



## **FIRST INTERIM REPORT ON THE 2013-14 MAIN ESTIMATES**

### **Standing Senate Committee on National Finance**

#### **NINETEENTH REPORT**

##### *Chair*

The Honourable Joseph A. Day

##### *Deputy Chair*

The Honourable Larry Smith

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## **FIRST INTERIM REPORT ON THE 2013-14 MAIN ESTIMATES**

### **Introduction**

The *2013-14 Main Estimates* were tabled in Parliament on 25 February 2013, and subsequently referred to the Standing Senate Committee on National Finance for review. To date, the Committee has held three meetings to study the *2013-14 Main Estimates*, during which it has heard from five departments and two agencies.

On 6 March 2013, the following Treasury Board Secretariat (TBS) officials appeared: Yaprak Baltacioğlu, Secretary of the Treasury Board of Canada; Bill Matthews, Assistant Secretary, Expenditure Management Sector; Sally Thornton, Executive Director, Expenditure Management Sector; and Marcia Santiago, Senior Director, Expenditure Management Sector.

On 19 March 2013, the Committee heard from officials from two departments and one agency. The Department of Transport was represented by Louis Lévesque, Deputy Minister, and André Morency, Assistant Deputy Minister, Corporate Management and Crown Corporation Governance. Kevin Lindsey, Assistant Deputy Minister, Finance and Corporate Services, and Rear-Admiral Patrick Finn, Chief of Staff, Materiel Group, appeared on behalf of the Department of National Defence (DND).

The Infrastructure Canada agency was represented by Su Dazé, Assistant Deputy Minister, Corporate Services Branch.

On 20 March 2013, the Committee welcomed the Department of Aboriginal Affairs and Northern Development (AANDC), represented by Colleen Swords, Associate Deputy Minister, and Pamela D'Eon, Director General, Planning and Resource Management. Departmental representatives of Public Works and Government Services Canada (PWGSC) also appeared: Alex Lakroni, Chief Financial Officer, Finance Branch, and John McBain, Assistant Deputy Minister, Real Property Branch.

The Royal Canadian Mounted Police was represented by Alain Duplantie, Assistant Commissioner, Chief Financial and Administrative Officer.

## A. Overview of the 2013-14 Main Estimates

In federal budget documents, spending is divided into budgetary and non-budgetary expenditures, and into two categories: voted appropriations<sup>1</sup> and statutory appropriations.<sup>2</sup> As shown in Table 1, the total budgetary expenditures in the *2013-14 Main Estimates* are \$252.54 billion, which includes \$87.06 billion in voted appropriations and \$165.48 billion in statutory appropriations. This amount represents an increase of \$640 million (0.3%) compared with the budgetary expenditures in the *2012-13 Main Estimates*.

**Table 1 – 2013-14 Main Estimates**  
(\$ billions)

	2013-2014	2012-2013	Variation (%)
Voted	87.06	91.95	(5.3)
Statutory	165.48	159.95	3.5
Total	252.54	251.90	0.3

Source: Treasury Board Secretariat, *2013-14 Main Estimates*, p. I-4.

## B. Study of the 2013-14 Main Estimates

Senators asked the officials appearing before the Committee about the federal government's rationale for voted appropriation authorization requests and the reasons for changes to statutory appropriation levels for federal departments and agencies.

### 1. Treasury Board Secretariat (TBS)

TBS officials drew the Committee's attention to the key changes to the presentation of the *2013-14 Main Estimates*, including the following:

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<sup>1</sup> Voted appropriations are also referred to as voted amounts or voted expenditures.

<sup>2</sup> **Budgetary expenditures** include the cost of servicing federal public debt; operating and capital expenditures; transfer payments to other levels of government, organizations or individuals; and payments to Crown corporations. **Non-budgetary expenditures** (loans, investments and advances) are transactions that represent changes in the composition of the financial assets of the Government of Canada. **Voted appropriations** are expenditures that require annual approval from Parliament, which is sought through an appropriation bill. **Statutory appropriations** are those authorized by Parliament through enabling legislation; they are included in the Estimates documents for information purposes only.

