SENATE SÉNAT

CANADA

REPORT ON THE
SUPPLEMENTARY ESTIMATES (C), 2013–2014

Standing Senate Committee on
National Finance

FIFTH REPORT

Chair
The Honourable Joseph A. Day

Deputy Chair
The Honourable Larry Smith

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INTRODUCTION

The *Supplementary Estimates (C), 2013–2014* were tabled in Parliament on 13 February 2014 and are the third supplementary estimates for the fiscal year ending on 31 March 2014. These estimates identify the spending authorities and the amounts to be included in subsequent appropriations.

In the course of its review of the *Supplementary Estimates (C), 2013–2014*, the Standing Senate Committee on National Finance ("the Committee") met with officials from five federal departments over two meetings.

On 26 February 2014, the Committee heard from the Treasury Board of Canada Secretariat, Public Works and Government Services Canada and Indian Affairs and Northern Development Canada. The officials from these three departments were, respectively:

Treasury Board of Canada Secretariat

- Bill Matthews, Assistant Secretary, Expenditure Management Sector;
- Marcia Santiago, Executive Director, Expenditure Management Sector; and
- Darryl Sprecher, Director, Expenditure Management Portfolio.

Public Works and Government Services Canada

- Alex Lakroni, Chief Financial Officer, Finance and Administration Branch; and
- Pierre-Marc Mongeau, Assistant Deputy Minister, Real Property Branch.

Indian Affairs and Northern Development Canada

- Pamela D'Eon, Acting Chief Financial Officer;

- Serge Beaudoin, Director General, Sector Operations Branch;
- Janet King, Assistant Deputy Minister, Northern Affairs; and
- Paul Schauerte, Senior Policy Manager, Program Design and Regional Partnerships.

On 4 March 2014, the Committee heard from two departments: Shared Services Canada and Citizenship and Immigration Canada. The officials from these two departments were, respectively:

Shared Services Canada

- Benoît Long, Senior Assistant Deputy Minister, Transformation, Service Strategy and Design;
- Peter Bruce, Senior Assistant Deputy Minister, Projects and Client Relationships; and
- Micheline Saurette, Director General, Finance and Deputy Chief Financial Officer Services.

Citizenship and Immigration Canada

- Paul Armstrong, Director General, Centralized Processing Region;
- Tony Matson, Assistant Deputy Minister/Chief Financial Officer; and
- Catrina Tapley, Associate Assistant Deputy Minister, Strategic and Program Policy.

OVERVIEW OF THE SUPPLEMENTARY ESTIMATES (C), 2013–2014

In budget documents, planned expenditures are allocated between budgetary and non-budgetary spending and are divided into two categories: voted appropriations[1] and

[1] Voted appropriations are sometimes called votes.

statutory expenditures.[2] A total of 35 organizations requested additional funding under the Supplementary Estimates (C), 2013–2014. As shown in Table 1, these estimates include close to $358.3 million in voted appropriations to be approved by Parliament and present information on net decreases of more than $373.7 million in budgetary statutory expenditures.

Table 1 – *Supplementary Estimates (C), 2013–2014* ($)

	Budgetary	**Non-Budgetary**	**Total**
Voted appropriations	358,296,190	0	358,296,190
Statutory expenditures	(373,743,587)	0	(373,743,587)
Total	**(15,447,397)**	0	**(15,447,397)**

Source: Treasury Board of Canada Secretariat, *Supplementary Estimates (C), 2013–2014*, p. 1-3.

The *Supplementary Estimates (C), 2013–2014* are as usual the smallest of the supplementary estimates and show a net reduction of $15.4 million in expenditures.

EXAMINATION OF THE SUPPLEMENTARY ESTIMATES (C), 2013–2014

During their examination in Committee, the Committee members explored the federal government's rationale and reasons for voted appropriation authorization requests and changes to statutory appropriation levels for departments and agencies.

1. Treasury Board of Canada Secretariat

During their appearance, the Treasury Board of Canada Secretariat officials opened by discussing the presentation of the financial information in the estimates. Based on the

[2] **Budgetary expenditures** include the cost of servicing the 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 outlays that represent changes in the composition of the financial assets of the Government of Canada. **Voted appropriations** are those for which parliamentary authority is sought through an appropriation bill, and **statutory expenditures** are those authorized by Parliament through enabling legislation and for which forecasts are provided for information purposes only.

current model, Parliament approves by voting or not voting for expenditures, under the following categories: operating expenditures, capital expenditures, and grants and contributions. Information on planned expenditures, by program and by strategic outcome, is also provided for information purposes only.

