SENATE **SÉNAT**

CANADA

SECOND INTERIM REPORT ON *2010-2011 ESTIMATES*

Standing Senate Committee on National Finance

FOURTH REPORT

Chair
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INTRODUCTION

As is customary with this committee, several meeting dates were set aside for the review of the *2010-2011 Main Estimates*. The initial examination began on March 23, 2010. The committee heard from the President of the Treasury Board, the Honourable Stockwell Day, on the Main Estimates.

The committee also heard from the following officials from the Treasury Board Secretariat: Mr. Alister Smith, Assistant Secretary, Expenditure Management Sector. He was accompanied by Mr. Brian Pagan, Executive Director, Expenditure Operations and Estimates Division, Expenditure Management Sector. In addition to their presentation, which outlined and explained the main features of the *2010-2011 Main Estimates*, the officials responded to the committee's initial enquiries about the government's planned spending for the new fiscal year and also provided written responses at a later date. The details of the Interim Supply Bill were made available for the committee's consideration before the end of March 2010 and an interim report (the committee's third) was presented in the Senate on 25 March 2010. Since that date, the committee has continued its examination of the *2010-2011 Estimates*.

The Main Estimates are prepared well in advance of the beginning of a fiscal year and they do not generally include expenditures for initiatives announced in the Budget. However, while Budget 2010 items are not included in these Main Estimates, all of the items announced in earlier budgets or fiscal updates are included in these Estimates. Budget 2010 items will be included in future Supplementary Estimates documents: Supplementary Estimates (A) were tabled on 25 May 2010, and there will likely be future Supplementary Estimates tabled in October 2010, and February 2011.

HEARINGS ON THE 2010-2011 ESTIMATES

The committee has held 12 meetings on the *2010-2011 Main Estimates*. The committee would like to highlight the following topics in this interim report.

1. Transfers to the Provinces
2. Public Service Commission

3. Community Futures Program
4. Auditor General
5. Canada Post
6. AECL
7. CBC

A. Transfers to the Provinces

Equalization is a federal transfer payment program designed to smooth out the differences in revenue-generating capacity across the provinces. By compensating poorer provinces for their relatively weak tax bases, equalization works to ensure that all Canadians have access to a reasonably similar level of government services at reasonably similar levels of taxation, regardless of where in the country they live.

Equalization is financed entirely from federal government general revenues. The purpose of the program was entrenched in the Canadian Constitution in 1982. Equalization payments are unconditional – receiving provinces are free to spend the funds according to their own priorities.

In December 2006, the Standing Senate Committee on National Finance released a report on the equalization program entitled "The Horizontal Fiscal Balance: Towards a Principled Approach." The committee concluded that the Equalization program needs to be guided by a clear set of principles which would introduce more transparency and accountability in current fiscal arrangements, and help create a more cooperative intergovernmental environment.

The mechanism for determining the total value of the Equalization Program, as well as the amount which qualifying provinces receive, has undergone numerous changes in recent years. The latest series of reforms was introduced in Budget 2009 and was based on the recommendations of the O'Brien Report. Specifically, Budget 2009 stated that equalization would grow in line with the economy. The growth provision would act as a floor to protect provinces against reductions in overall Equalization. The growth path would reflect a three-year moving average of nominal gross domestic product growth, which is planned to help to ensure stability and predictability for both orders of government, while still being responsive to changes in economic conditions.

On 30 March 2010, the following officials from the Department of Finance appeared before the committee to discuss the transfers to the provinces and other Finance-related issues: Nipun

Vats, Senior Chief, Federal-Provincial Relations Division, Federal-Provincial Relations and Social Policy Branch; Tom McGirr, Chief, Federal-Provincial Relations Division, Equalization and Policy Development, Federal-Provincial Relations and Social Policy Branch; Gérard Lalonde, Director, Tax Legislation Division, Tax Policy Branch; and Miodrag Jovanovic, Senior Chief, Personal Income Tax Division, Tax Policy Branch.

The committee noted in its preliminary investigation of the *2010-2011 Main Estimates* that $14.4 billion is to be allocated to Equalization in 2010-2011, down $1.7 billion, or 10.7%, from the amount indicated in the Main Estimates for the previous year. Some senators were concerned that the reduction seemed to contradict the government's growth provision in Equalization payments.