- A graph that compares budgetary expenditures from the *2013-14 Main Estimates* with budgetary expenditures incurred in 2011-2012 and the budgetary expenditures in the estimates to date<sup>3</sup> for 2012-2013;<sup>4</sup>
- A graph that compares non-budgetary expenditures from the *2013-14 Main Estimates* with non-budgetary expenditures in 2011-2012 and the non-budgetary expenditures in the estimates to date for 2012-2013;<sup>5</sup>
- A graph that shows how federal government expenditures have changed between 2003-2004 and 2013-2014;<sup>6</sup>
- A table that presents the estimates for 2013-2014, expenditures for 2011-2012, main estimates for 2012-2013 and estimates to date for 2012-2013 for each of the 135 federal institutions in alphabetical order rather than by portfolio;<sup>7</sup> and
- The *2013-14 Main Estimates* present only one statutory item per organization. A breakdown of the statutory items is available on the TBS website.<sup>8</sup>

The TBS officials also informed the Committee that the *2013-2014 Reports on Plans and Priorities* will provide information on expenditures incurred in the preceding three fiscal years and the planned expenditures over the upcoming three fiscal years. Furthermore, they will have hyperlinks to the most recent issue of the *Tax Expenditures and Evaluations* document published by the Department of Finance.

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<sup>3</sup> Estimates to date include the main estimates and the supplementary estimates.

<sup>4</sup> Treasury Board Secretariat, *2013-14 Main Estimates*, <http://www.tbs-sct.gc.ca/est-pre/20132014/me-bpd/me-bpd-eng.pdf>, p I-4.

<sup>5</sup> Ibid.

<sup>6</sup> Ibid., p. I-5.

<sup>7</sup> Ibid., p. I-10.

<sup>8</sup> Treasury Board Secretariat, *2013-14 Main Estimates*, Statutory forecasts, <http://www.tbs-sct.gc.ca/est-pre/20132014/me-bpd/sf-pl-eng.pdf>.

The TBS representatives confirmed that, from now on, the main estimates and supplementary estimates will specify in which federal budget expenditures were announced for the first time. New expenditures announced in the 2013 federal budget will be the first to be identified in this way in the 2013-2014 supplementary estimates. TBS officials also pointed out that the amount allocated for new expenditures in the 2013 budget will be higher than the amount identified in the 2013-2014 supplementary estimates, as the federal budget is done on an accrual basis<sup>9</sup> and the supplementary estimates are done on a cash basis.<sup>10</sup>

Regarding the \$112.5-million increase in budgetary expenditures for the Canadian Space Agency for its RADARSAT Constellation Mission, the TBS officials explained to the Committee that the funds would allow for the launch of satellites by 2018 in order to improve maritime surveillance, disaster management and ecosystem monitoring.<sup>11</sup>

TBS officials said that the \$70.9-million increase in expenditures for the Department of Veterans Affairs is attributable to implementation of the settlement approved by the Federal Court in response to the class-action case *Manuge* regarding the reduction of disability benefits paid by the Department of National Defence (Service Income Security Insurance Plan Long Term Disability Plan) by the amount of disability benefits paid by the Department of Veterans Affairs.

They also highlighted a \$21.9-million increase in budgetary expenditures for the Canadian Air Transport Security Authority for a new baggage screening system.

Regarding the decrease of \$428.4 million in budgetary expenditures by the Correctional Service of Canada (CSC) in the *2013-14 Main Estimates* compared with the *2012-13 Main Estimates*, the TBS representatives explained that this decrease is attributable to projected inmate population growth that has not materialized.

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<sup>9</sup> Accrual accounting recognizes revenue and expenses to be reflected in the accounts in the period when they are deemed to have been earned and incurred.

<sup>10</sup> Cash accounting requires that revenue and expenses be reflected in the accounts only when the receipts and disbursements occur.

<sup>11</sup> Canadian Space Agency, RADARSAT Constellation, <http://www.asc-csa.gc.ca/eng/satellites/radarsat/default.asp>.

TBS officials drew the Committee's attention to two typos on page II-45 of the English version of the *2013-14 Main Estimates* and page II-37 of the French version. The contribution of \$246,000 to the Province of Quebec for the James Bay and Northern Quebec Agreement and the contribution of \$4.5 million in support of public participation in the environmental assessment review process should not appear in brackets. In accounting, the brackets indicate a negative amount, and these two contributions are positive.

Regarding questions from certain senators about a decrease in \$41.02 billion in non-budgetary expenditures under the *2013-14 Main Estimates*,<sup>12</sup> the TBS officials explained to the Committee that the majority of this decrease is related to the repayment of insured mortgage loans that were purchased by the federal government from financial institutions under the Insured Mortgage Purchase Program (IMPP).<sup>13</sup> They also explained that the IMPP did not involve any additional risk for Canadian taxpayers, as the mortgages were already guaranteed by the federal government.

