

**SENATE**



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**CANADA**

**Report on the Supplementary Estimates (A), 2008-2009**

**Standing Senate Committee on National Finance**

*Chair*

The Honourable Joseph A. Day

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The Honourable Terry Stratton

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## TABLE OF CONTENTS

A. INTRODUCTION .....	3
B. THE SUPPLEMENTARY ESTIMATES (A), 2008-2009 .....	3
C. OVERVIEW OF THE SUPPLEMENTARY ESTIMATES (A), 2008-2009.....	4
D. MAJOR ITEMS IN THE ESTIMATES (pages 9-12) .....	5
E. EXAMINATION OF THE SUPPLEMENTARY ESTIMATES (A), 2008-2009.....	9
F. CONCLUSION.....	14

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## **REPORT ON THE SUPPLEMENTARY ESTIMATES (A), 2008-2009**

### **A. INTRODUCTION**

The Supplementary Estimates (A), 2008-2009 were tabled in the Senate on 13 May 2008 and subsequently referred for review to the Standing Senate Committee on National Finance. The Committee has in obedience to the Order of Reference of 13 May 2008, examined the said Estimates and herewith presents its report.

The Committee held one meeting to review these Supplementary Estimates. On 28 May 2008 officials from the Treasury Board Secretariat of Canada, Alister Smith, Assistant Secretary, Expenditure Management Sector and Brian Pagan, Executive Director, Expenditure Operations and Estimates Division, appeared before the Senate Committee to testify on the Supplementary Estimates (A), 2008-2009.

These are the first set of Supplementary Estimates to be issued in this fiscal year ending on 31 March 2009. Unless otherwise stated, all page references are from the Supplementary Estimates (A), 2008-2009 documents.

### **B. THE SUPPLEMENTARY ESTIMATES (A), 2008-2009**

Each year, the federal government tables Parts I and II of its Estimates documents for the next fiscal year, which begins April 1 and ends March 31. Part I (“The Government Expense Plan”) and Part II (“The Main Estimates”) provide information on the spending plans of the federal government. During the year, changes to the government’s spending plans are listed in the “Supplementary Estimates.” There are normally two sets of Supplementary Estimates: Supplementary Estimates (A) are usually tabled in November, while the Supplementary Estimates (B) are tabled in February or March. Supplementary Estimates are tabled in Parliament approximately one month in advance of the related appropriation bill in order to provide parliamentary committees sufficient time to review the proposed spending plans before voting on the appropriation bill.

The Supplementary Estimates serve a number of purposes. First, they provide information on the government’s spending requirements that were not sufficiently developed when the 2008-2009 Main Estimates were tabled, or have been subsequently refined to account for new developments in particular programs or services. Second, they provide Parliament with information on changes in estimated statutory expenditures (i.e., those authorized by Parliament through enabling legislation). Finally, they are used to

seek parliamentary approval for items such as: transfers of money between Votes; debt deletion; loan guarantees; new or increased grants; and changes to Vote wording<sup>1</sup>.

#### **a. Changes to Presentation**

These Supplementary Estimates continue to reflect the government's commitment to renew the Expenditure Management System (EMS). Normally there are at least two Supplementary Estimates documents tabled each year. Each document is identified alphabetically (A, B, C, etc.). In recent years, the first regular Supplementary Estimates document has been tabled in late October and the final document in February. This year the Treasury Board is releasing Supplementary Estimates (A), 2008-2009 in the spring in order to facilitate a closer alignment of the Estimates to the Budget and to allow Parliament an opportunity to review departmental requirement in a timelier manner. According to the Secretariat officials, approximately 56% of the new spending announced in Budget 08 for fiscal year 2008-2009 has been incorporated into these Supplementary Estimates. This should provide Parliamentary approval of appropriations in June, rather than December, as has been the case over the last decade. Consequently, departments will be able to begin delivering programs to Canadians sooner.

#### **b. Planned Spending**

In the Estimates documents, planned spending is broken down by budgetary and non-budgetary expenditures and is displayed for both voted and statutory expenditures. **Budgetary** spending encompasses the cost of servicing the public debt; operating and capital expenditures; transfer payments and subsidies 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 federal government's financial assets; **Voted** expenditures are those for which parliamentary authority is sought through an appropriation bill; and **Statutory** expenditures are those authorized by Parliament through enabling legislation; they are included in the Estimates documents for information purposes only.

