

**SENATE**



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**CANADA**

**REPORT ON THE  
*SUPPLEMENTARY ESTIMATES (C), 2009-2010***

**Standing Senate Committee on  
National Finance**

**SECOND REPORT**

*Chair*

The Honourable Joseph A. Day

*Deputy Chair*

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# **REPORT ON THE SUPPLEMENTARY ESTIMATES (C), 2009-2010**

## **Introduction**

The *Supplementary Estimates (C), 2009–2010* were tabled in the Senate on 4 March 2010 and subsequently referred for review to the Standing Senate Committee on National Finance.

The *Supplementary Estimates (C), 2009–2010* are the third set of Supplementary Estimates that were issued in the fiscal year ending on 31 March 2010. Unless otherwise stated, all page references are from the *Supplementary Estimates (C), 2009–2010* document.

The committee held two meetings to review these Supplementary Estimates. On 16 March 2010, officials from the Treasury Board Secretariat of Canada, Alister Smith, Assistant Secretary, Expenditure Management Sector and Brian Pagan, Executive Director, Expenditure Operations and Estimates Division, Expenditure Management Sector, appeared before the committee to testify on the *Supplementary Estimates (C), 2009-2010*.

On 17 March 2010, the committee had two panels of witnesses. The first panel that addressed the issues of Canada's initial response to the earthquake in Haiti and debt relief to Pakistan: Margaret Biggs, President, Diane Jacovella, Vice-President, Multilateral and Global Programs Branch and Jim Quinn, Chief Financial Officer, appeared from the Canadian International Development Agency (CIDA); Brigadier-General Richard Blanchette, Director General, Operations, Strategic Joint Staff and Brigadier-General Claude Rochette, Director General, Financial Management appeared from the Department of National Defence; and Kerry Buck, Assistant Deputy Minister, Programs and Departmental Security appeared from the Department of Foreign Affairs and International Trade. The second panel discussed security and policing of both the 2010 Olympic and Paralympic games and the G8 and G20 summits: William Baker, Deputy Minister and Myles Kirvan, Associate Deputy Minister appeared from Public Safety Canada; William Sweeney, Senior Deputy Commissioner appeared from the Royal Canadian Mounted Police; Stephen Rigby, President appeared from Canada Border Services Agency; Charles Bisson, Deputy Director, Operations appeared from Canadian Security Intelligence Service; and Ward Elcock, Coordinator for the 2010 Olympics and G8 Security appeared from the Privy Council Office.

## **Overview**

Supplementary Estimates are tabled in Parliament approximately one month in advance of the related Appropriation Act. They serve a number of purposes. First, they provide information on the government's spending requirements that were not sufficiently developed when the *2009–2010 Main Estimates* were tabled, or have been subsequently refined to account for new developments in particular programs or services. Second, they provide Parliament with information on changes in forecasted statutory expenditures (i.e., those authorised by Parliament through enabling legislation). Finally, they are used to seek parliamentary approval for items

such as: transfers of money between Votes; debt forgiveness; loan guarantees; new or increased grants; and changes to Vote wording.

There are generally three Supplementary Estimates documents tabled each year. Each document is identified alphabetically (A, B, C, etc.). For the second year, in keeping with government commitments to renew the EMS, *Supplementary Estimates (A), 2009–2010* were tabled in May in order to facilitate a closer alignment of the estimates to the Budget. *Supplementary Estimates (B), 2009–2010* and *Supplementary Estimates (C), 2009–2010* give parliamentarians further opportunity to review the program requirements of the departments for the current fiscal year.

Pages 36 to 52 of the Estimates provide a preview of the related supply bill (Proposed Schedules 1 and 2 to the Appropriation Bill), and include, by department and organization, a list of Vote numbers, the Vote wording, and the requested funds that will be proposed to Parliament for approval. There are two schedules to the Appropriation Bill in these Supplementary Estimates: the first identifies those items for the fiscal year ending 31 March 2010; the second identifies those items that may be charged in the fiscal year ending 31 March 2011, specifically, multi-year appropriations for the Canada Revenue Agency, the Parks Canada Agency and the Canada Border Services Agency.

