



OFFICE OF THE
PARLIAMENTARY
BUDGET OFFICER
BUREAU DU DIRECTEUR
PARLEMENTAIRE DU
BUDGET

CANADA

Supplementary Estimates (C) 2016-17

Ottawa, Canada
23 February 2017
www.pbo-dpb.gc.ca

The mandate of the Parliamentary Budget Officer (PBO) is to provide independent analysis to Parliament on the state of the nation's finances, the Government's estimates and trends in the Canadian economy; and, upon request from a committee or parliamentarian, to estimate the financial cost of any proposal for matters over which Parliament has jurisdiction.

This note presents detailed analysis of the third supplement to the Government's Main Estimates for the 2016-17 fiscal year.

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Executive Summary

These Supplementary Estimates ask Parliament for \$2.5 billion to spend in the last weeks of the fiscal year. This is partially offset by a \$1.0 billion reduction in statutory spending. This brings total planned budgetary spending for the current fiscal year to \$257.7 billion (an increase of 2.7% compared to the preceding year).

The single largest proposed spending increase stems from collective agreements with public service employees that *may* be ratified prior to the end of the fiscal year (+\$545 million). There are also significant new outlays arising from the transfer of federal dams to the Government of Saskatchewan (+\$350 million), student loan write-offs (+\$178 million), humanitarian assistance (+\$165 million), international development (+\$155 million) and improved border security (+\$93 million).

To better align the Budget and the Main Estimates, the Treasury Board of Canada Secretariat (TBS) proposes delaying the Main Estimates until May 1 to include most budget items. The PBO notes that while 33 Budget 2016 items with a total value of \$6.0 billion were included in Supplementary Estimates (A), the inclusion of 73 Budget 2016 items in Supplementary Estimates (B) and (C) indicates that further work will be required to align the Budget and the Main Estimates.

The Government also indicates that \$3.0 billion of the money approved by Parliament has been administratively “frozen” and will not be spent this year as originally intended. Of this amount, \$2.1 billion is related to deferring planned spending to future years. Some of the significant frozen allotments include Infrastructure Canada (\$829 million), National Defence (\$366 million), Fisheries and Oceans Canada (\$192 million), and Indigenous and Northern Affairs Canada (\$100 million).

Parliamentarians may wish to enquire about the reasons for delays in program implementation that have led to the reprofiling of funds.

1. Context

The Government typically presents five separate appropriation bills to Parliament each year to obtain annual spending authority. The first two are the largest and correspond to the Government's Main Estimates, which seek authority for roughly 95 per cent of the total spending in a given year. The other three appropriation bills correspond to the Supplementary Estimates, through which the Government seeks Parliament's approval to spend money on initiatives that were "either not sufficiently developed...at the time of the Main Estimates...or...have been further refined..."¹

Typically, the Government presents a supplementary estimate appropriation bill to Parliament for each of the three parliamentary supply periods ending June 23, December 10, and March 26.

Supplementary Estimates (C) corresponds to the third supply period.

2. Supplementary Estimates (C)

2.1. Overview

The *Supplementary Estimates (C), 2016–17* outline a net amount of \$1.5 billion in additional spending. Voted spending, meaning that Parliament's assent is required in an appropriation bill to approve the new funding, is \$2.5 billion. Statutory spending, for which legislative authority is ongoing, is forecast to be \$1.0 billion lower.

The change in statutory forecast spending stems primarily from a decrease in public debt interest costs due to a lower than anticipated interest rate environment (-\$1 billion).

In addition to budgetary amounts, estimates documents also include non-budgetary amounts, which reflect changes in the valuation or composition of the Government's financial assets, that is, loans, investments, and advances. With these estimates, the Government is identifying a decrease in its statutory non-budgetary spending of \$431 million for student and apprentice loans managed by Employment and Social Development Canada. Instead, it is moving towards non-repayable grants. This follows the Budget 2016 commitment to increase by 50 percent the number of grants that are available to eligible students, at a cost of \$1.53 billion over five years.

Table 2-1 Supplementary Estimates (C), 2016–17: Total authorities

	Budgetary (\$ millions)	Non-budgetary (\$ millions)
Voted	2,472	0
Statutory	-964	-431
Total	1,509	-431

Source: Treasury Board of Canada Secretariat, *Supplementary Estimates (C), 2016-17*.