Other senators wanted information about how much still needs to be repaid under the IMPP. The TBS representatives replied that the federal government, through the Canada Mortgage and Housing Corporation (CMHC), held \$54.8 billion in insured mortgage loans as of 31 March 2012.<sup>14</sup> These insured mortgage loans are currently outstanding, as they have not come due yet.

Some senators asked a series of questions about Treasury Board Vote 5, the Government Contingencies Vote. The TBS officials replied that, in the *2013-14 Main*

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<sup>12</sup> Non-budgetary expenditures represent changes in the composition of the financial assets of the Government of Canada (e.g., loans, investments and advances). A negative number indicates that recoveries of loans, investments and advances will exceed outlays. See: Treasury Board Secretariat, Backgrounder, Main Estimates, Non-budgetary expenditures, <http://www.tbs-sct.gc.ca/media/nr-cp/2011/0301-eng.asp>.

<sup>13</sup> The Canada Mortgage and Housing Corporation purchased mortgage-backed securities at market value through a reverse-auction method. Financial institutions that wished to sell such securities to raise cash had to submit the total value of the securities they wished to sell, and the yield they were prepared to pay. For more information about this program, see: Library of Parliament, *The Insured Mortgage Purchase Program*, PRB 08-56E, 13 March 2009, <http://www.parl.gc.ca/Content/LOP/ResearchPublications/prb0856-e.htm>.

<sup>14</sup> Public Works and Government Services Canada, *Public Accounts of Canada 2012*, Volume I, <http://www.tpsgc-pwgsc.gc.ca/recgen/pdf/49-eng.pdf>, p. 9.7.

*Estimates* for the TBS, \$750 million had been allocated to Vote 5. Treasury Board Vote 5 serves to supplement other appropriations in order to provide the federal government with sufficient flexibility to meet urgent or unforeseen expenditures where a valid cash requirement exists due to the timing of a payment or where specific authority is required to make a payment. Allocations made under Treasury Board Vote 5 are provided on a temporary basis and must be reimbursed once parliamentary authority for the expenditure has been obtained through the approval of the Supplementary Estimates.

The TBS representatives also explained that a minister who needs funding under Vote 5 must sign a Treasury Board submission. If it meets the criteria, the Treasury Board's Cabinet Committee<sup>15</sup> approves the transfer of funds to the requesting department.

In response to questions from certain senators about the cost of federal debt in recent years, the TBS officials recommended that the Committee consult the Public Accounts of Canada, as this document contains a great deal of information on the cost of public debt. According to Volume I of the *Public Accounts of Canada 2012*, public debt charges as a percentage of revenues has been decreasing in recent years, falling from 37.6% in 1990-91 to 12.7% in 2011-2012.<sup>16</sup>

Other senators sought information about the total federal debt. The TBS representatives advised the Committee to consult the *Debt Management Report 2011-2012* published by the Department of Finance for more information on federal debt. According to this report, federal debt stood at \$582.2 billion as of 31 March 2012.<sup>17</sup>

In response to questions from senators about Canada's national portrait collection, TBS officials informed the Committee that Library and Archives Canada is responsible for

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<sup>15</sup> The current members of the Treasury Board Cabinet Committee are the Hon. Tony Clement, the Hon. Rona Ambrose, the Hon. Maxime Bernier, the Hon. Julian Fantino, the Hon. James Michael Flaherty, and the Hon. Bernard Valcourt. See: Prime Minister's Office, Cabinet Committee Mandates and Membership, [http://www.pm.gc.ca/grfx/docs/Cab\\_committee-comite.pdf](http://www.pm.gc.ca/grfx/docs/Cab_committee-comite.pdf), p. 5.

<sup>16</sup> Public Works and Government Services Canada, *Public Accounts of Canada 2012*, Volume I, <http://www.tpsgc-pwgsc.gc.ca/recgen/pdf/49-eng.pdf>, p. 1.7.

<sup>17</sup> Department of Finance, *Debt Management Report 2011-2012*, <http://www.fin.gc.ca/dtman/2011-2012/pdf/dmr-rgd12-eng.pdf>, p. 7.



that collection. The images of the portraits and the exhibitions are available on the Library and Archives Canada website.<sup>18</sup>

Some senators asked for more information about the list of federal departments and agencies that transferred their information technology and specialized human resources services to Shared Services Canada.<sup>19</sup> The TBS representatives replied that this list includes PWGSC and 42 other federal departments and agencies.<sup>20</sup>

In response to questions from senators about a \$46-million reduction in funding for the Stewardship of the Canadian Legal Framework program, the TBS officials responded that this Department of Justice program has no relationship to the appointment of judges or to their salaries. The payments made pursuant to the *Judges Act* include judges' salaries, allowances and annuities paid to judges appointed by the federal government to the Federal Court of Appeal or the Supreme Court of Canada and to their survivors. The statutory forecast for these payments increased from \$474.7 million in the *2012-13 Main Estimates* to \$487.5 million in the *2013-14 Main Estimates*.

