



**REPORT ON THE  
*SUPPLEMENTARY ESTIMATES (B), 2012-2013***

**Standing Senate Committee on  
National Finance**

**FOURTEENTH REPORT**

*Chair*

The Honourable Joseph A. Day

*Deputy Chair*

The Honourable Larry Smith

December 2012

## TABLE OF CONTENTS

Overview of the Supplementary Estimates (B), 2012–13.....	2
Examination of the Supplementary Estimates (B), 2012–13.....	4
1. Treasury Board of Canada Secretariat (TBS) .....	4
2. The Department of Indian Affairs and Northern Development (DIAND).....	5
3. The Department of Health.....	6
4. The Department of Finance.....	7
5. The Department of National Defence .....	9
6. The Department of Agriculture and Agri-Food .....	10
7. The Canadian Food Inspection Agency .....	11

## REPORT ON THE

### *SUPPLEMENTARY ESTIMATES (B), 2012–13*

*The Supplementary Estimates (B), 2012–13* were tabled in Parliament on 8 November 2012 and were referred to the Standing Senate Committee on National Finance. The *Supplementary Estimates (B), 2012–2013* are the second Supplementary Estimates for the fiscal year ending on 31 March 2013. They identify the spending authorities and the amounts to be included in subsequent appropriations.

The Committee met in total with officials from six federal departments and one agency to review these Supplementary Estimates.

On 28 November 2012, the Committee heard from three departments.

The Treasury Board of Canada Secretariat (TBS) was represented by:

- Bill Matthews, Assistant Secretary, Expenditure Management Sector;
- Sally Thornton, Executive Director, Expenditure Operations and Estimates, Expenditure Management Sector; and
- Marcia Santiago, Senior Director, Expenditure Management Sector.

Speaking on behalf of the Department of Indian Affairs and Northern Development were:

- Michael Wernick, Deputy Minister; and
- Susan MacGowan, Chief Financial Officer.

The Department of Health was represented by:

- Glenda Yeates, Deputy Minister; and
- Jamie Tibbetts, Chief Financial Officer.

On 4 December 2012, the Committee heard from three departments and one agency.

The Department of Finance was represented by:

- Sherry Harrison, Assistant Deputy Minister, Corporate Services Branch;
- Douglas Nevison, Director, Economic and Fiscal Policy Branch;
- Lise Potvin, Director, Sales Tax Division;
- Chantal Maheu, General Director, Federal-Provincial Relations and Social Policy Branch; and
- Jeremy Rudin, Assistant Deputy Minister, Financial Sector Policy Branch.

The Department of National Defence was represented by:

- Maj.-Gen. Robert Bertrand, A/Chief Financial Officer;
- Maj.-Gen. Ian C. Poulter, Chief of Program;
- Karen Cahill, Director General, Strategic Finance and Financial Arrangements; and
- Rear-Admiral Patrick Finn, Chief of Staff, Material Group.

Speaking on behalf of the Department of Agriculture and Agri-Food were:

- Greg Meredith, Assistant Deputy Minister, Strategic Policy Branch;
- Pierre Corriveau, Assistant Deputy Minister, Corporate Management; and
- Rita Mortiz, Assistant Deputy Minister, Programs Branch.

Finally, the Canadian Food Inspection Agency was represented by:

- Peter Everson, Vice President, Corporate Management;
- Paul Mayers, Associate Vice President, Policy and Programs; and
- Barbara A. Jordan, Associate Vice President, Operations.

## **Overview of the Supplementary Estimates (B), 2012–13**

In Estimates documents, planned expenditures are allocated between budgetary and non-budgetary spending, and are divided into two categories: voted appropriations<sup>1</sup> and statutory

---

<sup>1</sup> Voted appropriations are sometimes called votes.

expenditures.<sup>2</sup> As shown in Table 1, in the *Supplementary Estimates (B), 2012–13*, Parliament is being requested to approve \$2.5 billion in voted appropriations. These Supplementary Estimates also provide information on a net increase of \$300 million in forecast budgetary statutory expenditures.