Mr. Vats explained that

> The amounts reported in the Main Estimates are required to be based on existing statutes at the time of tabling. At the time that the Main Estimates for 2009-2010 were tabled on February 12, 2009, the Equalization changes announced by the Minister of Finance [in Budget 2009] were still awaiting parliamentary approval. … As a result, the Main Estimates reported Equalization payments of 2009-2010 of $16.1 billion rather than the $14.2 billion announced by the Minister of Finance in November 2008. The 2009-2010 Supplementary Estimates (A) … showed a reduction in Equalization payments relative to the amounts reported in the 2009-2010 Main Estimates.

Mr. Vats continued by explaining that Main Estimates documents show a year-over-year comparison from previous Main Estimates, as is the normal practice. Therefore, the *2010-2011 Main Estimates* seem to indicate a year-over-year reduction in Equalization payments which is not the case. Table 1 indicates the amounts allotted to the Equalization program over the past five years.

Table 1 – Equalization Entitlements by Province (2006–2007 to 2010–2011)
(Millions of Dollars)

Year	Newfoundland and Labrador	Prince Edward Island	Nova Scotia	New Brunswick	Quebec	Ontario	Manitoba	British Columbia	Saskatchewan	Alberta	Total
2006–2007	687	291	1,386	1,451	5,539		1,709	459	13		11,535
2007–2008	477	294	1,465	1,477	7,160		1,826		226		12,925
2008–2009		322	1,465	1,584	8,028		2,063				13,462
2009–2010		340	1,391	1,689	8,355	347	2,063				14,185
2010–2011		330	1,110	1,581	8,552	972	1,826				14,371

Source: Library of Parliament. Compiled using data from Department of Finance Canada, http://www.fin.gc.ca/fedprov/eqp-eng.asp.

Some senators were interested in the effects that Part 6 of Bill C-9, the Budget Implementation Bill 2010-2011, would have on fiscal Equalization payments. Part 6 would enhance the Equalization program by $525 million for the 2010-2011 fiscal year. According to the Department of Finance, the proposed additional payments are associated with the Total Transfer Protection Payment. This one-time measure is designed to ensure that no province receives less in 2010-2011 than it did in 2009-2010 through the combined Equalization, Canada Health Transfer and Canada Social Transfer programs. Mr Vats told the committee that it was the government's intention to provide this one-time protection payment to address the economic downturn faced by the Canadian economy.

B. Public Service Commission

The Public Service Commission (PSC) is an independent agency mandated by Parliament to ensure a public service that is competent, non-partisan, representative of the Canadian population and able to serve the public with integrity, in the official language of their choice.

The Commission develops policies and guidance for public service managers who have delegated staffing authority and holds them accountable for their staffing decisions. As part of this role, the Commission conducts audits and investigations to confirm the effectiveness of the staffing system and to make improvements. As an independent agency, it reports its results to Parliament.

The President of the PSC, Maria Barrados, Donald Lemaire, Senior Vice-President of Policy, and Richard Charlebois, Vice-President, Corporate Management Branch appeared before the committee on 13 April 2010 to discuss the Commission's Main Estimates for the 2010-2011 year and other issues.

Ms. Barrados informed the committee that through the *Main Estimates 2010-2011*, the PSC is authorized to spend $99 million, compared to $91.8 million in 2009-2010. The increase is mainly due to approved funding for the electronic recruitment system, the Public Service Resourcing System. The $6.8 million for the recruitment system is for this fiscal year only. She also explained that after participating in the horizontal review of the central human resources management functions, the PSC has a permanent reduction of $4.6 million, which began in 2009-2010.

Ms. Barrados identified some of the challenges currently facing the PSC, chief of which is the high interest in public service jobs. Given the current economic situation, she expects the level of interest in careers in the public service to increase at the same time that the number of federal job opportunities will be decreasing as Budget 2010 is implemented. With operating budget constraints, there could be fewer opportunities in the public service and therefore the need for vigilance and commitment to maintaining fair and transparent staffing will be even greater.

