SENATE SÉNAT

CANADA

FIRST INTERIM REPORT ON THE *MAIN ESTIMATES, 2014-15*

Standing Senate Committee on National Finance

SIXTH REPORT

Chair
The Honourable Joseph A. Day

Deputy Chair
The Honourable Larry Smith

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INTRODUCTION

The *2014–15 Main Estimates* were tabled in Parliament on 27 February 2014 and subsequently referred to the Standing Senate Committee on National Finance for review. These estimates set out the spending authorities and amounts to be included in future supply bills. To date, the Committee has devoted two meetings to studying these estimates and has heard from officials from four departments.

On 5 March 2014, the following Treasury Board of Canada Secretariat officials appeared before the Committee:

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

On 6 March, the Committee welcomed the following officials from the Indian Affairs and Northern Development Canada, Canada Revenue Agency, and the Office of Infrastructure Canada:

Indian Affairs and Northern Development Canada

- Hélène Laurendeau, Associate Deputy Minister;
- Pamela D’Eon, Acting Chief Financial Officer; and
- Scott Stevenson, Senior Assistant Deputy Minister, Regional Operations.

Canada Revenue Agency

- Catherine Bennett, Assistant Commissioner, Strategy and Integration Branch;
- Dave Bennett, Assistant Commissioner, Assessment and Benefit Services Branch; and

- Brian Pagan, Deputy Assistant Commissioner, Finance and Administration Branch, and Agency Comptroller.

Office of Infrastructure Canada

- Yasmine Laroche, Associate Deputy Minister, Transport, Infrastructure and Communities;
- Su Dazé, Assistant Deputy Minister, Corporate Services;
- Jeff Moore, Assistant Deputy Minister, Policy and Communications; and
- Natasha Rascanin, Assistant Deputy Minister, Programs Operations.

A. Overview of the 2014–15 Main Estimates

In the estimates documents, planned spending appears as budgetary and non-budgetary expenditures, and as voted and statutory appropriations.[1] As shown in Table 1, the *2014–15 Main Estimates* set out a total of $235.33 billion in budgetary expenditures, made up of $86.28 billion in voted appropriations and $149.05 billion in statutory appropriations. Compared with the *2013–14 Main Estimates*, these estimates provide for an increase in total expenditures of approximately $2.75 billion (or 1.2%).

Table 1 – Comparison of the *2014–15 Main Estimates* and *2013–14 Main Estimates*

	***2013–14 Main Estimates* ($ billions)**	***2014–15 Main Estimates* ($ billions)**	**Change in Budgetary Expenditures ($ billions)**	**Change in Budgetary Expenditures (%)**
Voted Appropriations	87.06	86.28	(0.78)	(0.9)
Statutory Expenditures[1]	145.52	149.05	3.53	2.5
Total Budgetary Expenditures	**232.58**	**235.33**	**2.75**	**1.2**

Note 1: These amounts have been adjusted to exclude statutory appropriations for Employment Insurance benefits.

Source: Table prepared using data from Treasury Board of Canada Secretariat, *2014–15 Estimates*, p. I-3.

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

B. Study of the 2014–15 Main Estimates

During the two meetings dedicated to the *2014–15 Main Estimates*, the Committee asked the representatives of the four departments about the federal government's rationale for voted appropriation requests and the reasons for the principal changes to statutory expenditures for federal departments and agencies.

1. Treasury Board of Canada Secretariat

The Treasury Board of Canada Secretariat officials told the Committee that the objectives of the main estimates are as follows:

- to support the request for voted authorities to spend public funds while providing information on authorities for budgetary and non-budgetary expenditures;
- to present the spending authorities for each department, agency and Crown corporation while providing information on their activities and strategic outcomes by program and type of expenditure; and
- to provide Parliament with information on planned statutory expenditures for the 2014–2015 fiscal year that it has already approved.