### **C. OVERVIEW OF THE SUPPLEMENTARY ESTIMATES (A), 2008-2009**

As shown in Table 1 below, the Supplementary Estimates (A), 2008-2009 total \$4.1 billion. Of this amount, the federal government is seeking Parliament's approval to spend an additional \$3.6 billion over the amount sought in the 2008-2009 Main Estimates. Statutory authorities are expected to increase by \$0.4 billion. Spending in the Supplementary Estimates is consistent with the fiscal framework established in the February 2008 Budget.

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<sup>1</sup> The latter items often do not require additional appropriations and are included in the related supply bill by the notional amount of "one dollar" since in order to be listed in the bill; an item must have monetary value.

**TABLE I**

<b>Total Supplementary Estimates (A), 2007-2008 (In millions of dollars)</b>			
	Budgetary	Non-Budgetary	Total
Voted Appropriations	3,614.0	0	3,614.0
Statutory Authorities	443.5	0	443.5
Total	4,057.5	0	4,057.5

Source: Supplementary Estimates (A), 2008-2009, p. 8.

The 2008-09 Main Estimates in the amount of \$220.6 billion include a budgetary spending component of \$79.0 billion. Interim Supply, in the amount of \$23.4 billion, received Royal Assent on March 29, 2008, while Full Supply for the remaining \$55.6 billion is scheduled to receive Royal Assent in June 2008.

Source: Supplementary Estimates (A), 2007-2008, p. 9.

#### **D. MAJOR ITEMS IN THE ESTIMATES (pages 9-12)**

The following provides an overview of the major items (i.e. those greater than \$100 million) in total budgetary spending (Voted and Statutory) comprising the increase of \$4.1 billion presented in these Supplementary Estimates.

**1. Voted budgetary spending** is forecast to increase by \$3.614 billion and is largely attributable to the following key initiatives:

##### **a) Major Horizontal Initiatives**

There is only one major initiative that involves more than one organization (horizontal initiatives). This is a requirement for funds to implement the **First Nations Water and Wastewater Action Plan** to support continued access to safe drinking water and wastewater services (\$162.9 million).

Budget 2008, in support of strengthening partnerships with Aboriginal Canadians, provided \$330.6 million over two years to Indian Affairs and Northern Development and Health Canada to improve access to safe drinking water and wastewater systems in First Nations communities. The objective of the action plan is to support First Nations

communities in maintaining their drinking water and wastewater services to a level comparable to those enjoyed by other Canadians.

## **b). Major Specific Initiatives**

**i) Funding to National Defence** for the major capital equipment project to secure tactical airlift capability (\$557.3 million). This funding will be used to acquire a new aircraft fleet that will transport troops and equipment within a region and/or theatre of operation, replacing 13 older Hercules aircraft. These aircraft will be used for tactical airlift, tactical air-to-air refueling, and search and rescue.

**ii) Funding to the Office of Infrastructure Canada** for a new contribution program entitled Building Canada Fund as a component of the Building Canada Infrastructure Plan (\$390.7 million). Announced in Budget 2007 as part of the Building Canada Infrastructure Plan, the Building Canada Fund is designed to support a growing economy, a cleaner environment and stronger and safer communities by providing contributions to national, regional and local infrastructure priorities. Projects under the Building Canada Fund include the major infrastructure component, which supports projects that will have national or regional benefits for the economy, the environment or communities, and the communities component, which supports projects that address the needs of communities with populations of less than 100,000.

**iii) Funding to Agriculture and Agri-Food Canada** to assure program continuity in the implementation of the Growing Forward Policy Framework (\$285.2 million). This funding will be used to continue existing non-Business Risk Management (BRM) programming for one year while the new Growing Forward policy framework is finalized and implemented with partners and stakeholders. Non-BRM programs provide agricultural producers with the tools and services that are needed to achieve more diversification, value-added growth, the highest standards of environmental stewardship and to ensure food safety.