Some senators asked questions about a 60% reduction in budgetary expenditures for VIA Rail in the *2013-14 Main Estimates* compared with the expenditures incurred in 2011-2012. The TBS officials said that VIA Rail's numbers were artificially high in 2011-2012 because funding was granted to build additional rail cars, engines, and to improve tracks. This reduction in budgetary expenses will not affect the safety inspections of rail cars and tracks, as these inspections are carried out by Transport Canada.

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<sup>18</sup> See: Library and Archives Canada, Portrait Portal, <http://www.bac-lac.gc.ca/eng/portrait-portal/Pages/portrait-portal.aspx>.

<sup>19</sup> Shared Services Canada was created on 4 August 2011, to transform how the government manages its IT infrastructure. Its mandate for the provision of enterprise-wide IT services infrastructure represents better value for money and a more reliable infrastructure to support modern government operations. For more information, see: Shared Services Canada, <http://www.ssc-spc.gc.ca/pages/bckgrnd-cntxt-eng.html>.

<sup>20</sup> For the complete list, see: Department of Justice, *Order Transferring to Shared Services Canada the Control and Supervision of Certain Portions of the Federal Public Administration in each Department and Portion of the Federal Public Administration known as the Email, Data Centre and Network Services Unit and the Email, Data Centre and Network Services Support Unit*, <http://laws-lois.justice.gc.ca/PDF/SI-2011-95.pdf>, p. 5.

## **2. Department of Aboriginal Affairs and Northern Development (AANDC)**

Officials from Aboriginal Affairs and Northern Development Canada reported that the Department's *2013-14 Main Estimates* provide for about \$8 billion in departmental spending in 2013-2014. This is a net increase of \$178 million or 2.3% over the *2012-13 Main Estimates*.

The officials subsequently drew the Committee's attention to the following key expenditure items:

- \$224.5 million in additional funding in 2013-2014 compared with 2012-2013 to continue implementing the Indian Residential Schools Settlement Agreement;<sup>21</sup>
- \$137.4 million for the First Nations Water and Wastewater Action Plan; and
- \$115 million for initiatives to improve First Nations education.

They also noted that the 2012 federal budget provided \$330.8 million over two years to make further progress on building and renovating on-reserve water infrastructure and support the development of a long-term strategy to improve water quality in First Nations communities.

Regarding First Nations education, AANDC officials stated that the 2012 federal budget allocated an additional \$275 million over three years to support primary and secondary education. This amount will fund the construction and renovation of on-reserve schools, literacy programs for young children and partnerships with provincial school systems. They also noted that the federal government has committed to working with parents, educators, leaders and other First Nations stakeholders to enact First Nations education legislation by September 2014.

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<sup>21</sup> This amount includes additional funding for claimants under the Independent Assessment Process, Alternative Dispute Resolution and the Common Experience Payment. It also includes funding for the administration and research required to support the federal government's ongoing obligations under the Agreement.

In addition, the officials pointed out that they are working with Public-Private Partnerships Canada (PPP Canada) to explore new ways of funding the construction and renovation of on-reserve schools.

In response to some senators' questions on the implementation of the Indian Residential Schools Settlement Agreement, the officials said that the deadline for submitting applications for the Common Experience Payment (CEP) was 19 September 2012.<sup>22</sup> CEP applications are no longer being accepted. As of December 2012, AANDC had received 105,540 CEP applications for a total cost of \$1.62 billion.

In the case of the Independent Assessment Process (IAP), the AANDC officials told the Committee that the deadline for submitting an application was also 19 September 2012.<sup>23</sup> AANDC has received 37,617 IAP applications and paid out \$1.8 billion to settle 15,000 of them to date. Some senators wanted to know what percentage of the funding requested for residential schools resolution goes to administration. The AANDC officials explained to the Committee that it is difficult to determine the exact percentage since part of this funding is directly allocated to the adjudicators, without going through AANDC's administration. They added that lawyers representing claimants are entitled to 10% to 15% of the settlement amounts awarded by adjudicators under the IAP. According to the officials, this suggests that eligible claimants would receive about 90% of the settlement amounts awarded by adjudicators.