The officials went on to explain the various reports to Parliament and the 18-month budget cycle. This cycle begins with the tabling of the federal budget, usually in February or March, even though there is no legal requirement to table a budget.

The main estimates for the coming fiscal year, which begins on 1 April and ends on 31 March, must be tabled by 1 March at the latest. These estimates enable the appropriation acts to be studied. Interim supply, which provides funding for the period from April to June when Parliament studies the appropriation acts and estimates, is granted to government departments and agencies so that they have the financial resources to continue operating.

Once the main estimates have been tabled, departments and agencies table their reports on plans and priorities in Parliament. These reports contain information on their spending plans and performance objectives.

The government can also seek parliamentary approval for additional expenditures through supplementary estimates. Supplementary estimates (A) are normally tabled in May, supplementary estimates (B) in October and supplementary estimates (C) in February. These estimates may include details on funding for initiatives announced in the budget but not included in the main estimates, unexpected needs, transfers of funds within and across departments and agencies, temporary programs or various other funding requirements.

Finally, between September and December, the Public Accounts of Canada – the federal government's consolidated financial statements – for the fiscal year ending on 31 March of that year are tabled in Parliament. At the same time, or soon after, departmental performance reports are tabled for each department and agency. These reports are in a way companion pieces to the reports on plans and priorities, as they show how departments and agencies performed compared with the plans set out in their reports on plans and priorities. This is also the time of year when the Department of Finance updates its economic and fiscal forecasts.

Other published documents of interest include the quarterly financial reports of departments and agencies, the Department of Finance's monthly fiscal monitor, the annual debt management strategy, the debt management report and the annual tax expenditure report.

The Committee also learned that, given when the federal budget is tabled, departments and agencies do not have enough time to prepare their spending plans and performance objectives so as to include new initiatives in the main estimates. That is why these initiatives are presented in subsequent supplementary estimates or the main estimates of the following fiscal year. Additionally, some of the expenditures announced in the federal budget are included in the budget implementation acts.

The officials discussed the following three changes to the way the *2014–15 Main Estimates* are presented:

1. Federal departments and agencies are listed in alphabetical order in the proposed schedules to the appropriation bill, by their legal name.
2. Forecast statutory expenditures for Employment Insurance benefits are no longer presented in the main estimates subsequent to the creation of the Employment Insurance Operating Account on 1 January 2009. This is a separate account in the accounts of Canada, and its financial information can be found in section 4 of Volume 1 of the Public Accounts of Canada.
3. The estimates to date now exclude any funding deemed to have been appropriated to a department following a transfer related to the reorganization of the federal public administration.

The Committee inquired about the statutory expenditures for Employment Insurance benefits. The officials explained that Employment Insurance is overseen by the Canada Employment Insurance Commission, a public agency managed by the federal government, employers and employee representatives. The commission's activities are reported through the Employment Insurance Operating Account. The officials also stated that statutory expenditures for Employment Insurance benefits work differently from the rest of the government's statutory expenditures, as these benefits are paid using a consolidated special purpose account.

The statutory expenditures for Employment Insurance benefits were removed for a number of reasons, one being that this type of expenditure does not fall under the voted appropriations or the detailed breakdown of department or agency expenditures. The change was made following discussions with the House of Commons Standing Committee on Public Accounts and the House of Commons Standing Committee on Government Operations and Estimates regarding ways to improve the linkages between the federal budget, the estimates and the public accounts. Moreover, the federal budget already contains expenditure forecasts for Employment Insurance benefits for the current fiscal year and future years.

The officials told the Committee that statutory expenditures continue to rise largely because of Old Age Security and the Canada Health Transfer. These increases are partly offset by decreases in voted appropriations attributable to the Deficit Reduction Action Plan and other budget restraint measures. In all, voted appropriations are down by 0.9% while statutory expenditures are up by 2.5%, compared with the previous year's main estimates.

