

SENATE



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CANADA

**REPORT ON THE
*SUPPLEMENTARY ESTIMATES (C), 2011-2012***

**Standing Senate Committee on
National Finance**

SEVENTH REPORT

Chair

The Honourable Joseph A. Day

Deputy Chair

The Honourable Richard Neufeld

March 2012

TABLE OF CONTENTS

OVERVIEW OF THE SUPPLEMENTARY ESTIMATES (C), 2011–20122

EXAMINATION OF THE SUPPLEMENTARY ESTIMATES (C), 2011-20122

1. *Department of Human Resources and Skills Development3*

2. *Public Works and Government Services Canada.....4*

3. *Department of National Defence.....5*

4. *Canadian International Development Agency.....5*

**REPORT ON THE
SUPPLEMENTARY ESTIMATES (C), 2011–2012**

The *Supplementary Estimates (C), 2011–2012* were tabled in Parliament on 28 February 2012 and were referred to the Standing Senate Committee on National Finance. The *Supplementary Estimates (C), 2011–2012* are the third Supplementary Estimates to be tabled in the fiscal year ending on 31 March 2012. The Supplementary Estimates (C) identify the spending authorities and the amounts to be included in subsequent appropriations.

The committee met with five government departments to review these Supplementary Estimates. On 6 March 2012, officials from the Treasury Board of Canada Secretariat (the Secretariat) appeared. Specifically: Bill Matthews, Assistant Secretary, Expenditure Management Sector; Sally Thornton, Executive Director, Expenditure Operations and Estimates, Expenditure Management Sector; Marcia Santiago, Senior Director, Expenditure Information Division; and Darryl Sprecher, Expenditure Management Portfolio.

Major-General Robert Bertrand, Director General, Financial Management, Department of National Defence, spoke to the committee about the department's Supplementary Estimates. Additionally, officials from the Canadian International Development Agency (CIDA), including Sue Stimpson, Chief Financial Officer; and Diane Jacovella, Vice-President, Multilateral and Global Programs Branch, discussed CIDA's appropriation requests with the committee.

The Department of Human Resources and Skills Development (HRSD) was represented by Alfred Tsang, Chief Financial Officer; Jacques Paquette, Senior Assistant Deputy Minister, Income Security and Social Development Branch; Marc LeBrun, Director General, Canada Student Loans Program; and Paul Thompson, Assistant Deputy Minister, Processing and Payment Services Branch, Service Canada.

Overview of the Supplementary Estimates (C), 2011–2012

In the Estimates documents, planned spending appears as budgetary and non-budgetary expenditures, and by voted and statutory appropriations.¹ As shown in Table 1, the Supplementary Estimates (C), 2011-2012 proposes to reduce federal budget authorities by \$0.4 billion, including an increase in voted appropriations by \$1.2 billion and a decrease in statutory appropriations by \$1.6 billion.

Table 1 – Supplementary Estimates (C), 2011-2012
(\$ billions)

	Budgetary	Non-Budgetary
Voted Appropriations	1.2	–
Statutory Appropriations	(1.6)	0.2
Total	(0.4)	0.2

Source: Treasury Board of Canada Secretariat, *Supplementary Estimates (C), 2011-2012*, p. 8.

Total Estimates to date for 2011–2012 are \$259.5 billion, including \$251.3 billion in the Main Estimates, 2011–2012; \$2.0 billion in the Supplementary Estimates (A), 2011–2012; \$6.6 billion in the Supplementary Estimates (B), 2011–2012; and a reduction of \$0.4 billion in the Supplementary Estimates (C), 2011–2012. Total Estimates to date for 2011–2012 are about 3.0% less than in 2010-2011.²

Examination of the Supplementary Estimates (C), 2011-2012

¹ **Budgetary spending** encompasses 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**, which include loans, investments and advances, are outlays that represent changes in the composition of the federal government's financial assets. **Voted appropriations** are those for which parliamentary authority 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.

² Total Estimates for 2010–2011 were \$267.3 billion. See: Treasury Board of Canada Secretariat, *Supplementary Estimates (C), 2010-2011*, p. 27.

During the committee's examination of the Supplementary Estimates (C), 2011–2012, senators explored the federal government's rationale for voted appropriation authorization requests and the reasons for changes to statutory appropriation levels for federal departments, agencies and corporations.

1. Department of Human Resources and Skills Development

In the Supplementary Estimates (C), 2011-2012, the Department of Human Resources and Skills Development requested a total of \$218 million in gross voted appropriations, including \$162.2 million for the write-off of debts owed to the Crown for student loans made under the Canada Student Financial Assistance Act that have become unrecoverable under the Act. HRSD also requested \$56.3 million in funding to realign operating resources following the review of Employment Insurance administrative cost allocation.

The \$162.2 million for the write-off was in relation to more than 36,657 loans constituting debts owed to the Crown for unrecoverable Canada Student Loans. The officials told the committee that this was the same item contained in the Supplementary Estimates (B), 2011-2012. This item is also included in the Supplementary Estimates (C), 2011-2012 to cover the write-off. The officials explained to the committee that the Canada Student Financial Assistance Act establishes a limitation period of six years between the date on which the borrower last acknowledged his or her Canada Student Loan and the date on which the government can undertake legal action to recover that debt. In this respect, the officials told the committee that about 98% of the student loan write-offs were related to this six-year limitation, beyond which the government could not legally recover the loans. Some senators expressed concern that this debt write-off request represented loans with an average value of \$4,400, compared to the previous write-off request in the Supplementary Estimates (B), 2011-2012, in which the average value of the loans written off was about \$2,400. The officials agreed to provide the committee with additional explanations.