**iv) Funding to Transport Canada** for the implementation of the Gateways and Border Crossings Fund Contribution Program (\$223.1 million). This funding will be used for investments in strategic infrastructure at key international trade gateways and corridors to accommodate increases in trade traffic at key border crossings. The Fund will also provide infrastructure funding to partners through contributions for investment in federal assets essential to achieving the Fund's objectives and provide resources to ensure that gateway and trade corridor strategies are properly developed, funded and implemented.

**v) Funding to Indian Affairs and Northern Development** for out-of-court settlements (\$163.5 million). These funds will be directed towards concluding and executing two settlement agreements with First Nations parties. Together, these settlements reflect Canada's ongoing commitment to resolving outstanding grievances with First Nations through negotiation, rather than litigation, where possible.

**vi) Funding to Industry Canada** to support strategic investments in innovation under the Technology Partnerships Canada Program and the Strategic Aerospace and Defence Initiative (\$121.3 million). The Strategic Aerospace and Defence Initiative (SADI) was created to facilitate industrial research and development by the federal government in

Canadian aerospace, defence, space and security, as well as to foster collaboration between research institutes, universities and colleges and the private sector. The SADI will replace the Technology Partnerships Canada Program (TPC). However, the TPC terms and conditions, extended in 2007, will continue to be used for managing contribution agreements.

**vii) Funding to National Defence** for the land duty allowance (\$120.0 million). This funding will be used to cover the costs of the environmental allowance for Canadian Forces members serving in field units, similar to the monthly allowances provided to the Navy and Air Force. The 2007 Federal Budget allocated \$60 million annually for the introduction of an environmental allowance for Canadian Forces members serving in land based units as a replacement for the Field Operations Allowance. The amount included in these Supplementary Estimates is higher than the \$60 million announced in the Budget as National Defence is also being reimbursed for funding it provided from within existing reference levels in 2007-08 to implement this allowance on a timely basis. The minimum monthly rate of the allowance is \$285.

**viii) Funding to Atomic Energy of Canada Limited** for operating and capital costs to address regulatory, health and safety, security and environmental requirements at the Chalk River Laboratories, Ontario (\$120.0 million). This funding will be used to cover costs associated with 15 capital projects and 30 operational initiatives with multiple elements in each. The funding sought will be used to supplement the basic Chalk River Laboratories site operation costs and to address additional health, safety, security and environmental requirements.

**ix) Funding to the Canadian International Development Agency** to support the Global Fund to Fight AIDS, Tuberculosis and Malaria (\$109.0 million). The Global Fund to Fight AIDS, Tuberculosis and Malaria operates as an international mechanism to finance developing country-led plans to combat AIDS, tuberculosis and malaria. The Canadian International Development Agency support to the Global Fund is consistent with the Government's international assistance priorities and Canada's strategy to focus greater support on those multilateral mechanisms that are most effective.

**x) Funding to Indian Affairs and Northern Development** for payments to the Quebec Cree to settle implementation issues respecting the James Bay and Northern Quebec Agreement and payments to Makivik Corporation in relation to the Chisasibi Inuit Housing Agreement (\$100.8 million). In June 2007, the Crown approved a \$1.4 billion settlement between the Government of Canada and the Cree to settle implementation issues respecting the 1975 James Bay and Northern Quebec Agreement. Additionally, funding will be paid to Makivik Corporation for the construction of housing for the Chisasibi Inuit. These funds will fulfill Canada's obligation under a ten-year housing agreement signed with Makivik Corporation in 1996.

**xi) Funding to Atomic Energy of Canada Limited** for operating costs of the Advanced CANDU Reactor Development program (\$100.0 million). Funding of \$100 million will be used for development of the Advanced CANDU Reactor (ACR). Since 2002, Atomic



Energy of Canada Ltd has been developing the next generation of CANDU Reactor – ACR. The ACR has the potential for sales in international nuclear energy markets that would augment the Atomic Energy of Canada’s commercial business and is an element of the organization’s mandate and corporate objectives. Currently, there are 240 full time employees working on the program.