Some senators were interested in the Public Service Resourcing System. Ms. Barrados explained that this system has the capacity to maintain an electronic trail for the entire job application process for externally advertised federal public service positions. Mr. Charlebois confirmed that the PSC has spent around $61 million to date on this system. The Treasury Board Secretariat has contributed funding for the development and operation of the system, but with that funding coming to an end in April 2011, the PSC is faced with having to continue to operate and develop the system. Ms. Barrados stated that the annual operating cost for the Public Service Resourcing System is about $5 million. With the funding from the Secretariat coming to an end, PSC has been meeting with deputy ministers, who have stated that they are prepared to pay for the system. The PSC estimates that it would cost a large department around $1 million a year to have the PSC maintain the system.

Some senators were concerned about the use of consultants and casual employees by the federal public service. There is an ongoing worry that overly prescribing to the use of these types of employees can undermine the ability of the PSC to maintain a fair and transparent public service that is free from bureaucratic patronage. With respect to consultants, Ms. Barrados stated that consultants can be very useful when specialized, one-time advice is needed by federal organizations. She stated it would be inappropriate if people were using consultants to work around security, language and due process requirements. She expressed similar worries about how temporary help, or casual employees, were used by federal organizations. Ms. Barrados noted that:

> There is too much of a tendency to come in as a casual, which is 90 days and for which there is no merit criteria or process. You come in as a casual because of people you know. You get to know the system, and then you have a competition for a shorter term, not a permanent hire, where again you do not have the same kind of requirements. Terms of six months less a day do not have national area of selection. By that time, you get to know everyone and you know the job. Then there is a big process, and, guess what, the person who has been working there for all that time and who knows everyone and knows the job wins the job.

She did, however, highlight that there are times when hiring temporary employees is justified. The committee hopes that a balance can be found between hiring temporary employees and maintaining a fair and transparent public service.

C. The Community Futures Program

The Community Futures Program was authorized in 1985 as part of the Canadian Jobs Strategy. The national Community Futures Program is currently administered by five regional development agencies: the Atlantic Canada Opportunities Agency (ACOA), Canada Economic Development for Québec Regions (CED-Q), Western Economic Diversification Canada (WED), the Federal Economic Development Agency for Southern Ontario; and the Federal Economic Development Initiative for Northern Ontario (FedNor) under Industry Canada (IC).

The national program’s aim is to support local rural communities and small and medium-sized enterprises in meeting their economic needs, to help rural communities to develop and implement long-term community strategic plans leading to the sustainable development of their local economies, and to provide resources to local Community Futures organizations (CFs) to build community capacity to adapt to and manage change.

Table 2 includes the funding for each of the regional development agencies for the Community Futures Program in the *Main Estimates 2010-2011* and the total received by each agency in 2009-2010:

Table 2: Federal Funding to the Community Futures Program

Regional Development Agency	**2010-2011**	**2009-2010**
Atlantic Canada Opportunities Agency (ACOA)	10,962,000	13,052,000
Canada Economic Development for Québec Regions (CED-Q)	32,300,000	32,000,000
Western Economic Diversification Canada (WED)	23,653,993	. . .
Federal Economic Development Agency for Southern Ontario	9,571,800	. . .
Federal Economic Development Initiative for Northern Ontario (under Industry Canada)(FedNor)	8,488,200	21,760,000
Total	**84,975,993**	**66,812,000**

Source: *Main Estimates 2010-2011*.

The committee held a hearing on 14 April 2010 with representatives from each of the regional development agencies to discuss the Community Futures program. Representing WED was Daniel Watson, Deputy Minister. Representing the Federal Economic Development Agency for Southern Ontario was Clair Gartley, Vice-President, Business Innovation and Community Development. Representing Industry Canada, which has responsibility for FedNor, was France Pégeot, Assistant Deputy Minister, Regional Operations and Carmen DeMarco, Manager, Program Delivery Northeastern Ontario. The CED-Q was represented by Manon Brassard, Vice-President, Operations, and Rita Tremblay, Vice-President, Policy and Planning. Finally, Robert Smith, Director General, Community Development and Kent Estabrooks, Director General, Finance and Administration represented the ACOA.