2.2. Aligning the Budget and the Main Estimates

As the Main Estimates are prepared prior to the release of the Budget, spending initiatives announced in the Budget are usually included in Supplementary Estimates. To increase transparency and allow parliamentarians to track spending, in 2012 the House of Commons Standing Committee on Government Operations and Estimates recommended that the Supplementary Estimates identify spending announced in the Budget, and TBS implemented the recommendation, beginning in 2014–15.

Table 2–2 outlines the number and value of Budget 2016 items included in Supplementary Estimates (A), (B), and (C), 2016–17.²

Table 2-2 Many Budget 2016 items included in Supplementary Estimates (B) and (C)

Supplementary Estimate 2016–17	Number of Budget 2016 Items	Total Value of Budget 2016 Items (\$ millions)
Supplementary Estimates (A) <i>May 2016</i>	33	5,972
Supplementary Estimates (B) <i>November 2016</i>	51	1,713
Supplementary Estimates (C) <i>February 2017</i>	22	542

Sources: Treasury Board of Canada Secretariat, Supplementary Estimates (A), (B), and (C), 2016–17 and PBO calculations.

As shown in the table, most of the **funding** related to Budget 2016 was included in Supplementary Estimates (A), but over two-thirds of the **measures** were included in Supplementary Estimates (B) and (C),

representing 25% of the new spending. Additionally, two items from Budget 2015 with a total value of \$28.6 million were included in Supplementary Estimates (C).

The disadvantage of including budget items in Supplementary Estimates is that parliamentarians do not have a complete picture of planned spending at the beginning of the fiscal year. Additionally, it takes longer for the Government to implement new spending, and seeking parliamentary approval of new spending near the end of the fiscal year increases the risk that departments will lapse funds.

Recognizing these issues, in October 2016 the TBS proposed delaying the Main Estimates until May 1 and reforming internal administrative processes. The Government asserts that this would improve the alignment of the Budget and the Main Estimates by enabling most budget items to be included in the Main Estimates.³

While the PBO recognizes that most of the funding of Budget 2016 items was included in Supplementary Estimates (A), the inclusion of 73 Budget 2016 items in Supplementary Estimates (B) and (C) indicates that further work will be required to align the Budget and the Main Estimates. As noted in the PBO's report on estimates reform, "Unless the Government is able to present a clear plan to reform its internal management processes ... it is unlikely that delaying the release of the Main Estimates by eight weeks will provide full alignment with the Budget."⁴

2.3. Frozen allotments

Parliamentary approval of items listed in appropriation acts authorizes federal organizations to spend up to the amounts included. This authorization lapses at the end of the fiscal year.

While Parliament has approved the funds, the Treasury Board may decide to "freeze" the amounts allotted, for a variety of reasons:

- to re-profile funding to the next, or subsequent, fiscal years;
- to transfer or reallocate funds;
- to reduce the parliamentary authority, for example, due to a cancelled program; or
- for other reasons, which are mostly uncommitted central votes managed by the Treasury Board for specific purposes and urgent funding requirements.

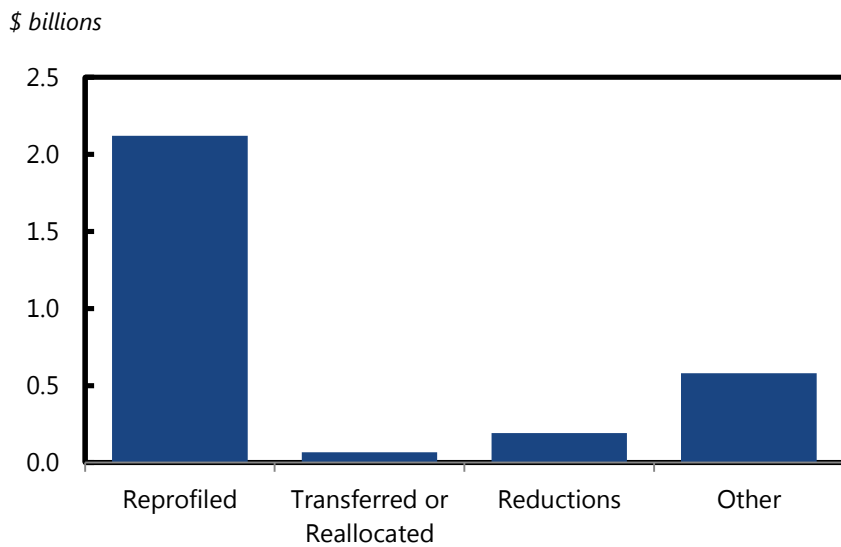
For example, as the Treasury Board approves spending with a profile, that is, the years over which it will be allocated, organizations may request the Treasury Board's approval to "reprofile" their funding, that is, change the

years in which the funds are allocated. The funds are then frozen in the current year and may be included in the estimates of subsequent years.