## **2. Statutory Spending**

Spending is expected to increase by \$443.5 million and is mainly attributable to the following forecast changes:

i) Funding to **Finance** for revised forecast of transfer payments to provincial and territorial governments (\$254.4 million). Finance is forecasting a net increase of \$254.4 million in federal-provincial transfers for 2008-09. The transfer payments to provincial and territorial governments fall under different categories such as the Clean Air and Climate Change Trust Fund and Fiscal Equalization.

ii) Funding to **Finance** for a temporary financial incentive for provincial governments to eliminate their capital taxes (\$180.0 million). Budget 2007 provided a financial incentive for provincial governments to eliminate their capital taxes. The incentive will be paid out annually up to 2011. To be eligible for the federal payment, a province must eliminate its currently existing general capital tax or capital tax on financial institutions, or restructure a currently existing capital tax on financial institutions into a minimum tax on financial institutions

## **E. EXAMINATION OF THE SUPPLEMENTARY ESTIMATES (A), 2008-2009**

During the Committee’s hearing on the Supplementary Estimates (A), 2008-2009, Senators raised a variety of issues related to the planned spending as outlined above, in addition to other matters also discussed below. The officials of the Treasury Board Secretariat answered the questions at the meeting and supplied additional information in writing.

### **1. Department of National Defence**

The Supplementary Estimates announced \$557.3 million to the Department of National Defence to acquire a new aircraft fleet to be used to transport troops and equipment within a region and/or theatre of operation, replacing 13 older Hercules aircraft. Senators were interested in the details of this appropriation request. The officials explained that this is part of the Tactical Airlift capability project to acquire 17 new tactical lift aircraft to replace the aging Hercules fleet. The project was announced by the government in 2006 at a total cost of \$3.1 billion. Aircraft delivery is expected to begin in fall / winter 2010, with all aircraft received by winter 2013-2014. The amount sought in these estimates reflects routine adjustments needed to align the cash requirements with changes in the timing of payments. The total cost of the project remains unchanged.

The committee was also interested in the Department's request for \$120.0 million in funding for the land duty allowance to cover the cost of the environmental allowance for Canadian Forces members serving in field units, similar to the monthly allowances provided to the Navy and Air Force. According to the Supplementary Estimates, the amounts included is higher than the \$60 million announced in the Budget as National Defence is also being reimbursed for funding it provided from within existing reference levels in 2007-2008 to implement this allowance on a timely basis. The TBS officials informed the committee that the "Environmental Allowances" refers to a class of allowances that provide compensation for various conditions that must be faced in special settings under which a member must serve.

The introduction of the land duty allowance also served to establish internal parity for the treatment of the land forces with the air and sea forces, where a monthly environmental allowance already existed. The minimum monthly rate of the allowance is \$285 and its design is largely based on the environmental allowances for the Navy (Sea Duty, Submarine Allowance) and the Air Force (Aircrew Allowance).

Budget 2007 allocated an annual \$60 million for the introduction of an environmental allowance for Canadian Forces members serving in land-based units (Army) as a replacement of the Field Operations Allowance, which had not previously been separately listed in Main Estimates for the department. The amount included in these Supplementary Estimates is higher than the amount announced in the Budget in order to reimburse DND for funding it provided in order to implement this allowance from within existing reference levels in 2007-2008. In the future it will be included in the Main Estimates.

## **2. Changes to Government Organization and Structure**

Some Senators observed a number of Order in Council items that will result in changes to organization and structure of the government (p. 13 of the Supplementary Estimates A). Specifically, the Government announced the following organizational changes:

**a)** Order in Council P.C. 2007-1888 transferred the control and supervision of the Federal Project Coordination Secretariat and the Pipeline Readiness Office of the Mackenzie Gas Project (effective December 6, 2007) from the Department of Indian Affairs and Northern Development to the Department of Industry.

The officials informed the committee that as a result of this Order in Council the \$1.6 million that had been included in the Department of Indian Affairs and Northern Development's Main Estimates are being transferred to the department of Industry in order to ensure that there is no disruption to the day-to-day operations of the Secretariat. The rationale for this change in departmental responsibility is to ensure continuity of Ministerial oversight as Minister Prentice (previous Minister of Indian and Northern Affairs Canada and currently Minister of Industry) was initially assigned responsibility for this project and is best suited to ensure its completion.