The committee learned that there are 273 Community Futures organizations (CFO) across the country. Each of these organizations is a non-profit, local development organization in non-metropolitan areas run by volunteer boards of directors with professional staff. The CFOs are linked by a network of provincial, regional and national CFO associations. According to Mr. Watson from WED, CFOs “offer strategic community planning and economic development, business services, access to capital, and support for community-based projects." Mr. Watson stated that

> Over the last 11 years, CFOs made 60,000 investments worth over $2.3 billion to small- and medium-sized enterprises that have difficulty accessing traditional sources of capital. An additional $4.3 billion, mainly from the private sector, was leveraged, maintaining an estimated 260,000 full-time jobs.

Some senators were interested to hear from Mr. Smith from ACOA that approximately 95% of the funds authorized by Parliament in the Main Estimates go towards administration costs. Ms. Brassard from CED-Q stated that the funding received from Parliament goes to pay the employees who administer the Community Futures loans and to pay for the activities of the various CFOs that oversee the loans. Mr. Watson from WED clarified that the funding is for all of the CFOs' operating costs, including travel and rent. Mr. Estabrooks informed the committee that the remainder of the funds received from Parliament are for investment funds.

Representatives from the regional development agencies clarified for the committee that there are two separate pools of funding: an operating pool and a loan pool. Mr. Gartley from the Federal Economic Development Agency for Southern Ontario stated that the operating pool comes from funding authorized each year through the Main Estimates. He continued by stating that when the Community Futures Program was established, $1.5 million in capital funding was made available to each CFO and this is what started the loan pool. The two pools have been maintained separately since the establishment of the Community Futures Program.

D. Auditor General

The Auditor General is an Officer of Parliament who audits federal departments and agencies, most Crown corporations, many other federal organizations and Territories, and reports publicly to the House of Commons on matters that the Auditor General believes should be brought to its attention. The Auditor General's powers and responsibilities are set forth in the *Auditor General Act*. The Office of the Auditor General (OAG) audits federal government operations and provides Parliament with independent information, advice, and assurance regarding the federal government's stewardship of public funds.

Sheila Fraser, Auditor General of Canada, appeared before the committee on 21 April 2010 to discuss the OAG's Main Estimates and latest audit reports. Ms. Fraser was accompanied by Assistant Auditors General Sylvain Ricard, Nancy Cheng and Ronald Campbell.

The Main Estimates authorize $85 million for the OAG in 2010-2011, up from $82 million in the 2009-2010 Main Estimates. The Office currently has a staff of 635 people in offices across the country. The OAG devotes a little more than half of its work to financial audits. The remainder of its work is with performance audits. The Office completes about 25 performance audits each year.

The 2010 Spring Report of the Auditor General focused on the following topics:

- Aging Information Technology Systems;
- Modernizing Human Resource Management;
- Rehabilitating the Parliament Buildings;
- Sustaining Development in the Northwest Territories;
- Scientific Research—Agriculture and Agri-Food Canada;
- Special Examinations of Crown Corporations—2009; and
- Electronic Health Records in Canada—An Overview of Federal and Provincial Audit Reports.

Committee members discussed these topics and others with Ms. Fraser.

In particular, some senators were interested in the renovation of the parliamentary precinct. The OAG's only recommendation with respect to the rehabilitation of the Parliament Buildings was that "Public Works and Government Services Canada (PWGSC), in cooperation with and with the support of the speakers of the Senate and the House of Commons ... should develop and propose mechanisms to ensure that responsibility and accountability for the Parliament buildings rest with the Senate and the House of Commons." Some senators noted that there could be a perceived conflict of interest if the Senate and the House of Commons requested costly renovations for the structures that house their offices. Ms. Fraser stated that there are international models that can be applied to Canada's situation. She also noted that there were no objections by PWGSC to working with the Senate and the House of Commons to negotiate a solution to the challenges faced in maintaining the parliamentary precinct.

Some senators also focused on the OAG's overview of federal and provincial audits of electronic health networks. The OAG and six provincial audit offices carried out separate, concurrent audits of the development and implementation of electronic health records. Electronic health records are expected to reduce costs and improve the quality of care. However, this pan-Canadian initiative involves significant investments and challenges. In an earlier audit, the OAG concluded that Canada Health Infoway, the federal corporation leading the national development of electronic health records, is performing well.