**Table 1 – Supplementary Estimates (B), 2012—2013**  
(\$ billions)

	Budgetary	Non-budgetary	Total
Voted Appropriations	2.5	0.0	2.5
Statutory Expenditures	0.3	0.0	0.3
Total	2.8	0.0	2.8

Source: Treasury Board of Canada Secretariat, *Supplementary Estimates (B), 2012–13*, p. 8.

*The Supplementary Estimates (B), 2012–13* include a number of measures set forth in Budget 2012:

- \$162 million in funding to continue to support the implementation of the First Nations Water and
- Wastewater Action Plan;
- 91.4 million for the Industrial Research Assistance Program, which supports research and development (R&D) activities conducted by small and medium enterprises (SMEs); and
- \$75 million for the Community Infrastructure Improvement Fund.

The total Estimates to date for 2012-2013 will be \$257.0 billion, including \$251.9 billion in the Main Estimates 2012–13, \$2.3 billion in the *Supplementary Estimates (A), 2012–13* and \$2.8 billion in the *Supplementary Estimates (B), 2012–13*.

---

<sup>2</sup> **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.

## **Examination of the Supplementary Estimates (B), 2012–13**

During the Committee's examination of the *Supplementary Estimates (B), 2012–13*, senators questioned federal officials on the government's rationale for voted appropriation authorization requests and the reasons for changes to statutory appropriation levels for federal departments, agencies and corporations.

### **1. Treasury Board of Canada Secretariat (TBS)**

In the *Supplementary Estimates (B), 2012–13*, the TBS is requesting a total of \$85.0 million in gross voted appropriations. Of this amount:

- \$83.1 million is requested for transfers to departments and agencies for salary adjustments; and
- \$1.9 million is requested for the modernization of human resources services in departments and agencies.

Officials from the TBS told the Committee that \$1.3 billion of the \$5.2 billion of savings identified in the Strategic and Operating Review would be generated in 2012-2013. These savings appear in the Main Estimates and Supplementary Estimates of departments and agencies as authorities available within various votes, which reduce the net voted appropriations by offsetting the new request of funds.

In responding to questions from some senators about a request of \$83.1 million for transfers to departments and agencies for salary adjustments, officials from the TBS said that these salary adjustments are "terminable allowances" which provide a temporary wage increase to particular employees in occupations where it is hard to recruit or retain employees (e.g. architects, engineers, doctors and nurses).

Regarding a request of \$180.0 million made by the Department of Public Safety and Emergency Preparedness for the Disaster Financial Assistance Arrangements, officials from the TBS informed the Committee that these funds were related to the flooding that occurred in 2011 in the provinces of Manitoba, Saskatchewan and Quebec. The officials then explained that Parliament would probably be asked to approve more funding related to this item in the future as the provinces complete their claims.

## **2. The Department of Indian Affairs and Northern Development (DIAND)**

In the *Supplementary Estimates (B), 2012–13*, the Department of Indian Affairs and Northern Development requested \$496.7 million in gross voted appropriations. This amount includes notably:

- \$136.5 million for the First Nations Water and Wastewater Action Plan;
- \$125.5 million for mental health and emotional support services, and for the administration and research required to support the federal government's obligations under the Indian Residential Schools Settlement Agreement;
- \$124.0 million for awards to claimants resulting from the Independent Assessment Process and Alternative Dispute Resolution related to the *Indian Residential Schools Settlement Agreement*;
- \$45.0 million for the development of systems and supports to ensure readiness for First Nations education legislation and to support the construction and renovation of schools on reserves; and
- \$2.5 million for the Nutrition North Canada program.

In relation to the *Indian Residential Schools Settlement Agreement*, officials from the Department of Indian Affairs and Northern Development informed the Committee that they had received a total of 35,000 applicants, compared to preliminary estimates of 15,000 to 20,000 individuals. According to DIAND officials, giving the current rate of adjudication of about 4,000 cases a year, the Department will probably be processing these claims until 2016.