The Treasury Board of Canada Secretariat officials explained that the *Supplementary Estimates (C), 2013–2014* include close to $358.3 million in voted budgetary expenditures and presents the requirements of 35 departments and agencies. The major voted items include:

- Shared Services Canada: workplace technology device software ($102.3 million);
- Treasury Board of Canada Secretariat: compensation adjustments ($73.3 million);
- Public Works and Government Services Canada: office space and fit-up ($63.8 million);
- Indian Affairs and Northern Development Canada: Northwest Territories Lands and Resources Devolution Agreement ($36.1 million);
- Citizenship and Immigration Canada: Canada-Quebec Accord on Immigration ($35.5 million); and
- National Defence Canada: Aurora Incremental Modernization Project and the Aurora Structural Life Extension Project ($34.7 million).

Regarding the forecasts for statutory items, the Treasury Board of Canada Secretariat officials explained that the major changes include the following:

Increases

- Finance Canada: Incentive for Provinces to Eliminate Taxes on Capital ($92.3 million);
- Environment Canada: Nature conservancy of Canada ($20.0 million).

Decreases

- Canada Revenue Agency: Payments to the provinces under the *Softwood Lumber Products Export Charge Act, 2006*: ($253.0 million);
- Finance Canada: Interest ($241.0 million).

The Committee asked questions about the Canada Revenue Agency's $253 million decrease in statutory expenditures regarding Canadian softwood lumber exports to the U.S. The officials said that the decrease in payments to the provinces under the Softwood Lumber Agreement is due mainly to no tariffs paid by producers in Alberta, Manitoba and Saskatchewan, as well as the low rate of 0.1% for producers in Ontario. The officials said that the tariff for Quebec producers has remained relatively stable at 2.6%. They went on to state that the $253 million decrease was the estimated reduction in a statutory item, based on the government's best estimate at that time.

The Committee sought further details on transfers of funds between the Royal Canadian Mounted Police and other departments. The officials said that based on the *Supplementary Estimates (C), 2013–2014* the Royal Canadian Mounted Police received $16.74 million from Public Safety for First Nations policing. There is also a transfer from the Royal Canadian Mounted Police to Shared Services Canada of $808,000 for the Bi-National Interoperability Project related to Beyond the Border.

The Royal Canadian Mounted Police is transferring $39.71 million to Shared Services Canada to readjust amounts following the creation of Shared Services Canada.

2. Public Works and Government Services Canada

In the *Supplementary Estimates (C), 2013–2014*, Public Works and Government Services Canada sought parliamentary approval for close to $69 million in additional funding. According to the officials, the funding request includes the following new items, totalling $98.7 million, less $29.7 million from previously approved votes reallocated in these Supplementary Estimates.

- $63.8 million for real property functions to cover inflationary pressures on non-discretionary items affecting the department's real property budget. It includes funding adjustments for rental costs, fit-up of office space, payments in lieu of taxes and municipal taxes;

- $13.1 million for necessary building upgrades, special-purpose space and information technology and security for the Carling Campus project;
- $8.1 million for accommodation requirements flowing directly from the funding requests made by departments and agencies for new or renewed programs;
- $6.5 million to implement the standard component of the Build in Canada Innovation Program; this program procures innovations from Canadian companies for use by federal departments and agencies;
- $3.1 million to enable the Translation Bureau to maintain the quality and accessibility of the Language Portal of Canada at current levels;
- $2.5 million to develop web-based materials and media plans on behalf of the Government of Canada, as well as to purchase media on the Internet through the official agency of record;
- $1.1 million for the reinvestment of revenues from the sale or transfer of surplus properties that were sold at market value; the funds generated are to be reinvested in federal office facilities and common-use assets to preserve or extend their useful life; and
- $0.5 million to support the Treasury Board of Canada Secretariat in its strategy to modernize disability and sick leave management in the federal public service.

In answer to questions from the Committee about the funding for the *Build in Canada Innovation Program*, the officials said that the Office of Small and Medium Enterprises was the manager of the program, which is intended to help businesses looking to commercialize their innovative products or ideas. The federal government uses this program to help businesses with the commercialization process by giving them the opportunity to have the federal government procure and use their innovations. According to the officials, the advantages of the program are twofold:

- it provides businesses with their first contract; and

- it allows them to receive feedback from users so they can improve their products going forward.

