerns of the Office of the Auditor General of Canada

The CRA's call centres are meant to give individuals and businesses timely, accurate information about their taxes, credits, and benefits.

In light of a recent report by the Office of the Auditor General of Canada (OAG) on the performance of the CRA's call centres, our Committee is concerned by several findings of the Auditor General, in particular:

- The CRA has blocked more than half of the calls received, or about 29 million calls out of 53.5 million; and
- According to tests conducted by the OAG, call centre agents gave erroneous information to callers in almost 30% of cases.

The officials told our Committee that, in response to the Auditor General's report, the CRA recently developed a three-point plan to invest in technology, fund more training and improve performance measures at its call centres. Initiatives to improve the CRA's call centre platform using new technology are under way. According to the officials, the CRA received additional funding in Budget 2016 to increase the number of agents at its call centres.

Our Committee was surprised to hear the CRA officials state that they held internal discussions about the problems with the call centres as early as 2011. Yet, we were troubled by the lack of concrete performance targets to demonstrate progress in addressing the OAG's findings. Canadians need to be assured that their calls will be answered and that they will receive correct

information. Our Committee will be an interested observer of developments in this area and may study the issue again in the near future.

Given the significant role that the CRA will play in implementing the government's proposed tax changes, and in light of the recent report by the OAG, we are concerned about the ability of the CRA to deliver on their mandate in an effective and efficient manner.

6 TREASURY BOARD OF CANADA SECRETARIAT

The Treasury Board of Canada Secretariat (TBS) provides advice and makes recommendations to the Treasury Board committee of ministers on how the government spends money on programs and services, how it regulates and how it is managed. It also ensures that public monies are spent effectively by departments and agencies.⁸

6.1 Overview of the Estimates

In the *Supplementary Estimates (B), 2017–18*, the TBS is requesting additional voted authorities of \$938.4 million. This is an increase of 19.3% over the total authorities already obtained by the TBS in the *Main Estimates, 2017–18* and the *Supplementary Estimates (A), 2017–18*.

The voted appropriations requested by the TBS in the *Supplementary Estimates (B), 2017-18* are mainly related to the two following items:

- \$654.6 million to compensate departments, agencies and Crown corporations as a result of collective agreements and other related adjustments to service or employment arrangements. Costs arise from collective agreements signed from 1 April to 31 July 2017; and
- \$252.9 million to meet the contingency reserve requirements for public service insurance. These funds would make up for the anticipated shortfall and meet requirements in the event of an emergency with respect to the employer's obligations for Public Service Insurance.

6.2 Back Office Transformation

The Treasury Board of Canada Secretariat is seeking \$10.8 million to contribute towards the Back Office Transformation initiative. This initiative is two-fold. First, there is an effort to improve the functionality of the HR system and stabilize the 44 departments already using it. Second, it links the pay system, Phoenix, with HR systems in order to provide better information. Our Committee had further questions on the funding of the project, and the TBS will get back to our Committee with an exact plan.

6.3 Reprofitting Funds for the New Champlain Bridge

According to the TBS, the Office of Infrastructure of Canada asked for \$100 million for the New Champlain Bridge Corridor Project. Forecasts of known costs were made for the project and some money was set aside for contingency. Contaminated land had to be mitigated, and it cost more than was set aside in the contingency fund. The officials explained that the funding request of \$100 million reflects both a drawdown of some of the contingency for the project and a reprofiling of some of the other costs related to the project. They committed to provide exact numbers and a detailed explanation to our Committee.

⁸ *Main Estimates 2017-18*, page II-265.

6.4 Federal Framework to Legalize and Regulate Cannabis

Five government organizations are working collaboratively on a horizontal initiative to decriminalize cannabis and identify policy and programming responses. Funding of \$53.8 million to implement and administer a federal framework to legalize and regulate cannabis was requested by:

- Canada Border Services Agency: \$3 million;
- Department of Health: \$39.1 million;
- Department of Public Safety and Emergency Preparedness: \$0.85 million;
- Public Health Agency of Canada: \$0.2 million;
- Royal Canadian Mounted Police: \$5.3 million; and
- Statutory spending: \$5.2 million.

Unable to answer all our Committee's questions, the TBS officials committed to providing a more detailed explanation, including a breakdown of the responsibilities of each of the five organizations asking for funding.

However, we are concerned with the government's short timeline for implementing the regulations, and troubled that they were not pre-published, which is the normal practice. Moreover, the legalization of cannabis will have significant cost implications for provinces, territories and municipalities, who will be expected to enforce the new regulations. We intend to follow up with these departments and monitor the tax revenues and overall costs related to this issue.

6.5 Aligning the Budget with the Main Estimates

The government has proposed aligning the main estimates and the budget. Under the current system, the main estimates are prepared, and sometimes presented, before the budget. As a result, most, if not all, new spending measures announced in the budget are not included in the main estimates. Rather, they are included in subsequent supplementary estimates.

TBS officials described a two-year pilot project, beginning in 2018–2019, to delay the presentation of the main estimates until mid-April in order to align them with the budget. We look forward to monitoring the results of this project and the extent to which the government is able to incorporate new budget spending measures into the main estimates.

6.6 Lapsed Funding

As funding authorities included in the estimates represent a limit on funding, departments can spend up to but not more than these authorities. Funds that are not used are said to have "lapsed." However, our Committee is concerned about the significant amount of lapsed funding in 2016–2017, which the Parliamentary Budget Officer observed has increased from the previous fiscal year.

APPENDIX A – ORDER OF REFERENCE

The Honourable Senator Bellemare moved, seconded by the Honourable Senator Harder, P.C.:

That the Standing Senate Committee on National Finance be authorized to examine and report upon the expenditures set out in the Supplementary Estimates (B) for the fiscal year ending March 31, 2018; and

That, for the purpose of this study, our committee have the power to sit even though the Senate may then be sitting, and that rule 12-18(1) be suspended in relation thereto.

23 November 2017.

APPENDIX B – WITNESSES WHO APPEARED BEFORE THE COMMITTEE

Shared Services Canada

Alain Duplantie, Senior Assistant Deputy Minister, Corporate Services and Chief Financial Officer

Sarah Paquet, Senior Assistant Deputy Minister, Strategy
(29-11-2017)

Global Affairs Canada

Arun Thangaraj, Assistant Deputy Minister and Chief Financial Officer

Reid Sirrs, Director General, Security and Emergency Management

Shirley Carruthers, Acting Director General, Financial Resource Planning and Management Bureau

(29-11-2017)

Indigenous and Northern Affairs Canada

Joe Wild, Senior Assistant Deputy Minister, Treaties and Aboriginal Government Sector, Crown-Indigenous Relations and Northern Affairs Canada

Paul Thoppil, Chief Financial Officer, Results and Delivery Officer, Indigenous Services Canada and Crown-Indigenous Relations and Northern Affairs Canada

(29-11-2017)

Department of National Defence and the Canadian Armed Forces Canada

Claude Rochette, Assistant Deputy Minister (Finance) and Chief Financial Officer

Patrick Finn, Assistant Deputy Minister, Materiel

(29-11-2017)

Canada Revenue Agency

Janique Caron, Acting Assistant Commissioner, Finance and Administration Branch, and Agency Comptroller

Ted Gallivan, Assistant Commissioner, International, Large Business and Investigations Branch

(28-11-2017)

Treasury Board of Canada Secretariat

Brian Pagan, Assistant Secretary, Expenditure Management Sector

Marcia Santiago, Executive Director, Expenditure Management Sector

Renée LaFontaine, Chief Financial Officer and Assistant Secretary, Corporate Services Sector

(28-11-2017)