Senators asked a series of questions about the drinking water and wastewater treatment systems used by First Nations. The AANDC officials responded that First Nations receive funding for their capital expenditures and can choose how much they wish to

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<sup>22</sup> The CEP is a component of the Indian Residential Schools Settlement Agreement. The CEP recognizes the experience of residing at an Indian Residential School and its impacts. Eligible applicants receive \$10,000 for the first school year (or partial school year) of residence at one or more residential schools and an additional \$3,000 for each subsequent school year (or partial school year) of residence at a residential school. Eligible recipients will receive a one-time payment of their full CEP entitlement. See Service Canada, "Common Experience Payment," <http://www.servicecanada.gc.ca/eng/goc/cep/index.shtml>.

<sup>23</sup> The IAP is a claimant-centred, non-adversarial, out-of-court process for the resolution of claims of sexual abuse, serious physical abuse and other wrongful acts suffered at Indian residential schools. See Department of Aboriginal Affairs and Northern Development, "Independent Assessment Process," <http://www.aadnc-aandc.gc.ca/eng/1100100015632/1100100015633>.

allocate to their drinking water and wastewater treatment systems as well as the type of system best suited to their particular circumstances. The federal government also funds special projects to assist First Nations with antiquated or high-risk systems.

Some senators wanted more details on an expenditure item of \$41.0 million for urban Aboriginal participation. The officials told the Committee that this item concerns the transfer of the following three programs from the Department of Canadian Heritage to AANDC:

- the Aboriginal Friendship Centre Program;<sup>24</sup>
- Cultural Connections for Aboriginal Youth;<sup>25</sup> and
- Young Canada Works for Aboriginal Urban Youth.<sup>26</sup>

In response to questions regarding a decrease in funding for the Co-operative Relationships program activity from \$717.0 million in 2012-2013 to \$396.5 million in 2013-2014, the AANDC officials explained to the Committee that it was due to a single payment of \$300 million for the settlement of the Coldwater-Narrows Land Claim in 2012-2013.

### **3. Department of Public Works and Government Services (PWGSC)**

In the *2013-14 Main Estimates*, PWGSC projects gross budgetary expenditures of \$5.9 billion, including the following items:

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<sup>24</sup> The Aboriginal Friendship Centre Program provides for a wide range of culturally appropriate programs and services directed at improving the lives and strengthening the cultural identity of urban Aboriginal people. See Department of Aboriginal Affairs and Northern Development, "Aboriginal Friendship Centre Program," <http://www.aadnc-aandc.gc.ca/eng/1333029856258/1333029903708>.

<sup>25</sup> Cultural Connections for Aboriginal Youth provides accessible, community-based, culturally focused projects for Aboriginal youth aged 10 to 24 that promote cultural development, community engagement, leadership development, youth engagement, and life skills and wellness. See Department of Aboriginal Affairs and Northern Development, "Cultural Connections for Aboriginal Youth," <http://www.aadnc-aandc.gc.ca/eng/1333030576029/1333030620605>.

<sup>26</sup> Young Canada Works for Aboriginal Urban Youth supports Aboriginal youth aged 16 to 30 to explore career choices and gain the skills and knowledge required to participate in the labour force through summer work experiences lasting 6 to 16 consecutive weeks. See Department of Aboriginal Affairs and Northern Development, "Young Canada Works for Aboriginal Urban Youth," <http://www.aadnc-aandc.gc.ca/eng/1333030244859/1333030359999>.

- \$2.4 billion to pay rent and the cost of improvements and public services in all government facilities, its role as Receiver General, central pay administration, including bank charges and the cost of cheques and envelopes, and translation services provided to Parliament;
- \$1.9 billion to provide optional services to departments, such as translation and real property management, on a cost-recovery basis;
- \$0.9 billion to deliver core programs, such as central purchasing and banking, and services related to the public accounts, pay and pensions; and
- \$0.6 billion in capital spending required to invest in Government of Canada property and infrastructure.

Officials explained that PWGSC projects net budgetary expenditures of \$2.6 billion in 2013-2014, made up of \$5.9 billion in gross expenditures and \$3.3 billion in revenue from client departments. This amount represents an increase of \$254 million in net budgetary expenditures as compared with 2012-2013. They stated that this increase in net budgetary expenditures is attributable mainly to the following three items:

- \$256 million for renovation of the Parliament Buildings;
- \$50 million to acquire a building complex in Gatineau known as Les Terrasses de la Chaudière; and
- \$32 million to support implementation of the Consolidation of Pay Services Project in Miramichi, New Brunswick, and pay system modernization.