Some senators asked questions about a request of \$136.5 million for the First Nations Water and Wastewater Action Plan. Officials from the Department of Indian Affairs and Northern Development responded that the federal government had spent about \$3.0 billion since 2006 to improve the quality of water in First Nations communities. Officials told the Committee that the federal government's strategy for improving the quality of water in First Nations communities is based on three pillars: 1) the construction of water and wastewater systems, 2) the training of the operators of water and wastewater systems in First Nations communities and 3) the implementation of mechanisms of management and accountability with clear standards and rules regarding water quality.

Responding to questions by some senators about the Nutrition North Canada program, a retail subsidy program focused on increasing access to perishable health food in isolated northern communities, officials from the Department of Indian Affairs and Northern Development said that the annual cost of this program was about \$54.0 million. According to these officials, accountability measures have been implemented for retailers and suppliers, and audits confirmed that they are complying with the program. There has been an 8% decrease in the cost of a typical northern food basket.

Some senators questioned the \$500,000 grant reduction for a project for Aboriginal youth called Wapikoni mobile, a traveling training studio for audiovisual and musical creations. The officials from the Department of Indian Affairs and Northern Development have undertaken to provide the Committee with more information on this issue.

### **3. The Department of Health**

In the *Supplementary Estimates (B), 2012–13*, the Department of Health requested \$308.8 million in gross voted appropriations. Of this amount:

- \$226.4 million was requested for the provision of supplementary health benefits to eligible First Nations and Inuit;
- 55.9 million for mental health and emotional support services, and for the administration and research required to support the federal government's obligations under the *Indian Residential Schools Settlement Agreement*;
- \$25.6 million for the implementation of the First Nations Water and Wastewater Action Plan; and
- \$1.0 million for the development of new community-integrated palliative care models.

Officials from the Department of Health explained to the Committee that the proposed increase of \$308.8 million in gross voted appropriations would be partially offset by savings of \$71.8 million identified by the Strategic and Operating Review.

In response to questions from some senators about a request of \$226.4 million for the provision of supplementary health benefits to eligible First Nations and Inuit, the officials from the Department of Health explained to the Committee that the requested amount covers funding



for the costs of Non-Insured Health Benefits associated with existing clients and about 23,000 new clients resulting from the recent creation of the Qualipu Mi'kmaq First Nations band in Newfoundland and Labrador, and about 24,000 new clients arising from the *Gender Equity in Indian Registration Act*. This act enables the grandchildren of women who had lost their Indian status as a result of marrying a non-Indian to be eligible for inclusion in the Indian registry. *The Gender Equity in Indian Registration Act* came into force on 31 January 2011.

Officials from the Department of Health told the Committee that the request of \$1.0 million for the development of new community-integrated palliative care models was part of a four-year program that started in 2011 and will end in 2014.

#### **4. The Department of Finance**

In the *Supplementary Estimates (B), 2012–13*, the Department of Finance requested \$11.1 million in gross voted appropriations. Of this amount:

- \$10.2 million was requested for the Toronto Waterfront Revitalization Initiative;
- \$588,000 for maintaining the strength of Canada's financial system;
- \$200,000 for litigation with the legal profession regarding the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act*; and
- \$179,000 for the 90 Elgin Crown site redevelopment project.

The officials from the Department of Finance told the Committee that the \$1.1 million requested under vote 1 were expenditures reprofiled from 2011-2012 since these new requirements are entirely offset by funding available within vote 1 due to savings identified in the Strategic and Operating Review.

In response to questions from senators about a \$733.0 million statutory payment to Quebec for harmonizing its Quebec Sales Tax (QST) with the federal Goods and Services Tax (GST), the officials from the Department of Finance explained that this payment was the first of two payments totalling \$2.2 billion related to the agreement signed between the federal government and Quebec. The federal government will make a second payment of \$1.467 billion to Quebec in 2013-2014. The payments to Quebec, Ontario and Prince Edward Island for

harmonizing their provincial sales tax with the federal GST are based on a formula that provides each province with payments equal to the value of 1.5 points of GST in their province.