## Supplementary Estimates (C), 2009-2010

### A. Planned Spending

In the Estimates documents, planned spending is broken down by budgetary and non-budgetary expenditures and is displayed for both voted and statutory expenditures.<sup>1</sup> As shown in Table 1 below, the *Supplementary Estimates (C), 2009–2010* total \$6.1 billion. Of this amount, the federal government is seeking Parliament's approval to spend \$1.8 billion, while statutory expenditures are expected to increase by \$4.3 billion.

**Table 1 – Total Supplementary Estimates (C), 2009–2010**  
(in millions of dollars)

	Budgetary	Non-Budgetary	Total
Voted Appropriations	1,305.4	465.2	1,770.6
Statutory Appropriations	4,072.0	242.5	4,314.5
<b>Total</b>	<b>5,377.4</b>	<b>707.7</b>	<b>6,085.1</b>

Source: *Supplementary Estimates (C), 2009–2010*, p. 8.

<sup>1</sup> **Budgetary spending** encompasses the cost of servicing the public debt; operating and capital expenditures; transfer payments and subsidies to other levels of government, organizations or individuals; and payments to Crown corporations; **Non-budgetary** expenditures (loans, investments and advances) are outlays that represent changes in the composition of the federal government's financial assets; **Voted** expenditures are those for which parliamentary authority is sought through an appropriation bill; and **Statutory** expenditures are those authorized by Parliament through enabling legislation; they are included in the estimates documents for information purposes only.

Total budgetary Estimates to-date for this fiscal year is \$254.6 billion, including \$236.2 billion under the *2009–2010 Main Estimates*, \$6.6 billion under the *Supplementary Estimates (A), 2009–2010*, \$6.5 billion under the *Supplementary Estimates (B), 2009–2010* and \$5.4 billion under these Supplementary Estimates. This spending is consistent with the planned expenses of \$272.5 billion established in the September 2009 *Economic and Fiscal Update* which can be compared to planned expenses of \$258.6 billion that were laid out in the Budget 2009 document.<sup>2</sup>

## **B. Major Items in Budgetary Spending**

Pages 9 to 13 of the *Supplementary Estimates (C), 2009–2010* contain an explanation of the major budgetary and non-budgetary spending (both voted and statutory) in these Supplementary Estimates. The list of significant items is provided below:

### **1. Voted Budgetary Spending**

- Funding to Treasury Board Secretariat for Compensation Adjustments – Transfers to departments and agencies for salary adjustments (\$196.4 million).
- Funding for planning and pre-event operations relating to policing and security at the 2010 G8 and G20 summits (\$179.4 million).
- Canada's initial response to the earthquake in Haiti (\$176.1 million).
- Funding of awards to claimants resulting from the Independent Assessment Process and Alternative Dispute Resolution related to the Indian Residential Schools Settlement Agreement, including other settlement agreement costs that directly benefit claimants (\$120.5 million).
- Funding to support the completion of CANDU reactor refurbishment projects (\$110.0 million).
- Paylist Requirements – Transfers to departments, agencies and Crown corporations for maternity and parental allowances and payments of severance benefits and vacation pay upon termination of service for Ministers' exempt staff (\$100.0 million).
- Funding to undertake mitigation and response activities related to the second wave of the H1N1 influenza pandemic (\$86.6 million).
- Funding for policing and security at the 2010 Olympic and Paralympic Winter Games (\$83.6 million).
- Funding for the repair and return to service of the National Research Universal (NRU) reactor (\$72.0 million).
- Funding for the cost of membership in international organizations on behalf of the Government of Canada (\$72.0 million).

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<sup>2</sup> As a comparison, according to each year's Budget documents, the planned budgetary expenses for 2008-2009 were \$239.6 billion; and for 2010-2011 they are \$280.5 billion.