The Committee learned that total spending in the *2014–15 Main Estimates* can be broken down as follows:

- 61% is expenditures on transfer payments, grants and contributions;
- 28% is operating and capital expenditures; and
- 11% is interest charges on public debt.

In response to a question from the Committee on the federal debt, the officials replied that public debt charges have decreased because of the decline in long-term interest rates. A deficit of $2.9 billion is forecast for the 2014–2015 fiscal year. However, this forecast includes a $3.0-billion contingency amount for one-time, unplanned events. If this $3.0 billion goes unspent, the budget will be balanced in 2014–2015.

The Committee was informed of the main increases and decreases in spending compared with the *2013–14 Main Estimates*.

The principal increases are as follows:

- $3,037.9 million for Foreign Affairs, Trade and Development Canada owing to the amalgamation of the Canadian International Development Agency and the former Department of Foreign Affairs and International Trade Canada;
- $1,702.0 million for the Treasury Board of Canada Secretariat for three main reasons: an increase in Vote 25, Operating Budget Carry Forward; funding to cover the actuarial deficit in the Public Service Pension Fund; and the implementation of a new pay system for the federal public service;
- $1,145.7 million for Employment and Social Development Canada for Old Age Security and the Guaranteed Income Supplement;
- $681.9 million for Public Safety and Emergency Preparedness Canada largely for the Disaster Financial Assistance Arrangements; and

- $676.2 million for National Defence for capital spending on land combat vehicles, arctic offshore patrol ships, the light armoured vehicle reconnaissance surveillance system upgrade and Canadian Armed Forces health services centres.

The principal reductions are as follows:

- $3,159.3 million at the Canadian International Development Agency owing to its amalgamation with the former Department of Foreign Affairs and International Trade Canada;
- $603.1 million at the Office of Infrastructure Canada mostly attributable to changes in cash forecasts for projects currently underway;
- $415.6 million at the Canada Revenue Agency mainly related to payments under the *Softwood Lumber Products Export Charge Act, 2006*;
- $270.0 million at Citizenship and Immigration Canada in large part because of statutory adjustments related to the Passport Canada revolving fund; and
- $262.9 million at the Correctional Service of Canada associated with the expiry of some time-limited funding for building additional facilities and space for prisoners. An increase in the prison population was forecast, but did not materialize, following the implementation of the *Tackling Violent Crime Act* and the *Truth in Sentencing Act*.

The officials discussed two initiatives from the 2013 federal budget appearing for the first time in the main estimates. The first was $253.1 million in funding for affordable housing for the Canadian Mortgage and Housing Corporation. The second was some $70.0 million for housing in Nunavut, part of a $100-million investment over two years.

Responding to a Committee question about the Senate's statutory expenditures, the officials said that these expenditures include contributions to employee benefit plans. However, most of this spending goes toward salaries, allowances and other payments for the Speaker of the Senate, senators and other officers of the Senate.

The Committee inquired about the operating budget carry forward. The officials explained that departments and agencies can generally carry forward up to 5% of their operating expenditures and 20% of their capital expenditures to a future fiscal year if they have not spent those funds. National Defence follows a different rule because of its significantly larger budget, but the officials did not offer any further explanation. The Committee was also told that it is not unusual to see significant carry forwards in periods of fiscal restraint since departments and agencies are more conscientious about their spending.

The Committee learned that Atomic Energy of Canada Limited has frequently used funding under the Treasury Board's Vote 5, Government Contingencies, in recent years. This vote is typically used for unforeseen or unplanned events. The officials said that Atomic Energy of Canada Limited often has trouble with the timing of their funding decisions. Treasury Board approval of these decisions frequently comes too late for the associated funding to be included in the main estimates. Moreover, over the past year, the organization has undergone a restructuring that has required some statutory expenditures.

Finally, at the Committee's behest, the officials clarified the differences between grants and contributions. A grant is a payment with no conditions attached other than that the recipient be eligible for it. A contribution is an agreement between the federal government and the recipient that usually includes reporting obligations and sometimes requires the submission of detailed financial statements.