When asked about the potential effectiveness of electronic health records, Ms. Fraser noted that

> They will eliminate many of the problems caused by paper records, things like adverse drug reactions because people do not know if someone has gone to two or three doctors and received different medications, or the pharmacy is not aware that they have the prescription somewhere else. There is also duplicate testing, every time you go to a doctor, they will order all the same tests. If it is all in one record, hopefully some of that will be eliminated.

Some senators were interested in whether Canada Health Infoway and the provincial organizations are respecting the privacy of Canadians, Ms. Fraser noted that the OAG ensured that all of the organizations audited were respecting provincial and federal privacy legislation in the development of electronic health networks.

E. Canada Post

Canada Post Corporation is one of the largest federal Crown corporations and one of the largest employers in Canada, with about 60,000 full- and part-time employees (its subsidiaries employ about another 12,000 people), most of whom are unionized. Canada Post has been a Crown corporation since 1981. It reports to Parliament through the Minister of Transport, Infrastructure and Communities.

Moya Greene, President and Chief Executive Officer of Canada Post Corporation, appeared before the committee on 27 April 2010 to discuss Canada Post's funding and other issues related to Canada Post's mandate.[1]

[1] On 27 May 2010, Ms. Greene was appointed Chief Executive designate of the United Kingdom's Royal Mail.

According to its 2009 Annual Report, which was tabled in Parliament on 26 April 2010, Canada Post reported a profit in 2009 for the 15th consecutive year. Canada Post recorded consolidated net income of $281 million on revenue of $7.3 billion. The committee was advised by Ms. Greene that the profit in 2009 does not truly reflect the underlying weakness in Canada Post's operating performance and the financial challenges ahead. If it were not for stringent cost containment measures that resulted in a reduction of $540 million of planned costs by the Canada Post segment, as well as an unplanned non-cash reduction of $271 million in employee future benefits expenses, the company would have reported a loss in 2009. Canada Post, like many other businesses, faced tough economic times in 2009. Volumes and revenues in all of Canada Post's lines of business, as well as its largest subsidiary, Purolator Courier, fell sharply. Consolidated revenue declined by $421 million from 2008 levels.

Some senators were concerned about the services provided by Canada Post to rural areas of the country. Ms. Greene informed the committee that

> There are 4,000 offices in rural Canada, 4,000 points of service, and the vast majority of Canadians living in rural Canada have access to postal services in a reasonably short distance. We try to preserve delivery as it has been traditionally done.

The government imposed a moratorium on the closing of rural post offices in 1994. Ms. Greene told the committee that Canada Post respects this moratorium; however, she also stated that Canada Post needs enough flexibility to deal with realities that arise.

Members of the committee were also interested in learning more about Canada Post's plans for revenue generation and diversification. Ms. Greene told senators that there are two areas in particular that Canada Post is looking at developing: electronic communication for transaction mail and online marketing offers for direct marketing mail.

Ms. Greene also noted that Canada Post needs to diversify the revenue stream and perhaps evolve to be in wholly different businesses than it is in today. She stated that other postal administrations, such as New Zealand, have made a success out of banking services. Canada Post already has over $1 billion of money order business. Ms. Greene stated that

> For many small businesses in Northern Canada that money order business operates as a bank for them. We do a lot of verification for credit card customers to ensure that the people showing up are the people who should get the card. We think this trust category of services can move in the future, as many postal administrations have done, into a more traditional and generalized banking offer.

She noted that Canada Post is considering the possibility of developing this side of business.

Ms. Greene also commented on one of the challenges that currently face Canada Post. Letter carriers currently sort their route by hand, the same way they did 100 years ago. The equipment and technology to automatically sort mail has been available for 20 years; however, Canada Post has been so slow to adapt to this new technology that it is "using equipment that is in the U.S. postal museum."

Some senators were interested in Part 15 of the 2010-2011 Budget Implementation Bill, C-9, that would modify the exclusive privilege of Canada Post in order to permit letter exporters, or remailers, to collect letters in Canada for transmittal and delivery outside of Canada. Ms. Greene stated,

> I wish to make it clear that the bill does not take away the exclusive privilege... It affects a tiny subsection of the mail, and I believe that we can compete vigorously and successfully for that subsection. Of the many challenges that face Canada Post, I do not consider remailers to be anywhere near the top 10 list.

The committee will examine this issue further when it considers Bill C-9 at future meetings.