PWGSC officials noted that the federal government's Pension Transformation Initiative, which was similar in some ways to the Consolidation of Pay Services Project and was completed on time and on budget, earned the Department the Bronze Public Sector Leadership Award from the Institute of Public Administration of Canada.<sup>27</sup>

Officials explained to the Committee that PWGSC would achieve additional savings of \$95 million in 2013-2014, made up of \$67 million in savings resulting from the 2011

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<sup>27</sup> For more information on the Pension Transformation Initiative, see Public Works and Government Services Canada (PWGSC), *Canada's Largest Pension Administrator Raises the Bar in Service*, March 2013 <http://www.tpsgc-pwgsc.gc.ca/comm/vedette-features/2013-03-07-00-eng.html>.

strategic review and \$28 million in savings resulting from the spending review included in the 2012 federal budget.

In response to their questions about the renovations on Parliament Hill, senators learned that PWGSC is monitoring the project closely to ensure that the work is necessary, the timetable is realistic, and the expenditure is justified. Officials went on to explain the approval process for the project: it begins with a PWGSC proposal to Cabinet; once Cabinet has approved the proposal, the Department prepares a submission to Treasury Board in order to have funding for the proposal included in a supply bill. Finally, the expenditure related to the proposal is submitted to Parliament for approval.

Officials also noted that Sheila Fraser, the former auditor general of Canada, had concluded in one of her reports to Parliament that PWGSC had followed sound project management practices in connection with the renovation of the Parliament Buildings, and had an adequate cost control system.

In response to questions from senators about a \$50-million increase in order to acquire a building complex in Gatineau—Les Terrasses de la Chaudière—officials explained that the complex had been occupied by federal public servants since 1978, and the federal government had decided to exercise an option to purchase that was included in its lease-purchase contract with the owner of the complex. According to the PWGSC officials, the purchase price for the complex was \$54 million, whereas the federal government was currently paying annual rent of \$12 million.

Some senators asked questions about an expected decrease in funding for language services and related management services from \$80.7 million in 2012-2013 to \$70.4 million in 2013-2014. Officials replied that PWGSC provided two kinds of language services. The first consisted of services to Parliament, and the second consisted of optional language services to departments. Anticipated funding for language services and related management services was down because PWGSC expected a slight reduction in demand from federal departments and agencies for the optional language services it provides.

#### **4. Royal Canadian Mounted Police (RCMP)**

The RCMP projected budgetary expenditures of \$2.8 billion in the *2013-14 Main Estimates*, a net increase of \$204.4 million over 2012-2013. Revenue from the RCMP's contracted policing activities will provide the \$1.8 billion shortfall in funding the \$4.6 billion in overall expenditures by the RCMP in 2013-2014.

An RCMP representative explained to the Committee that the Estimates included the following main items of expenditure:

- an increase of \$329 million for renewal and ongoing requirements of new contracted policing agreements with provinces, territories and municipalities;
- a decrease of \$89 million related to the expected savings resulting from the spending review included in the 2012 federal budget;
- a decrease of \$31 million resulting from a transfer of funds from the RCMP to PWGSC for expenditures related to the new provincial RCMP headquarters in British Columbia;

The RCMP provides policing services under 161 contracts covering eight provinces, the three territories and most of their respective municipalities; Ontario and Quebec have their own provincial police forces. Policing services have been provided under contract since 1906, and the contracts were renewed on 1 April 2012 for a period of 20 years.

In response to questions from senators about the cost-sharing formula included in the RCMP's policing contracts, which came into force on 1 April 2012, an RCMP representative explained to the Committee that the provinces, territories and municipalities will be paying 70% of the cost of RCMP policing services, and the federal government will pay 30%. The new agreement includes two main changes.

The first relates to the RCMP's office costs. Under the previous agreement, the provinces, territories and municipalities paid rent only for offices occupied by RCMP staff, and the federal government paid for the construction of new offices. This meant that the provinces, territories and municipalities assumed only about 39% of the cost of

accommodating RCMP staff. Under the new agreement, the cost of accommodating RCMP employees and the construction of new offices will be shared in accordance with the 70/30 ratio already mentioned.

The second change affects cost-sharing in relation to the recruitment and training of RCMP cadets, and the cost of training police dogs. After year three of the agreement, these costs will also be shared on a 70/30 basis.

In reply to questions from senators about the proportions of men and women in the RCMP, it was stated that the force currently has some 30,000 employees, of whom 23,700 (79%) are male and 6,300 (21%) are female. The RCMP Commissioner has set a target of 50% for women attending the RCMP training depot in Regina, Saskatchewan, to bring their numbers up to 30% of the RCMP workforce by 2025.