Some senators asked questions about a \$1.2 billion statutory reduction of interest on unmatured debt related to revisions to forecasted interest rates by private sector economists. The officials from the Department of Finance responded that these revisions were based on the March 2012 survey of private sector economists. This survey shows that the private sector economists reduced their average forecasted long-term rates by 50 basis points, and their short-term rates by 30 basis points.

In response to questions from senators regarding a \$13.5 million statutory reduction in additional fiscal Equalization to Nova Scotia, an official from the Department of Finance explained to the Committee that Nova Scotia receives payments under the total transfer protection payment as well as a commitment made by the federal government in 2007 to provide Nova Scotia with Equalization payments higher or equal to the payments based on the previous Equalization formula. This amount of \$13.5 million was deducted from the additional fiscal Equalization to Nova Scotia to account for the fact that the gap between the 2007 Equalization formula and the previous formula has already been closed by the total transfer protection payments to Nova Scotia.

Some senators raised questions about a request of \$200,000 for litigation with the legal profession regarding the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act*. The officials from the Department of Finance responded that this ongoing litigation is related to how the legal profession sees its role under the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act*. Senators also asked questions about the total amount spent by the federal government on this litigation since 2001. The officials from the Department of Finance responded that \$1.7 million had been set aside in 2009-2010 for this litigation and that the request of \$200,000 was the remaining part of that amount. The officials from the Department of Finance have also undertaken to provide the Committee with more information on government spending related to this litigation since 2001.

## 5. The Department of National Defence

*In the Supplementary Estimates (B), 2012–13*, the Department of National Defence requested \$370.7 million in gross voted appropriations. This amount includes:

- \$205.6 million for the Canadian Forces Service Income Security Insurance Plan as a result of a Federal Court decision on the Manuge class-action lawsuit;
- \$59.5 million for the acquisition and long-term support of the Tactical Armoured Patrol Vehicle;
- \$37.3 million for the renewal and harmonization of the Public Safety and Security Science and Technology Programs;
- \$36.5 million for the Implementation of Phase 1 of the Force Mobility Enhancement Project;
- \$22.3 million for the definition phase of the Canadian Surface Combatant project;
- \$7.2 million for the definition phase of the Fixed-Wing Search and Rescue Aircraft Replacement Project; and
- \$2.5 million for the reinvestment of royalties from intellectual property.

The officials from the Department of National Defence explained to the Committee that the \$370.7 million in gross voted appropriations requested in the *Supplementary Estimates (B), 2012–13* was fully offset by the funds available within vote as a result of the savings identified in the Strategic and Operating Review.

Some senators expressed some concerns about the possibility that the Department of National Defence will have to request more funds from Parliament in the next Main Estimates or Supplementary Estimates because it is using reprofiled capital expenditures related to delayed projects to finance current expenditures in the *Supplementary Estimates (B), 2012–13*. The officials from the Department of National Defence have undertaken to provide the Committee with more information on this issue.

## **6. The Department of Agriculture and Agri-Food**

In the *Supplementary Estimates (B), 2012–13*, the Department of Agriculture and Agri-Food Canada requested \$225.5 million in gross voted appropriations. This amount includes notably:

- \$184.2 million for the Canadian Wheat Board's transition costs;
- \$27.8 million for supporting a profitable and innovative agriculture and an agri-food and agri-based products industry to respond to market demands and contribute to the health and well-being of Canadians (Growing Forward Initiative);
- \$6.2 million for biosecurity, research, and long-term risk management solutions that will contribute to the prosperity and stability of the sector (Initiative for the Control of Diseases in the Hog industry).

In responding to questions from some senators about the Growing Forward Initiative, the officials from the Department of Agriculture and Agri-Food informed the Committee that the federal government and the provinces would invest about \$3.0 billion through this initiative during the 2013 to 2018 period. The federal government will pay 60% of the cost associated with the Growing Forward Initiative and the provinces will pay the remaining 40%.