## **2. Statutory Budgetary Spending**

- An increase in the forecast for the Consolidated Specified Purpose Accounts (\$5.5 billion).
- Newfoundland Fiscal Equalization Offset Payments – For losses in equalization payments as a result of increases in offshore oil and gas revenues (\$465.3 million).
- Increase to the forecast of Old Age Security benefit payments based on updated population and average monthly rate forecasts (\$192 million).
- Increase in the AgriInsurance program contribution payments based on higher beginning of year crop values on which 2009 premiums were based, as well as an increase in the number of acres covered under the program (\$125 million).
- Increase in the AgriStability program payments based primarily on the declining grains and oilseeds prices in 2009 affecting the value of inventories on hand (\$78.0 million).
- Decrease to the forecast of Guaranteed Income Supplement benefit payments based on updated population and average monthly rate forecasts (a decrease of \$228.0 million).
- Payments to the Newfoundland Offshore Petroleum Resource Revenue Fund – Decrease due to revised forecast data regarding increased costs and temporary reduction in production levels associated with expansion of the White Rose project as well as an anticipated decline in crude oil prices for the year (a decrease of \$640.8 million).
- Decrease to forecast infrastructure payments under the following initiatives (a decrease of \$1.4 billion): Funding for the Communities Component Top Up of the Building Canada Fund (Budget 2009) (a decrease of \$135.2 million); Funding for the establishment of the Green Infrastructure Fund to improve the quality of the environment and lead to a more sustainable economy over the long term (Budget 2009) (a decrease of \$186.3 million); Provincial-Territorial Infrastructure Base Funding Program (Budget 2009) (a decrease of \$240.0 million); Funding to support the Infrastructure Stimulus Fund in order to accelerate and increase the number of construction-ready provincial, territorial and municipal infrastructure projects (Budget 2009) (a decrease of \$874.5 million).

## **3. Voted Non-budgetary Spending**

To forgive a debt due by the Government of the Islamic Republic of Pakistan in return for a commitment by Pakistan to invest in specified education sector programming (\$449.5 million)

## **4. Statutory Non-budgetary Spending**

Increase of net loans disbursed under the *Canada Student Financial Assistance Act* as a result of higher new loan projections made by the Office of the Chief Actuary in addition to a decrease in forecasted repayments (\$242.5 million).

## **Examination of the Supplementary Estimates (C), 2009-2010**

During the committee's hearings on the *Supplementary Estimates (C), 2009-2010*, senators raised a variety of questions related to the planned spending as outlined above. Some of these are discussed below.

### **A. Canada's Initial Response to Earthquake in Haiti**

The committee spent much time discussing Canada's initial response to the earthquake in Haiti over its two meetings on these Supplementary Estimates. The \$176.1 million in funding for earthquake response is being distributed across six departments.

Mr. Smith and Mr. Pagan explained that the \$176.1 million in funding included in these Supplementary Estimates for Haiti come from the International Assistance Envelope, which is an interdepartmental envelope of funding for aid and other international costs. As Ms. Biggs confirmed during her appearance, the funding to support this initiative comes from the International Assistance Envelope Crisis Pool. She stated that:

The International Assistance Envelope Crisis Pool is, if you will, a special allotment in the fiscal framework that is under a lock and key. You can only get to it if there has been a significant disaster. It was set up after the tsunami [in 2004] and it is there for things that are completely unanticipated and of a major scale. It cannot just be for anything. It has to be accessed through cabinet and through the Prime Minister and the Minister of Finance for very exceptional purposes. For the purposes of Haiti, as you would understand, all of us [involved in the initial response] have access to that Crisis Pool because of the nature of the disaster.