The officials went on to say that since the program began, 84 innovations have been prequalified. That translates into some 67 real contracts worth nearly $23.6 million involving 21 or so federal organizations. They added that there is a minimal cost to run the program—between $1 million and $1.7 million per year. According to the 2012 federal budget, the $6.5 million requested in these Supplementary Estimates reflects the first year of program funding, and budget requests are expected to reach $40 million in the coming years. The officials also mentioned that the program comprises a standard component for all departments and a component specifically for the military sector to encourage innovation in the military arena as well as for the other departments.

The Committee also asked the officials about the $2.5 million increase in funding for the government advertising program. The Public Works and Government Services Canada officials explained that their department performs a coordination function, especially for the procurement of online advertising. Essentially, Public Works and Government Services Canada serves as the link between the departments and the business or businesses responsible for putting the media on the Internet.

Lastly, the officials stated that this is a pilot initiative that began in *2013–2014* and that the $2.5 million requested is not for government advertising per se. Rather, it is for using the Internet to raise Canadians' awareness of government programs and services. The departments choose the content they want and the messages they wish to convey. Public Works and Government Services Canada is the administrator and facilitator.

3. Indian Affairs and Northern Development Canada

The officials from Indian Affairs and Northern Development Canada began by telling the Committee that these Supplementary Estimates provide for investments in key initiatives to address the needs of First Nations, Northerners, Métis and non-status Indians.

The Committee heard that Indian Affairs and Northern Development Canada requested an additional $72.4 million in the *Supplementary Estimates (C), 2013–2014,* thereby bringing the department's total budget for the current fiscal year to $8.8 billion. The key items in these estimates are, in descending order:

- $36.1 million to allow the department to satisfy its obligations under the *Northwest Territories Lands and Resources Devolution Agreement*;
- $33.2 million to meet additional health and safety pressures in First Nations communities in 2013–2014 under the Emergency Management Assistance Program;
- $1.0 million for an out-of-court settlement with a First Nation pertaining to loss of income associated with oil and gas royalties;
- $1.0 million to provide implementation support for the *Family Homes on Reserves and Matrimonial Interests or Rights Act*; and
- $1.0 million for the Cape Breton University Purdy Crawford Chair in Aboriginal Business Studies to encourage Aboriginal students to study business.

In response to a question from the Committee, the officials said that the devolution of responsibility for lands and resource management in the Northwest Territories happens only once. The agreement, which will come into effect on 1 April 2014, is quite similar to the *Yukon Northern Affairs Program Devolution Transfer Agreement* signed in 2001 with the Government of Yukon. The funding requested in these estimates concerns two types of costs:

- pre-implementation obligations, which are one-time costs involving the transfer of records, assets and workforce; the creation of inventories of waste sites and contaminated sites; and the identification and transfer of the lands set out in the agreement; and
- ongoing costs, such as the funds transferred to the Government of the Northwest Territories and costs for implementing the *Mackenzie Valley Resource Management Act*, holding offshore oil and gas management discussions, conducting trilateral onshore and offshore oil and gas discussions, remediating the contaminated sites themselves, and managing some excluded federal lands as well.

The additional funding requested under the Emergency Management Assistance Programs relates to evacuations in Manitoba and Ontario due to forest fires, recovery from flooding in Saskatchewan, and floods and storm surges in the Atlantic region. A total of 45 First Nations communities in seven provinces received funding for response and recovery of infrastructure and facilities.

The Committee learned that there are still 1,891 evacuees from the 2011 flood in Manitoba. On 1 February 2014, the Canadian Red Cross took over management and support for the evacuees. This was previously the responsibility of the Manitoba Association of Native Firefighters. According to the officials, the Minister of Aboriginal Affairs and Northern Development announced on 14 February 2014 that a federal negotiator had been appointed to put together a comprehensive package to have the evacuees return home. Negotiations on a cost-sharing agreement will take place with the Province of Manitoba and the affected First Nations communities.

In answer to a question from the Committee, the officials explained that their department has been spending an average of $27 million each year on disaster management since 2005–2006. The Committee learned that the department sets aside an additional $19 million each year through an internal reallocation to negotiate bilateral agreements with the provinces and territories for their support for emergency response efforts.

The departmental officials said that implementation of the *Family Homes on Reserves and Matrimonial Interests or Rights Act* includes provisions to allow First Nations to develop, ratify and implement their own matrimonial real property laws and administer the federal regime. In order to support First Nations in developing their own community-specific legislation, a Centre of Excellence for Matrimonial Real Property will be established with an existing First Nation organization.