Senators sought more details about the reduction of \$89 million related to savings resulting from the spending review included in the 2012 federal budget. They were told that the savings in question will result from gains in administrative efficiency, and a reduction in discretionary spending. A senator asked the RCMP official to provide the Committee with a breakdown of these savings.

## **5. Transport Canada**

Transport Canada officials stated that in the *2013-14 Main Estimates*, Transport Canada projected budgetary expenditures of \$1.51 billion, a reduction of \$560.3 million or 27% as compared with 2012-2013.

They went on to explain that expected operating expenses were down from the two previous fiscal years, mainly because of the cuts announced in the 2012 federal budget. The net reduction of \$560.3 million included a decrease of \$669 million in the contribution to the Gateways and Border Crossings Fund.

Transport Canada also anticipates a \$113-million increase in spending for the acquisition of land for the Detroit River International Crossing.



Another change in expenditure anticipated by Transport Canada is a \$47-million reduction resulting from savings due to the measures announced in the 2012 budget.

Furthermore, a reduction of \$17 million is planned for safety and security programs.

In answer to questions from senators interested in learning more about the Gateways and Border Crossings Fund, departmental officials explained that this program is a key component of the Infrastructure Plan announced in 2007. They said that the Gateways and Border Crossings Fund was created to enable the government to invest in projects such as the Asia-Pacific Gateway and Corridor Initiative.<sup>28</sup> According to Transport Canada, a number of major investments were made possible under this fund since it was introduced in 2007.

The officials went on to explain that generally, the projects are carried out not by the federal government, but rather by the provinces, municipalities or railway companies with respect to Gateways and Border Crossings Fund projects. Transport Canada provides part of the funding required to complete the projects.

In response to senators' questions, Transport Canada officials explained that the planned \$669-million reduction in expenditures for the Gateways and Border Crossings Fund was attributable to a change in cash flow.

The officials explained that the funds would be reallocated to subsequent years so that adequate funding is available once the planned expenses eventually occur. The department will then need to again seek parliamentary authority to spend these funds. The officials went on to confirm that the government does not release the funds for an investment project until the work has been completed and substantiated by documentation. As a result, the government is dependent largely on the speed at which its partners are able to carry out the work; since delays are frequent given the nature of infrastructure projects, reallocating funds to subsequent years is necessary and frequent.

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<sup>28</sup> More information on this initiative is available at <http://www.asiapacificgateway.gc.ca/advantages.html>.

As to whether oil pipelines and oil transportation projects are eligible under the Gateways and Border Crossings Fund, the officials promised to provide the Committee with a written response. However, they did add that oil pipelines are generally paid for by private companies and that the government does not fund these projects.

When asked whether the main estimates included requests for funds to allow the federal government to purchase land in the U.S., Transport Canada officials promised to provide the Committee with a written response.

During their appearance, the officials sought to reassure the Committee that the planned expenditure reductions to certain programs will not affect activities directly related to the safety and security of Canada's transportation system. When asked more specifically about the \$17 million in reductions to safety and security, the officials explained that the number of front-line inspectors performing safety operations will not be affected by these expenditure reductions. As well, expenditures for transporting these inspectors to accident sites were protected. According to the officials, the \$17 million in savings come from administrative efficiencies and restructuring in the department, sparing front-line operations. A reduction in the hiring of outside consultants and an increase in videoconferencing for staff meetings were also cited as helping to reduce departmental travel costs.

## **6. Infrastructure Canada**

Some senators were interested in learning more about the Gas Tax Fund and the related \$2 billion provided by the federal government. The Committee learned that \$25 million had been transferred to Indian and Northern Affairs, with the remaining \$1.974 billion managed by Infrastructure Canada.

In answer to senators' questions, Infrastructure Canada officials told the Committee that the infrastructure plan currently in place will expire on 31 March 2014 and that in budgets 2011 and 2012, the government signalled its intent to announce a new infrastructure plan to continue on from the plan set to expire at the end of March 2014. The officials went on to say that very extensive consultations had taken place on renewing the infrastructure plans. They told the Committee that ministers Fletcher and Lebel held dozens of meetings across the country to discuss renewing the Gas Tax Fund and, more generally,

the infrastructure renewal program. They went on to say that the provinces, municipalities and transportation industry associations were consulted, and the officials promised to provide the Committee with a detailed list of consultation participants.