Once the amounts are frozen, they cannot be spent by federal organizations, and will lapse at the end of the fiscal year.

For 2016–17, the total amount of frozen allotments is \$2.96 billion. Of this amount, as shown in Figure 2–1, \$2.12 billion is related to the planned reprofiling of funds to future years and \$579 million is related to uncommitted funds from Treasury Board central votes.

Figure 2-1 Over \$2 billion in spending approved by Parliament deferred to next year



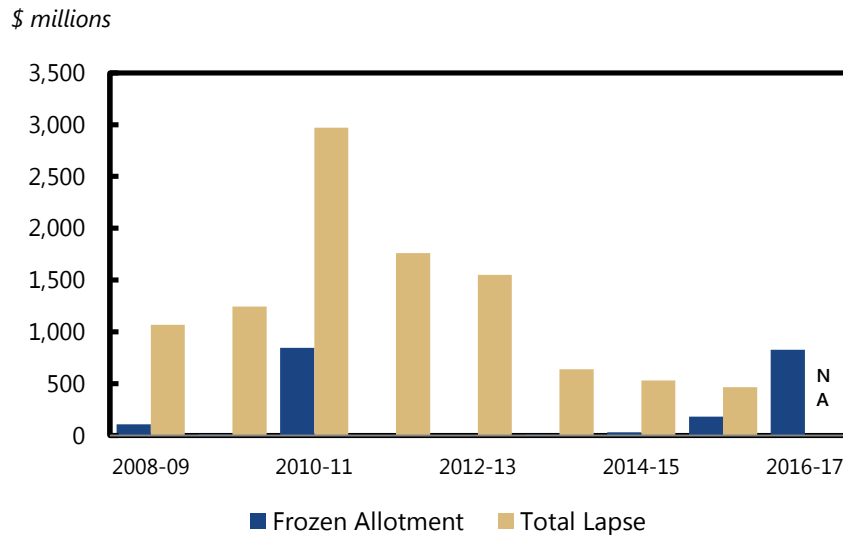
Source: Treasury Board of Canada Secretariat, Frozen Allotments in Voted Authorities for Supplementary Estimates (C), 2016–17.

Some of the significant frozen allotments include Infrastructure Canada (\$829 million), National Defence (\$366 million), Fisheries and Oceans Canada (\$192 million), and Indigenous and Northern Affairs Canada (\$100 million).

With respect to Infrastructure Canada, the PBO noted in its Expenditure Monitor 2016–2017 Q2 that infrastructure funds were not on track, which is confirmed by the frozen allotment and is consistent with historical lapses in federal infrastructure transfers.⁵

While the funds have been reprofiled, the PBO noted that expected economic growth from these funds in 2016–17 will be pushed off to subsequent years. Moreover, as shown in Figure 2–2, large frozen allotments for Infrastructure Canada tend to coincide with larger overall lapses.

Figure 2-2 Larger frozen allotments for infrastructure spending tend to coincide with larger overall lapses



Source: Public Accounts of Canada, Supplementary Estimates (C).

Parliamentarians may wish to enquire about the reasons why specific allotments have been frozen, which programs or projects have been affected, and what delays in program implementation have led to the reprofiling of funds.

3. New Spending by Policy Area

The Government classifies each dollar it spends by policy category (Figure 3-1). There are four principal headings, and sixteen sub-headings. The main headings (economic, social, international and government) aim to capture the essence of the Government’s spending. Tracking appropriations and spending within this framework allows parliamentarians to focus on the policy aims and priorities of the Government.