F. Atomic Energy of Canada Limited

Atomic Energy of Canada Limited (AECL) is a federal Crown corporation specializing in nuclear science and energy. Although AECL's primary business focus is the development, sale and servicing of CANDU reactors, the production of medical isotopes is an important secondary commercial business. Today, AECL supplies nuclear technology and services to electric power companies around the world. It has about 4,800 employees who work in the entire spectrum of nuclear services: research and development support, construction management, design and engineering, specialized technology, waste management and decommissioning in support of CANDU nuclear reactors.

In Canada, there are 20 CANDU reactors that produce 16% of the country's electricity needs: 54% of the electricity in Ontario, 25% in New Brunswick and 3% in Quebec. In addition, nine CANDU reactors have been sold and installed in Korea, Romania, Argentina and China.

Hugh MacDiarmid, President and Chief Executive Officer appeared before the committee on 4 May 2010 to discuss AECL's Main Estimates. He was accompanied by Kent Harris, Senior Vice-President and Chief Financial Officer; and William Pilkington, Senior Vice-President and Chief Nuclear Officer.

Mr. MacDiarmid provided the committee with an update on the repairs of the National Research Universal (NRU) reactor, which is the principal Canadian producer of medical isotopes. The NRU reactor has been out of service since May 2009. He stated that the NRU reactor will resume isotope production by the end of July 2010. However, he also noted that this "schedule does have built-in prudent contingency that reflects the difficulty inherent in these final repair sequences."

Some senators were also interested in the progress of the refurbishment project at the Point Lepreau reactor in New Brunswick. The $1.4 billion-refurbishment of Point Lepreau began in the spring of 2008, with the reactor originally scheduled to be back up and running by October 2009. The initial estimate on the refurbishment was $1.4 billion; media reports have stated that there is currently a $475 million cost overrun, and this does not include the costs to New Brunswick in purchasing replacement power. Mr MacDiarmid stated that the refurbishment project "unfolded in a way that has made it very clear that [AECL] underestimated the technical challenge and overestimated its capabilities to deliver against the schedule and costs that were negotiated in the original contract." He noted that the contract was negotiated in a relatively compressed time frame. Mr. MacDiarmid noted that any predictions on the date of completion of the project beyond October 2010 would be speculative.

Some senators noted that in the last two years, not including this year, AECL has received advancements of $100 million and then $150 million through Treasury Board Vote 5 because there were extraordinary, unforeseen situations and it could not wait for Supplementary Estimates. Mr. Harris told the committee that AECL does not have the same ability as a traditional company to access funds. In addition, AECL does not have the authority to borrow and therefore has no other option but Treasury Board Vote 5 to access funds to meet unexpected expenditures. According to Mr. Harris, AECL is currently in discussions with Natural Resources Canada to see how it can avoid using Treasury Board Vote 5 in the future.

Some senators were interested in the government's plans to restructure AECL's operations. In Budget 2009, the government stated that it would review AECL’s structure to ensure that it is appropriate in a changing marketplace. The review would include consideration of options, including private sector participation in the commercial operations of the corporation, in order to position Canada’s nuclear industry to take maximum advantage of future opportunities at home and abroad.

In May 2009, the government announced that AECL would be split into two business units. The research unit, which includes the Chalk River Laboratory, will remain under the control of the government. AECL’s commercial business, which designs and sells the CANDU nuclear reactors that are used to generate electricity, would be sold.

According to Budget 2010, the government initiated a restructuring process with respect to AECL to attract new investment and expertise, position the corporation for success in a changing global marketplace and create new opportunities for Canada’s nuclear industry. Investors were invited to submit proposals for AECL’s commercial reactor division in December 2009. The Minister of Natural Resources is scheduled to review these proposals, and assess how AECL could best be restructured to meet the government’s objectives.

Part 18 of the 2010-2011 Budget Implementation Bill, C-9 would authorize a number of measures for the reorganization and divestiture of all or any part of AECL business. In addition, with the approval of the Governor in Council, the Minister of Natural Resources could: dispose of some or all of the shares of AECL; change the object or purpose of AECL; or amalgamate or dissolve AECL. The Minister of Natural Resources, with the approval of the Governor in Council, could also create a new corporation or entity; acquire the shares of a corporation or entity, or dispose of shares of a corporation or entity, with ownership of the shares in the new corporation, or of the acquired shares, in the name of the Crown. The committee will examine this issue when it considers Bill C-9 at future meetings.