The committee discussed the matching program set up by the government: for every eligible dollar donated by individual Canadians from the date of the earthquake, 12 January 2010 until 12 February 2010, government has contributed one dollar to the Haiti Earthquake Relief Fund. Ms. Biggs estimated that the current estimate of donations received by Canadians to support relief efforts in Haiti is approximately \$135 million. This means that the Haiti Earthquake Relief Fund will be valued at around \$270 million. Senators learned that of the \$90.5 million being sought by CIDA in these Supplementary Estimates, \$56.1 million is from the Haiti Earthquake Relief Fund, and none of that funding has yet been allocated. The rest of the matched funds will be sought by CIDA in subsequent Supplementary Estimates.

### **B. Forgiveness of Debt to Pakistan**

There was much interest by senators on the \$449.5 million being sought by CIDA to forgive a debt due by Pakistan. These Supplementary Estimates explain that the

funds represent the total value of the Official Development Assistance loans owed by Pakistan, according to the Bilateral Rescheduling Agreement signed by Canada and Pakistan in April 2003. Under the Pakistan Debt to Education Conversion (DEC) project, this debt is being converted into investments by Pakistan to strengthen Pakistan's teacher education institutions and improve the quality of the programs they deliver to primary and middle school teachers. These efforts are expected to result in strengthened

classroom teaching and increased quality of education for students in Pakistan's public school system (p. 13).

In December 2001, the Paris Club agreed to allow countries to swap outstanding loans with Pakistan.<sup>3</sup> At that time, CIDA had 43 outstanding loans with Pakistan valued at \$447.5 million. These loans had been issued at various times with terms of 50 years with a 10-year grace period and a 40-year repayment period.

Canada and Pakistan signed an agreement in April 2003 to consolidate the 43 loans into one loan with repayments starting in 2017. Canada and Pakistan subsequently negotiated a debt swap where Pakistan agreed to invest the local currency equivalent of the present value of the debt in its education sector over a five year period. This agreement was signed in April 2006.

Ms. Biggs confirmed for the senators that there were accountability mechanisms in place to ensure that Pakistan follows through on its commitments to reinvest the forgiven debt amounts. She committed to provide the committee with the criteria used by CIDA to audit Pakistan's performance in this area. Mr. Quinn noted that Pakistan's debt will only be forgiven when it actually invests funding in the education sector.

Some senators were concerned about the process by which a voted non-budgetary loan can be forgiven without that funding being transferred to a budgetary item. Non-budgetary items do not affect the fiscal bottom line of the government whereas budgetary items do affect the bottom line. Senators noted that a loan is voted on by Parliament with the expectation that the loan will be repaid. Mr. Smith explained that there is a provision against non-payments of debt and that as allowances are made for the non-payment of debts, these provisions cancel out any budgetary effect.

However, Treasury Board Secretariat added in a written submission:

Pursuant to the discussion at Senate Committee on National Finance, the selection of non-budgetary treatment was re-assessed and a legal opinion sought. The advice from Justice lawyers is that the provisions of the *Financial Administration Act* (FAA) require that this item be included as a budgetary appropriation in order to provide the department with the authority to forgive the debt.

A motion was passed in the House of Commons on Thursday, March 18 that in the Supplementary Estimates (C) for the fiscal year ending March 31, 2010, Vote L37c under Foreign Affairs and International Trade — Canadian International Development Agency be deemed to have been designated as Vote 32c.

In the longer term, the use of the terms "budgetary" and "non-budgetary" in Estimates, Public Accounts and the federal Budget, as well as in the *Financial Administration Act* and related regulations, will be reviewed and amended as needed to remove inconsistencies.

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<sup>3</sup> The Paris Club is an informal group of financial officials from 19 of the world's richest countries, which provides financial services such as debt restructuring, debt relief, and debt cancellation to indebted countries and their creditors.



The committee expressed great interest in the process by which this debt is being forgiven, and may examine this issue further after receiving written information from both CIDA and Treasury Board Secretariat.

### **C. Security Costs for the 2010 Olympics and Paralympics Games**

Senators were interested in the security costs associated with the 2010 Olympics and Paralympics Games.