2. Canada Revenue Agency

According to the *2014–15 Main Estimates*, the Canada Revenue Agency has requested close to $3.9 billion in funding for 2014–2015. Nearly $3.0 billion of this total requires parliamentary approval, while $0.9 billion consists of forecast statutory expenditures. Overall, this is a net reduction of $415.6 million (9.7%) over the previous year's main estimates.

During their appearance, the agency officials explained that the decrease is mainly due to a $203.0-million reduction in disbursements to provinces under the *Softwood*

Lumber Products Export Charge Act, 2006. This reduction in statutory expenditures reflects the latest Department of Finance Canada forecasts and is partly attributable to changes in prices and volumes.

The officials reported that the agency's other major spending reductions set out in the *2014–15 Main Estimates* are as follows:

- a $119.0-million decrease resulting from the spending review launched in the 2012 federal budget. Most of these spending reductions support one of the following two priorities:
    - making it easier for Canadians to deal with the government, particularly by providing more secure and more efficient online services; or
    - modernizing and streamlining the agency's back office; and
- a $57.6-million reduction following the spending review launched in the 2013 federal budget related to operations at the agency's headquarters. Most of these savings fall under one of the following three categories:
    - streamlining internal services;
    - optimizing information technology resources; or
    - improving organizational efficiency.

The officials went on to point out that these reductions are somewhat offset by planned spending increases for the following items:

- $22.3 million to fund salary increases stemming from collective agreements reached before the operating budget was frozen;
- $17.0 million to fund a multi-year upgrade of the personal income tax processing system; and
- $5.4 million to implement and administer various measures affecting individuals, businesses and charities announced in the 2012 federal budget, including the following:
    - the one-year extension of the Hiring Credit for Small Business;

- the enhancement of transparency and accountability for charities; and
- the introduction of Pooled Registered Pension Plans.

In response to the Committee's questions about the agency's collection of taxes for the provinces, the officials explained that it has an agreement with each province. These agreements set out the fees and costs negotiated with the provinces to compensate the agency for collecting taxes on their behalf. The officials clarified that these agreements vary from one province to another depending on their respective tax codes and benefit programs. The Province of Quebec administers its own taxes, so it does not have to engage the agency's services.

Finally, the Committee asked the witnesses about the government's tax debt and the strategies the agency uses to recover the amounts owed. The officials reported that the agency's efforts to collect tax debt focus on aggressive tax planning within Canada and abroad, and the underground economy. They put the current tax debt at about $32 billion. The officials also committed to answering the Committee's question more accurately in writing. The Committee may study this issue further in the future.

3. Indian Affairs and Northern Development Canada

The officials from Indian Affairs and Northern Development Canada explained to the Committee that these main estimates will provide their department with the funding needed to continue improving the quality of life of Aboriginal people and northern residents. They also stated that this funding will support initiatives to improve the social wellbeing of Aboriginal and northern communities while providing them with opportunities for economic prosperity.

The Committee learned that the department's total planned expenditures for the 2014–2015 fiscal year are $8.1 billion. This is an increase of more than $100 million over last year's main estimates. These estimates provide $26.7 million over 2014–2015 for the renewal of the Gas Tax Fund. The officials said that this funding will support infrastructure projects in First Nations communities.

When the Treasury Board of Canada Secretariat officials appeared, they told the Committee that reviewing funding for programs for First Nations and Inuit is a challenge because this funding is divided between departments according to the nature of the spending. For example, funding for health programs in their communities is administered by Health Canada, while housing programs are overseen by the Canada Mortgage and Housing Corporation. As a result, the Committee asked the Indian Affairs and Northern Development Canada officials to provide information on the total funding allocated to First Nations and Inuit communities by the federal government. While the officials did not have the information, they committed to taking the necessary steps to obtain it and provide it to the Committee. At the time of writing, the Committee had not yet received anything.