**b) Order in Council P.C. 2008-0243** authorised the Canada Development Investment Corporation to procure the incorporation of a wholly-owned subsidiary under the name PPP Canada Inc (effective February 7, 2008).

Both Budgets 2007 and 2008 announced measures to transform Canada into a leader for public-private partnerships, including the creation of a federal P3 office and a nearly \$1.27 billion Public-Private Partnerships Fund (P3 Fund). The officials explained that the federal P3 office, PPP Canada Inc., is a Crown Corporation which will work with the public and the private sectors towards encouraging the further development of Canada's P3 market. It will be responsible for managing the P3 Fund and act as a source of expertise and advice on P3 matters. The P3 Fund will invest in public-private partnerships using a range of innovative financing instruments, such as loans, loan guarantees, non-voting shares and repayable contributions. The P3 Fund investments will be used to provide federal contributions to municipal and provincial infrastructure projects (i.e. excluding federal assets). These funds will be used to help leverage private sector investment in Canadian infrastructure and to expand the Canadian P3 market.

These Supplementary Estimates seek funding of \$95.5 million to allow the newly created PPP Canada Inc. to undertake its operations and to launch the P3 Fund. It is also presenting to Parliament a temporary statutory item of \$5 million to support PPP Canada Inc. in launching its operations that has already been approved through the Budget and Economic Statement Implementation Act, 2007. The Budget and Economic Statement Act, 2007, provided \$25 million over five years to support PPP Canada Inc. in launching its operations.

**c) Order in Council P.C.1996-1491** amended Schedule I.1 to the Financial Administration Act to add the Office of the Communications Security Establishment Commissioner to the list of Divisions or Branches of the Public Service of Canada and names the Minister of National Defence at the "appropriate Minister" (effective September 24, 1996).

The secretariat officials explained that through these Supplementary Estimates, a separate appropriation is being established for the Office of the Communications Security Establishment Commissioner (OCSEC) to better reflect its independence from the Department of National Defence. The establishment of a separate vote ensures that the budget of the OCSEC can only be reduced (or increased) with the approval of Parliament.

OCSEC was created by Order in Council in 1996. After the attacks of September 11th 2001, the National Defence Act was amended to formalize the OCSEC. To ensure the independence of the office, administrative services have historically been provided to the OCSEC by the Privy Council Office, which has been reimbursed by DND through an interdepartmental memorandum of understanding. This arrangement is no longer necessary.

### **3. Department of Indian Affairs and Northern Development**

The Senators had a number of questions relating to the Department of Indian Affairs and Northern Development (DIAND). First, they had questions about an initiative that involves more than one department. Budget 2008 provided \$330.6 million over two years to Indian Affairs and Northern Development and Health Canada for the First Nations Water and Wastewater Action Plan to improve access to safe drinking water and waste-water systems in First Nations communities, the Supplementary Estimates (A) announced that \$162.9 million in funding is currently sought by the departments.

The officials noted that the 2008-2009 Main Estimates reflected a decrease of \$108.2 million for DIAND due to the sunseting of Budget 2003 funding to implement the Action Plan for safe drinking water in First Nations Communities. However, Budget 2008, in support of strengthening partnerships with Aboriginal Canadians, provided \$330.6 million over two years to Indian Affairs and Northern Development and to Health Canada to improve access to safe drinking water and wastewater systems in First Nations communities.

The new initiative was developed in response to the concerns and recommendations raised in the various audits, evaluations and reports related to federal investments in the management of First Nation water and wastewater systems. The two departments created a number of initiatives focused on the water and wastewater systems of First Nations communities. The First Nations Water and Wastewater Action Plan, which received Cabinet approval in December 2007, consists of 14 key program components.