In response to questions from the senators on the process for writing off Canada Student Loans, the officials mentioned that approximately 11 to 12% of all Canada Students Loans were in default and were never repaid to the federal government. According to the officials, the rate of

default on student loans has decreased in recent years as the result of government efforts. This rate used to be about 28 to 30% in 2003–2004. Some senators questioned this improvement given that this was the second time in 2011–2012 that HRSD had asked for an amount to write off student loans for a total of \$311 million for the year, representing more than 98,000 loans. Furthermore, the committee learned that the student loans outstanding according to the Public Accounts currently total about \$14 billion. Some senators asked the officials for additional clarifications about the government’s exact procedures for recovering student loans and asked about the trend over the past eight years in the student loan default rate. The officials agreed to provide this information to the committee.

Lastly, some senators asked for an explanation regarding HRSD’s \$56.3 million request for realignment of funding between the Employment Insurance Operating Account and departmental appropriations. The officials told the committee that HRSD uses a formula to calculate the Employment Insurance Operating Account administrative cost. The funding request is then submitted to Parliament for approval. The officials agreed to provide the committee with further information.

2. Public Works and Government Services Canada

In the Supplementary Estimates (C), 2011-2012, Public Works and Government Services Canada (PWGSC) requested \$54 million to cover costs related to the preparation of office space for occupancy and costs related to temporary space during the renovation of Crown-owned buildings. In responding to questions by a senator concerning the justification for such a funding request given the high vacancy rate for government-owned office space in Ottawa, the officials explained that the funding allocated to PWGSC for office accommodations is formula-driven and is based on 13% of the total salary costs for federal public servants. Consequently, any increase in these salary costs increases PWGSC’s funding for office accommodations. According to the officials, this formula has not been updated recently, and some senators asked for a confirmation of this, as well as for further information on this formula in order to determine whether it is still the best way to fund government office accommodations costs.

3. Department of National Defence

In the Supplementary Estimates (C), 2011-2012, the Department of National Defence (DND) requested \$151.9 million to support Canada's new training mission in Afghanistan, which was announced by the federal government in November 2010. According to DND, 950 Canadian Forces personnel and support staff have been deployed in Afghanistan since 2011 to prepare Afghans to assume responsibility for their country's security. DND estimates that this mission will cost \$498.7 million over four years.

DND also requested \$27.3 million for the implementation phase of the Light Armoured Vehicle III Upgrade, \$14.5 million for the Arctic/Offshore Patrol Ship Project, \$8.8 million for the Military Personnel Management Capability Transformation Initiative, \$7.5 million for the reinvestment of revenues from the sale or transfer of real property, and \$4.7 million for enhancing support to severely injured members of the Canadian Forces. The funding requested for these initiatives is available within previously approved spending authorities.

In response to questions from one senator regarding the costs of the Nortel Building renovation project, senior DND officials said that they were prepared to answer only those questions related to the Supplementary Estimates (C), 2011-2012. However, they did agree to answer questions regarding the Nortel Building in writing.

4. Canadian International Development Agency

In the Supplementary Estimates (C), 2011-2012, the Canadian International Development Agency (CIDA) requested \$345.9 million for Canada's fast start financing commitments under the Copenhagen Accord which supports climate change adaptation and mitigation in developing countries; \$100 million for additional grants to international organizations for development assistance, food aid and education; \$70.4 million for Canada's response to the humanitarian crisis in Eastern Africa resulting from the prolonged drought in the region; and \$5.0 million for additional grants in support of the education sector.

Further to questions from some senators regarding the \$70.4 million requested in response to the humanitarian crisis in Eastern Africa, senior CIDA officials explained to the committee that

since 2005,³ CIDA and other federal departments have had access to a crisis pool allowing for faster response to global emergencies. Senior CIDA officials then said that this crisis pool contained a total of \$200 million managed as part of the International Assistance Envelope (IAE) and that departments needed parliamentary approval in order to draw from this pool.

Some senators expressed concerns regarding CIDA's request to convert previously approved contributions totalling \$100 million into grants. A similar request for the amount of \$125.0 million had been made as part of the Supplementary Estimates (B), 2011-2012. According to the Treasury Board's policy on transfer payments, "grants" are transfer payments to an individual or organization for which accountability and auditing requirements do not exist, but for which eligibility and entitlement may be verified or pre-conditions must be met by the recipient. "Contributions" are conditional transfer payments to an individual or organization for a specified purpose pursuant to a contribution agreement that is subject to accountability and audit requirements.⁴

³ Canadian International Development Agency, *Statistical Report on International Assistance*, p. 3, [http://www.acdi-cida.gc.ca/INET/IMAGES.NSF/vLUIImages/stats/\\$file/CIDA_STATS_REPORT_ON_ODA%202006-07-E.pdf](http://www.acdi-cida.gc.ca/INET/IMAGES.NSF/vLUIImages/stats/$file/CIDA_STATS_REPORT_ON_ODA%202006-07-E.pdf).

⁴ Treasury Board of Canada, <http://www.tbs-sct.gc.ca/pol/doc-eng.aspx?section=text&id=12178>.