Some senators raised questions about a request of \$184.2 million for the Canadian Wheat Board's transition costs. The officials from the Department of Agriculture and Agri-Food responded that this request was related to the government's commitment to assist the Canadian Wheat Board's transition by making sure that the producers do not bear the costs associated with the policy decision to remove the single desk of the Canadian Wheat Board. Examples of the Wheat Board transition costs are pension and post-employment benefits, severance, legacy costs, and penalties associated with contract changes.

The officials from the Department of Agriculture and Agri-Food also told the Committee that Parliament should expect to see other requests related to the Canadian Wheat Board's transition since the federal government has planned to spend a total of \$349 million for this item.

In response to questions from senators about a \$10.4 million contribution to minimize the occurrence and extent of risk incidents, the officials from the Department of Agriculture and Agri-Food told the Committee that this request is related to one of the themes of the Growing

Forward Initiative which seeks to improve government's ability to prevent the incidence of risk events to animal, plant and production-related resources.

## **7. The Canadian Food Inspection Agency**

In the *Supplementary Estimates (B), 2012–13*, the Canadian Food Inspection Agency (CFIA) requested Parliament's approval for a transfer of \$276,000 from the Department of National Defence for the Canadian Safety and Security Program, and a \$252,000 transfer to the Public Service Commission for the Public Service Resourcing System.

The officials from the CFIA told the Committee that the \$276,000 transfer from the Department of National Defence for the Canadian Safety and Security Program will be used to ensure that the CFIA food microbiology laboratories are able to work to the same standard for the detection and characterization of food pathogens.

Regarding the \$252,000 transfer to the Public Service Commission for the Public Service Resourcing System, the officials from the CFIA explained to the Committee that this transfer would allow the CFIA to use the federal government's primary job portal [www.jobs.gc.ca](http://www.jobs.gc.ca). Fees paid by organizations to the Public Service Commission for these services are determined according to their relative size. Officials from the CFIA told the Committee that it is more cost-effective to use this portal rather than build a new one on their own.

Some senators wondered about the impact of the Strategic and Operating Review on the ability of CFIA to protect Canadians from food safety hazards. The officials from the CFIA explained to the Committee that the savings identified in the Strategic and Operating Review would have no impact on food safety and that the number of food inspectors had increased slightly this year compared to the last. The savings identified under the Strategic and Operating Review are mostly administrative in nature.

## **Government's responses to the report *Strengthening Parliamentary Scrutiny of Estimates and Supply***

Officials from the TBS provided the Committee with an overview of the federal government's responses to the report entitled *Strengthening Parliamentary Scrutiny of Estimates and Supply* tabled in June 2012 by the House of Commons Standing Committee on Government

Operations and Estimates. In response to the committee's recommendations, the federal government:

- reiterated that it would conclude its study of the question of accrual vs. cash accounting by 31 March 2013 (the Budget and the Volume I of the Public Accounts are on a full accrual basis while the Main Estimates, the Supplementary Estimates and the Volume II of the Public Accounts are on a near-cash basis);
- committed to change the vote structure of the Estimates to a program-based structure from the current vote structure for a few departments and to request feedback from Parliament;
- agreed to present the planned program spending of departments and agencies for three years in the Reports on Plans and Priorities;
- agreed to explain the differences between program-based forecasted spending and actual spending in the departmental documents, the Reports on Plans and Priorities and Departmental Performance Reports;
- rejected the committee's recommendation to have a fixed budget date because it would not solve the disconnect between the Main Estimates and the budget and it would reduce the Department of Finance's flexibility to be able to table a budget when they see best fit;
- committed to highlight in the Estimates and Supplementary Estimates the year of the federal budget where new funding was mentioned for the first time;
- agreed to link the *Tax Expenditures and Evaluations* produced by the Department of Finance with the Reports on Plans and Priorities of departments and agencies; and
- committed to provide Parliament with a plan for an online searchable database with expenditure information by 31 March 2013.