Part of this new plan will include investment eligibility criteria for the Gas Tax Fund, which based on current criteria supports municipal infrastructure projects that contribute to cleaner air and water and reduced greenhouse gas emissions. These projects must fall under one of the following categories:

- Drinking water
- Wastewater infrastructure
- Public transit
- Community energy systems
- Solid waste management
- Local roads

Senators asked questions about the provincial contribution to projects funded by the Canada Strategic Infrastructure Fund and the Building Canada Fund.

According to Transport Canada, provincial contributions vary by program and range anywhere from 25% to 50%. At the request of some senators, Transport Canada officials promised to provide the Committee with details about each program and a breakdown of expenditures by province and territory.

Some senators tried to find out what factors were behind the planned reduction of \$121 million to the Canada Strategic Infrastructure Fund. According to the officials, the Canada Strategic Infrastructure Fund was established prior to 2007, before the current infrastructure plan was introduced, and the \$121-million reduction was mainly a re-profiling of funds as the result of delays in major projects begun in 2000 and in 2003-2004. These projects are taking longer than anticipated to complete. The officials went on to remind the

Committee that federal funding depends on how quickly the provinces, territories and municipalities complete the projects, since the federal government releases the funds only once the work is complete.

Some senators asked the officials about the differences in the way taxpayer dollars are managed between government contributions to a project and other transfer payments such as those from the Gas Tax Fund. The officials told the Committee that it was an accounting matter; contributions are based on eligibility, while other transfer payments, including those from the Gas Tax Fund, are allocated at the provincial or territorial level based on population. Some senators asked whether Gas Tax Fund expenditures will continue to be allocated based on population after 31 March 2014; the officials replied that this was one of the decisions the government would have to make when putting together the new infrastructure program. However, they did add that the intent was to maintain the status quo.

## **7. Department of National Defence**

According to departmental officials, National Defence is estimating budgetary expenditures of \$17.9 billion in the *2013-14 Main Estimates*, a decrease in net authority of \$1.8 billion (or 9%) over the *2012-13 Main Estimates*.

During their appearance, National Defence officials told the Committee that this decrease in estimated budgetary expenditures is due mainly to a decrease of \$1.25 billion in operating costs. According to the department, this reduction in operating costs is attributed mainly to the strategic review, which allowed the department to identify \$962 million in cost savings. The other main driver behind the reduction in operating costs is the absence of the \$832 million in funding for the Canada First Defence Strategy. Defence officials told the Committee that their department should soon be seeking approval from Parliament, through one of the supplementary estimates, for the Canada First Defence Strategy funding.

They added that this expenditure decrease was offset by an increase of \$340 million due to the defence escalator, a \$164-million increase in salaries and allowances and an \$87-million increase to finance Canada's training mission in Afghanistan.

National Defence officials went on to say that planned capital spending is down by \$480 million. They said that this decrease is due mainly to the spending profile of capital equipment investment projects and infrastructure projects so as to align project funding with their degrees of completion.

According to National Defence, spending on grants, contributions and other transfer payments is down by \$81 million, due mainly to planned reductions in funding to support certain NATO<sup>29</sup> programs.

In response to senators' questions, National Defence officials told the Committee that in 2012-2013, the \$832 million in funding for the Defence Strategy went toward increasing the number of Canadian Forces members and funding the mission in Afghanistan, essentially to wind it up.

The officials said that their department did not present a request for funds for the Defence Strategy in the main estimates because, while the government had planned for 20 years of funding, some parts of the investment plan have to be approved from year to year by Parliament. According to National Defence, TBS approval is expected in spring 2013, and the department will seek parliamentary approval for these funds through one of the supplementary estimates.

Some senators were interested in learning more about the planned reduction of \$235 million in the Maritime Readiness program. The National Defence officials told the Committee that this reduction in operating expenditures is mainly the result of the strategic review process and led to fewer days at sea for Navy vessels and personnel, and reduced funding available for Navy procurement.

They added that this reduction in operating expenditures was also largely attributable to the six vessels currently undergoing regular maintenance. To ensure safety, regular maintenance is generally carried out over a five-year cycle. However, in addition to regular maintenance, these vessels are also undergoing major upgrades, work that is planned when the ships are built and is carried out halfway into their useful life of 30 years.

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<sup>29</sup> NATO: North Atlantic Treaty Organization.

When asked by senators about the impact of the net reduction in spending by National Defence on employment in each of the provinces, the Defence officials promised to provide the Committee with a written response. However, they stated that, in their view, the Canadian Armed Forces are not suffering from the effects of the budget constraints.