The overall objective of the Action Plan will be to support First Nations communities in bringing and maintaining their drinking water and wastewater services to a level comparable to those enjoyed by other Canadians. This funding will build upon the \$405 million DIAND and Health Canada currently provided annually to First Nation water management issues. Specifically, with this funding the two departments will work together to provide:

- i) the development of a regulatory regime for First Nations that is enforceable and compatible with provincial and territorial regimes aimed at protecting water quality.
- ii) Continued investments in the capital construction and operation and maintenance of water and wastewater systems, as well as investments in operator training and operator oversight.
- iii) New initiatives designed to enhance the efficiency of existing investments in water and wastewater infrastructure including improved targeting of operation and maintenance funding, an independent assessment of the current status of water and wastewater systems across Canada, promotion of smaller systems and better use of technology such as remote monitoring through broadband connectivity

The second item in the appropriations sought by DIAND of interest to the committee involves an amount of \$163.5 million to cover the costs of two-out-of-court settlements

directed towards concluding and executing the settlement agreements with First Nations parties. The officials stated that this requirement in funding in support of out-of-court settlements is the aggregate of individual cases involving First Nations parties where Canada is confident of executing a settlement agreement with the First Nations this fiscal year. This amount includes all expected costs to Canada directly associated with implementing these settlements. They reminded the committee that since negotiations in pursuit of these out-of-court settlements are ongoing, an aggregate amount has been reflected in order not to prejudice the outcome of individual negotiations.

Each settlement agreement will directly reduce the liability of the Government, in a manner less adversarial than through the court process. This approach reflects the Government's commitment to resolve outstanding grievances with First Nations through negotiation, rather than litigation, wherever possible. The officials explained that according to DIAND's 2006-2007 Financial Statement, there are hundreds of claims and pending or threatened litigation cases outstanding against the Department, including 71 comprehensive land claims, 744 specific claims and 451 claims that are being pursued through the courts. Altogether a liability of \$3.2B is estimated for comprehensive land claims that have progressed to a point where qualification is possible. The remaining claims are still in the early stages of negotiations and the associated liability cannot yet be quantified.

#### **4. Infrastructure Canada**

The committee expressed an interest in a number of aspects of Infrastructure Canada's programs. Specifically, there was interest in the item that suggests that the Building Canada Fund will receive \$390.7 million in additional funding according to the Supplementary Estimates (A) 2008-09.

The officials explained that Budget 2007 announced a seven-year program with \$8.8 billion in funding for the Building Canada Fund, a component of the Building Canada Infrastructure Plan designed to foster economic growth and productivity, and to support trade flows through investments in infrastructure. These Supplementary Estimates contain that portion of the Building Canada Fund allocated for 2008-09 (\$390.7 million). The Fund is designed to support a growing economy, a cleaner environment and stronger and safer communities by providing contributions to national, regional and local infrastructure priorities. The eligible projects under the Building Canada Fund fall under either the Major Infrastructure Component, which supports projects that will have national or regional benefits for the economy, the environment or communities, or the Communities Component, which supports projects that address the needs of communities with populations of less than 100,000. The officials added that there is also a research component to the Building Canada Fund that supports strengthening knowledge of: the state of Canada's infrastructure assets; best practices in infrastructure management; and the feasibility of infrastructure projects. Funding is allocated to each jurisdiction on a per capita basis.

## **5. Department of Transport**

According to the Supplementary Estimates, the Department of Transport will receive an additional \$223.1 million to fund the implementation of the Gateways and Border Crossings Fund Contribution Program. Senators asked for additional details on this spending item. They were informed that this program is an element of the Building Canada Infrastructure Plan. The Gateways and Border Crossings Fund will cost \$2.1 billion over seven years. The \$223 million included in these Supplementary Estimates represents year one funding. This fund will be used for investments in strategic infrastructure at key international trade gateways and corridors and to accommodate increases in trade traffic at key border crossings. The fund will provide infrastructure funding to partners through contributions and provide up to \$200 million for investment in federal assets essential to the realization of the Fund's objectives. The fund will also provide resources to ensure that gateway and trade corridor strategies are properly developed, funded and implemented.

## **F. CONCLUSION**

During its meeting on the Supplementary Estimates (A), 2008-2009, the Committee deliberated on these and other matters. Treasury Board Secretariat officials committed to following-up on a number of issues, including: the Security of Information Act, the Community Development Trust Fund, the Atomic Energy Corporation, Canada Post, and particulars on the 2006 Expenditure Review exercise.. The Committee intends to more fully examine the government's spending plans for the 2008-2009 fiscal year, and will present further interim reports as it continues its work.

The Standing Senate Committee of National Finance respectfully presents its report on the Supplementary Estimates (A), 2008-2009.