G. Canadian Broadcasting Corporation

The Canadian Broadcasting Corporation (CBC) is Canada's national public broadcaster and one of this country's largest cultural institutions. The CBC delivers a comprehensive range of radio, television, Internet, and satellite-based services. The CBC's mandate is set out in the 1991 *Broadcasting Act* and states that "the Canadian Broadcasting Corporation, as the national public broadcaster, should provide radio and television services incorporating a wide range of programming that informs, enlightens and entertains." The CBC reports annually to Parliament through the Minister of Canadian Heritage.

The CBC operates on a hybrid funding model. In the 2008–2009 fiscal year, corporate revenues totalled $1.8 billion. Of that amount, $1.1 billion came from parliamentary appropriations. In addition, $356 million came from advertising and program sales. Revenue from specialty services was $149 million in 2008–2009. Table 3 details the funding to the CBC from 2004-2005 to 2008-2009.

Table 3: CBC Revenues (millions of dollars), 2004–2005 to 2008–2009

Revenues	**2004-2005**	**2005-2006**	**2006-2007**	**2007-2008**	**2008-2009**
Parliamentary appropriations	877	946	914	900	1,070
Non-recurring funding	60	60	60	60	. . .
Advertising and program sales	322	315	329	317	356
Other income	87	84	80	99	107
Revenues from subscriptions to specialty services	138	144	150	151	149
Amortisation of deferred capital funding (*This item has no impact on current funding*)	117	118	93	102	111
TOTAL	**$1,484**	**$1,528**	**$1,626**	**$1,629**	**$1,793**

Source: CBC/Radio-Canada annual reports, various years.

Parliamentary appropriations for the 2009-2010 fiscal year amounted to $1,140 million ($1,053 million in the Main Estimates, $60 million in Supplementary Estimates, $27 million in compensation adjustments). The *Main Estimates 2010-2011* include $1,091 million for the CBC.

The committee heard from Hubert Lacroix, President and Chief Executive Officer of the CBC on 12 May 2010 on the topic of the CBC's Main Estimates and other matters.

Mr. Lacroix explained to the committee the CBC's disappointment with the Canadian Radio-television and Telecommunications Commission's (CRTC) April 2010 decision concerning value-for-signal, which allowed private broadcasters to negotiate with cable and satellite companies for fees for their signals, just like the specialty channels. The CRTC's decision denied the CBC the same right. Mr. Lacroix discussed the CBC's broken business model as it relates to the CRTC's decision. He stated that

> Specialty channels get subscription revenue, so if you are watching TSN tonight and you are watching the other hockey game, you will have to pay to get TSN in your home. If you are watching Discovery Channel, any other specialty channel, you actually pay a fee, and the broadcaster also gets ad revenues from that channel. We do not have the benefit of that subscription fee. On your cable bill, not a cent goes to us for la Première Chaîne de Radio-Canada, for the CTV network or for our main television channel. That is what is broken, and the CRTC recognized that. [The CRTC] offered the private broadcasters a solution and said, you, CBC/Radio-Canada, cannot be part of this solution. The justification for that was in this negotiation for the value of the signal, they will allow the private broadcasters to pull their signal, like they do in the United States, if the private broadcaster and the cable company, let us say, do not agree on how much that particular channel is worth.

The deterioration of advertising revenues in the current economic situation has contributed to the frustration of Mr. Lacroix regarding the CRTC's decision. Given the financial troubles facing the CBC in the past few years, advertising revenues are critical to allow the CBC to fulfill its mandate.

The senators were interested in this and other matters, including regional representation, other federal funding related challenges, and the methods used by the CBC to engage and select polling firms. The committee requested more information from the CBC regarding these issues and it may wish to further study and report on the CBC at a later date.

CONCLUDING COMMENTS

These and other matters, including the implementation of several Budget 2009 initiatives, were discussed during the committee's examination of the *2010-2011 Main Estimates* to May 2010. In the coming months the committee intends to continue its review of the Estimates in order to more fully examine the government's spending plans for the 2010-2011 fiscal year and to report on this work at a future date.