Mr. Smith stated that \$900 million in total had been set aside in the fiscal framework by the government for Olympic and Paralympic games. This amount includes a \$137 million contingency fund. Including the amounts requested in these Supplementary Estimates, the government has asked for \$847 million for security and policing of the games. In an attempt to be as accurate as possible, departments only seek funds through the Supplementary Estimates when they require them. Adjustments may need to be made in the next Supplementary Estimates if more funds are required by departments.

Senators questioned Mr. Elcock on some of the costs borne by departments requesting funds in these Supplementary Estimates. It learned that the \$645,000 being requested by the Canada Border Services Agency was for the rental of and personnel to work portable x-ray machines. Canada Post's request of \$652,000 was for borrowed equipment to screen packages. Mr. Elcock stressed that all of the funds being requested were for incremental costs.

The committee wanted to congratulate all of the departments and agencies involved in the security and policing of the 2010 Olympics and Paralympics. Mr. Elcock stated that 119 police agencies from across the country were involved and they all did a superb job.

### **D. Security costs for the G8 and G20 Summits**

Senators were also interested in the security costs surrounding the upcoming G8 and G20 summits in June 2010. These Supplementary Estimates are directing \$179.4 million across eight departments and agencies toward planning and pre-event operations related to policing and security at the summits.

Mr. Pagan stated the \$32.1 million requested in these Supplementary Estimates by Public Safety was primarily for the conclusion of an agreement with the Ontario Provincial Police to secure provincial highways and the G8 site of Huntsville, Ontario. Mr. Baker confirmed that funding for this comes from the Security Cost Framework Policy which is the mechanism that allows the federal government to provide payments to provincial and municipal police forces to stage federal events in their territories. Mr. Baker stated that Public Safety is close to having an agreement finalized with the Toronto Police Service under that framework agreement.

Mr. Elcock stated that further costs for the security and policing would be brought forward in future Supplementary Estimates. Because plans for the G8 and G20 summits are still being finalized, the total cost for security is not known yet.

## **E. H1N1 Vaccine**

There was interest on the part of some senators in the government's request for \$86.6 million in funding, to be spent in Health Canada and the Public Health Agency of Canada, for activities related to the second wave of the H1N1 influenza pandemic (p. 10). Mr. Pagan stated that the funding for this initiative was earmarked in the fiscal framework after Budget 2006 pledged \$1 billion over five years to further improve Canada's pandemic preparedness.

## **F. Canadian Broadcasting Corporation**

Some senators were concerned that the Canadian Broadcasting Corporation (CBC) is internally reallocating \$26.2 million from its operating budget to fund capital expenditures of Newsworld and Réseau de l'information (RDI), and fund capital projects such as the transition to High Definition Television and the transition to digital broadcasting for delivery of television signals (p. 102). Mr. Pagan explained that:

The CBC operates under licence of the Canadian Radio-television and Telecommunications Commission, or CRTC, and according to the terms of their licence, CBC Newsworld and RDI must be self funded. CBC and RDI have received revenue during the course of the year, advertising and marketing, et cetera, and as they have to be self-funded and their revenue has come into the operating vote, they are now, in accordance with normal parliamentary procedure, seeking approval to move those funds that they have generated from their operating to their capital so that they can undertake the capital projects that will support those two specialty channels.

Mr. Pagan further clarified that this internal re-allocation of funds is the initiative of CBC itself. He stated:

... no department requires CBC to make that decision. CBC is asking for that itself. It has decided that this is the best way of modernizing. It will draw funds from operating to put into capital... It has made some business decisions on this basis. It is asking for the transfer. No one is telling them to do that; they are asking to do so.

## **Conclusion**

During its hearings on the *Supplementary Estimates (C), 2009-2010*, the committee deliberated on these and other matters. In some circumstances, witnesses committed to following up on their answers in writing at a later date.

The Standing Senate Committee on National Finance, to which were referred the *Supplementary Estimates (C), 2009-2010*, has examined the said Estimates and herewith submits its report.