According to the departmental officials, five Unama'ki communities on Cape Breton Island support the Cape Breton University Purdy Crawford Chair in Aboriginal Business Studies. In addition to promoting business studies at the post-secondary level among

Aboriginal students, the Chair works to improve analytical research by undertaking pure and applied research specific to Aboriginal communities.

The Committee learned that Fisheries and Oceans Canada transferred $80,000 to Indian Affairs and Northern Development Canada to support co-management of the Tarium Niryutait Marine Protected Area in the Inuvialuit Settlement Region. This area is Canada's first Arctic marine protected area. The funding will be used by the joint secretariat for administration, community engagement, and design and delivery of community-based monitoring programs collecting annual baseline information.

Lastly, the Committee was interested in the transfer of $22.4 million from Vote 1c – Operating expenditures to Vote 10c – Grants and contributions. The departmental officials said that the funds may be reprofiled to a future year when a department is unable to spend the allocated financial resources during the fiscal year. They also confirmed that the funding provided for operating expenditures had not been used during the current fiscal year for valid reasons. However, they did not elaborate. As well, the funding may be reprofiled without prior approval by the Department of Finance Canada.

4. Shared Services Canada

The officials from Shared Services Canada told the Committee that their organization was created to standardize, consolidate and streamline the federal government's information technology services. The purpose was to transform costly, outdated and often incompatible systems.

The Committee heard that when Shared Services Canada was created, it was responsible for the email, servers and data centres for 43 federal departments and agencies. In the 2013 federal budget, its responsibilities were expanded to include software procurement for 95 departments and agencies.

Effective 2 April 2013, the department was also mandated to centralize the procurement of workplace technology devices, such as printers, laptops, other peripheral devices, and software such as operating systems and security software. Prior to this centralization, the federal government, department by department, spent about $660 million annually on hardware and software, which led to reduced purchasing power and weakened security across government systems.

The Committee heard that one of Shared Services Canada's objectives is to consolidate 485 data centres into seven, 50 networks across 43 federal departments into a single network and 63 email services into a single service.

In answer to questions from the Committee about the results from the creation of Shared Services Canada, the officials said that centralizing the information infrastructure and technologies standardized the infrastructure, achieved economies of scale and improved hardware security.

The Committee was also interested in the efficiencies achieved when the department was created. The officials said that after only a few months, Shared Services Canada had already achieved savings of 10% ($150 million) over total expenditures before it was created. A contract signed with Bell and CGI for email should result in permanent annual savings of $50 million. In the 2013 federal budget, the government pledged to save $2.1 million through software consolidation in 2013–2014. The officials said that they expect to save $8.7 million in 2014–2015. Lastly, the officials promised to provide a list of the efficiencies achieved annually since the creation of Shared Services Canada and projections for the next 10 fiscal years. At the time of writing, the Committee has still not received the information requested.

Under the *Supplementary Estimates (C), 2013–2014*, Shared Services Canada requested authorization from Parliament for up to $102.3 million in funding to allow the department to meet its new responsibilities for the centralized procurement of software for federal employee workstations. This funding comes from appropriations transferred from other departments to Shared Services Canada. As well, the officials said that these investments would improve Shared Services Canada's ability to support *Canada's Cyber Security Strategy* by creating secure, reliable and centralized information technology infrastructure.

The Committee heard that the funding request includes $88.5 million in net transfers from partner organizations. These transfers from departments and agencies served by

Shared Services Canada comprise $51.6 million for adjustments for items such as telephony, a call centre and connectivity; and $36.9 million for additional information technology infrastructure for special projects and initiatives. Funding adjustments are divided among the following four organizations:

- $39.7 million from the Royal Canadian Mounted Police;
- $6.6 million from the Canada Revenue Agency;
- $5.2 million from National Defence Canada; and
- $0.1 million from Canadian Heritage.

Below are the federal department and agency infrastructure projects and initiatives delivered by Shared Services Canada:

- $20.9 million from the Canada Border Services Agency to fund the procurement of a secure information technologies infrastructure platform;
- $10.0 million from the Canada Border Services Agency to enhance its mainframe capacity to support border initiatives since the Agency requires powerful and efficient computers to deliver services;
- $2.7 million from National Defence Canada to implement the required information technologies infrastructure for the new Carling Campus headquarters;
- $2.5 million from the Canadian Food Inspection Agency to support implementation of the Food Safety Action Plan to improve food safety; and
- $0.8 million from the Royal Canadian Mounted Police to contribute to the federal government's Beyond the Border initiative in order to strengthen perimeter security while facilitating the legitimate flow of goods and people between Canada and the U.S.