The Committee heard that the spending review launched in the 2012 federal budget enabled the department to realize a total of $160 million in savings over three years, including $105 million in these estimates. The officials stated that these spending reductions have had no impact on the essential services delivered to First Nations communities. Instead, efficiencies were achieved in internal services. The First Nations Statistical Institute was also affected. In addition, the department committed to eliminate 480 full-time equivalent positions over three years.

The Committee was informed that, because the main estimates are tabled so soon after the budget, the former do not include the initiatives announced in the latter. That is one reason the department regularly makes use of supplementary estimates. For example, the 2014 federal budget includes $323.4 million in additional funding over two years to extend the First Nations Water and Wastewater Action Plan. The department has already spent some $3.0 billion since 2006 to help communities manage their water supply and wastewater treatment infrastructure and to fund related public health activities.

In response to a question from the Committee on improving the supply of drinking water, the officials said that performance inspections have revealed that the number of high-risk systems dropped by 8.1% between 2009–2010 and 2011–2012. In addition, the number of certified system operators and inspections performed has improved. The department also committed to providing $5.5 million to the Island Lake Tribal Council in

Manitoba to retrofit homes without indoor plumbing. Relatedly, the Committee asked the officials to provide it with a copy of their strategic plan for the provision of drinking water in First Nations communities and the number of reserves still without drinking water. The Committee had not yet received this information at the time of writing.

The officials discussed the extension of the Indian Residential Schools Truth and Reconciliation Commission’s mandate until 30 June 2015. This extension will enable the commission to draft a definitive report based on the archival documents it has requested. The officials clarified that the residential school settlements go directly to the individuals who claim them. They also explained that, after all the claims have been assessed, some residual funds could be distributed as education credits or paid to persons who have made a valid claim.

The Committee learned that the department changed its Program Alignment Architecture for 2014–2015. These changes were made to enable the department to report on the results of its programs and subprograms in a more transparent way. Of the department’s 16 programs, including Internal Services, three have been restructured or reorganized, four have been renamed and slightly realigned, and nine have undergone minor changes or remained unchanged.

Regarding the program to assess, manage and remediate federal contaminated sites, the Committee heard that the department has funding for this program while also being involved in the Federal Contaminated Sites Action Plan led by Environment Canada.[2] Since the department’s program was created, it has remediated 35 sites at a cost of $307 million. In addition, it has completed work on 62 high-priority on-reserve sites. The officials noted that the $53 million in funding for the program in these estimates is in fact a reduction. However, it does not represent the total funding for this program over the 2014–2015 fiscal year, as the department plans to include some spending authorities in the supplementary estimates.

[2] The Federal Contaminated Sites Action Plan is a 15-year horizontal program established in 2005 with total funding of $3.5 billion. It mobilizes 16 federal departments, agencies and Crown corporations to reduce the environmental risks from a large number of contaminated sites (about 21,000).

Finally, the Committee was told that the $1.8 billion allocated to education in First Nations and Inuit communities will go primarily to on-reserve education programs. This total includes the funds transferred to First Nations communities for their own schools, from kindergarten to the secondary level. Moreover, $345 million will be provided for post-secondary education in the 2014–2015 fiscal year. Of this amount, $320 million will be transferred to band and tribal councils to support students who continue their education, and $22 million will go to universities for special programs related to education.

4. Office of Infrastructure Canada

The Office of Infrastructure Canada officials told the Committee that their department is seeking a total of $3.3 billion in the *2014–15 Main Estimates*. This funding will finance the federal Gas Tax Fund, allocate nearly $850 million through the 2007 Building Canada Fund and provide $450 million through other programs that are slowly being phased out. These main estimates are lower than those of 2013–2014. The decline stems from cash flow estimates provided by the office's funding recipients and the winding down of the Municipal Rural Infrastructure Fund in 2013–2014.

However, this decrease in expenditures is offset by two increases: a $52.5-million increase for the new Inuvik to Tuktoyaktuk Highway program and an increase in spending for the Border Infrastructure Fund.

The Office's officials informed the Committee that the $53-billion New Building Canada Plan, announced in the 2014 federal budget, "is the largest and longest federal infrastructure plan in Canada's history."[3] The Plan will take effect on 31 March 2014. It includes the following three funding programs intended to support provincial, territorial and municipal infrastructure:

1. the Community Improvement Fund, which provides $32.2 billion over 10 years. This fund consists of the federal Gas Tax Fund and the Goods and Services Tax (GST) Rebate for Municipalities. The former provides $2 billion every year to municipalities for local projects. Starting in April 2014, the Gas Tax Fund will be indexed at 2% per

[3] Yazmine Laroche, Office of Infrastructure Canada, *Evidence*, 6 March 2014.

year. However, the resulting increases will take effect only in $100-million increments. This means that several years may pass before an increase materializes as presented in Table 2;

Table 2 – Gas Tax Fund, Fiscal Years 2014–2015 to 2018–2019 ($ billions)

	2014–2015	2015–2016	2016–2017	2017–2018	2018–2019	Total
Total amount allocated to provinces, territories and First Nations	2,0	2,0	2,1	2,1	2,2	10,4

Source : Table prepared using data from the Office of Infrastructure Canada, *Gas Tax Fund Allocation Table*.

2. the Building Canada Fund, which will invest $14 billion over 10 years in projects that spur economic growth, job creation and productivity. This fund includes $1 billion which will go to communities with less than 100,000 residents; and
3. the Public-Private Partnerships Canada Fund, which will be renewed with $1.25 billion over five years. The Fund will be managed by PPP Canada.

However, the Committee was told that the contributions and operating amounts for the New Building Canada Fund are not included in the office's *2014–15 Main Estimates* because these estimates were tabled so soon after the 2014 federal budget.

The Committee learned that $6 billion will be disbursed across Canada under various existing infrastructure programs, this fiscal year and beyond. However, most of this amount has already been allocated, meaning that the projects have been identified but the funds have not yet been spent.

When the Committee asked for a clarification on the Gas Tax Fund, the officials explained that this funding could be used for various projects, such as water, wastewater and sewer systems or community sports centres. The provinces and territories do not all receive the same amount of funding under the initiative, since it is based on their respective populations as of the 2011 Census. However, the territories and Prince Edward Island receive a fixed amount of $15 million because of their small populations.

The Committee inquired about the funding for the Champlain Bridge, which links the South Shore of Montreal with the downtown core. Officials from the Treasury Board of Canada Secretariat stated that the 2014 federal budget provided $378 million for The Jacques-Cartier and Champlain Bridges Incorporated. The Office of Infrastructure Canada officials reported that the procurement process for building the new Champlain Bridge was recently announced and that a Request for Qualifications, part of the process to select the project's private partner, will be issued on 17 March 2014. The Request for Proposals to build the new bridge will be launched in July 2014, and construction should be completed by 2018. This project is a partnership involving several departments and has a timeline that the Office of Infrastructure Canada officials called ambitious but feasible.

The Committee heard that the office must identify the plans for the new Champlain Bridge and the funding required for each fiscal year. After obtaining the Treasury Board's approval, the funding for this project will be included in the supplementary estimates.

The officials explained that the Provincial-Territorial Base Funding Program, which receives $2.3 billion in funding, will be ending in 2014–2015. Since the funds allocated to this program were advanced and spent sooner than planned, the *2014–15 Main Estimates* show a decrease for the program. The $55.4 million requested for the program in the current main estimates is in fact the final portion of the initial commitment of $2.3 billion.

Finally, in response to a question from the Committee regarding the office's lapsed funding, the officials said that it totalled $1.5 billion in the 2012–2013 fiscal year, including $1 billion for Building Canada Fund major infrastructure. The department's lapsed funding for 2013–2014 is forecast to be $0.3 billion.