The Committee was told that Shared Services Canada will then transfer $0.2 million to Citizenship and Immigration Canada for connectivity fees for missions abroad.

According to the officials, Shared Services Canada's total budget will be $2 billion when the funding requested in the *Supplementary Estimates (C), 2013–2014* and $321 million in revenues are considered. Shared Services Canada's revenues come mainly from amounts charged to partner departments and agencies for optional services. In 2013–2014, Shared Services Canada had a total of 5,895 employees.

Lastly, the Committee focussed on the difference between total expenditures in 2013–2014, which were $1.7 billion, and projected expenditures included in the report on plans and priorities for the same fiscal year, which were $1.4 billion. At the time of writing, the answer had not yet been provided to the Committee.

5. Citizenship and Immigration Canada

According to the *Supplementary Estimates (C), 2013–2014,* Citizenship and Immigration Canada is requesting Parliament to approve close to $20 million in voted budgetary authorities. The budget for this department also includes adjustments to the forecasted statutory expenditures, representing a net decrease in expenditures of $18.6 million. In total, the various proposed changes represent a total net increase in budgetary expenditures of $1.4 million.

During their appearance, the Citizenship and Immigration Canada officials said that their department's largest request is for $35.5 million in additional funding to meet obligations under the requirements of the Canada-Quebec accord on immigration. They added that this accord gives the Government of Quebec exclusive responsibility for immigration reception and integration in Quebec in return for financial compensation from the Government of Canada.

In answer to the Committee's questions, the officials added that this agreement, in place since 1991, is unique to the Province of Quebec and that financial compensation is based on two factors: total federal spending, and the number of non-francophone immigrants to Quebec. They stated that the base amount paid to Quebec under the agreement increases based on these two factors. As for the rationale behind such an agreement with Quebec, it is how the federal government compensates the Province for the extra expense of settling immigrants who do not speak French fluently. The officials also told the Committee that with respect to the agreement, the federal and Quebec governments are about to complete a study looking at the comparability of services for immigrants between both jurisdictions. The Committee could examine the study findings in the future.

In answer to the Committee's questions, the officials stated that under the 2013 federal budget, a requested $3.9 million would be used to help promote official languages and enhance the vitality of official-language minority communities under the Roadmap for Canada's Official Languages 2013–2018. They stated that of this amount, $2.3 million would be invested in promotion and recruitment activities in Canada and abroad, primarily through expanding the frequency and number of locations of existing events such as the Destination Canada Job Fair. The officials said that these events help connect French-speaking or bilingual skilled workers with employers across Canada. The program is designed to ensure that Canada's immigration system is supporting national economic growth and helps sustain and strengthen minority francophone communities across the country.

The Committee asked the officials about $806,000 in write-offs on outstanding immigration loans. The officials explained that Citizenship and Immigration Canada issues these loans to individuals and families who wish to immigrate to Canada, have few financial resources and cannot access traditional lending institutions. In accordance with the *Immigration and Refugee Protection Act* and *Regulations*, these loans are issued primarily to government-assisted refugees. Recipients can obtain loans for the following reasons: transportation, admissibility and the right of permanent residence fee.

Although 91% of these loans are repaid in full to the government, some loans are deemed uncollectible. The officials said that the $806,000 figure includes approximately 1,925 loans that were deemed uncollectible, with an average of $418 per loan. Overall, Citizenship and Immigration Canada issues approximately $10 million to $11 million in loans to immigrants each year. The average duration of the loans is four years. Consequently, the department has about $40 million in total outstanding loans, and the $806,000 of uncollectible loans represents 2% of all loans. The officials said that this expenditure is likely to reoccur annually. Parliamentary authority is required for the write-off of immigrant loans, like any other government loan when further collection expenses are not justifiable or when the debt cannot be collected because the debtor cannot be reached, no longer resides in Canada, declares bankruptcy or is deceased.

In answer to Committee questions, the officials explained that the *Supplementary Estimates (C), 2013–2014* include funding reductions. Over $20.2 million will be reduced due to available appropriations approved in the *2013–2014 Main Estimates*. Of this amount, $16.3 million comes from grants and contributions, while $3.9 million represents an amount originally provided for operating expenditures.