Figure 3-1 Whole of government authorities

	Supplementary Estimates (C)	Total Estimates	y/y change in authorities
Economic Affairs	-\$ 321	\$ 165,092	0%
Strong Economic Growth	-\$ 776	\$ 103,431	-1%
Income security and employment for Canadians	\$ 415	\$ 52,645	1%
An Innovative and Knowledge-based Economy	\$ 17	\$ 6,008	0%
A clean and healthy environment	\$ 17	\$ 2,453	1%
A Fair and Secure Marketplace	\$ 6	\$ 554	1%
Social Affairs	\$ 471	\$ 53,648	1%
A diverse society that promotes linguistic duality and social	\$ 171	\$ 16,214	1%
A Safe and Secure Canada	\$ 191	\$ 29,015	1%
Healthy Canadians	\$ 96	\$ 6,498	1%
A Vibrant Canadian Culture and Heritage	\$ 14	\$ 1,922	1%
International Affairs	\$ 384	\$ 8,193	5%
Global poverty reduction through international sustainable development	\$ 321	\$ 4,073	8%
A Safe and Secure World Through International Engagement	\$ 61	\$ 3,879	2%
A prosperous Canada through global commerce	\$ 1	\$ 233	0%
A mutually beneficial North American partnership	\$ -	\$ 7	0%
Government Affairs	\$ 975	\$ 25,252	4%
Well-managed and efficient government operations	\$ 970	\$ 22,945	4%
A transparent, accountable and responsive federal government	\$ 1	\$ 1,515	0%
Strong and independent democratic institutions	\$ 6	\$ 792	1%

Sources: Supplementary Estimates (C), 2016-17, PBO calculations.

3.1. Economic Affairs

Spending on **Economic Affairs** will decrease by \$321 million (-0.2%). As mentioned earlier, the principal source of the decrease are lower than anticipated public debt interest costs, which result in lower spending in the Strong Economic Growth theme (-\$776 million, -0.8%). Similarly, estimated spending in statutory elderly benefits result in an offsetting increase in Income Security and Employment for Canadians (+\$415 million, +0.8%).

As part of the *Government's Innovative and Knowledge-based Economy* outcome (+\$17 million, +0.3%), Employment and Social Development Canada is requesting \$178 million to write-off 32,554 unrecoverable student loans.

The Canada Student Loans and Grants and Canada Apprentice Loans Program provides repayable loans and non-repayable grants to help Canadians finance their participation in post-secondary education. Budget

2016 earmarked almost \$800 million over two years to support reforms expanding the eligibility requirements of Canada Student Loan recipients, especially for low and middle income applicants.

3.2. Social Affairs

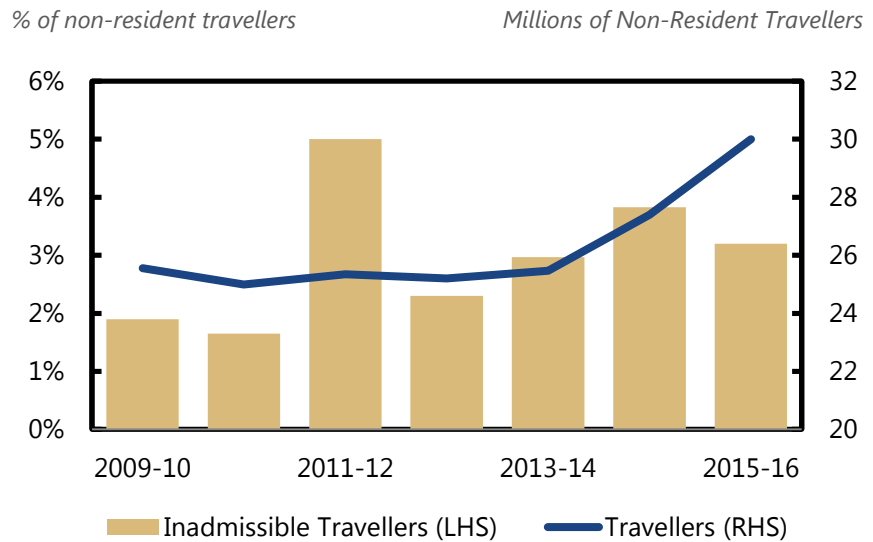
Spending on **Social Affairs** is set to rise \$471 million (+0.9 per cent). The largest source of the increase is programs designed to ensure a *Safe and Secure Canada* (+\$191 million, +0.7 per cent). Programs administered by the Canada Border Service Agency (CBSA) would receive most of this additional money, with CBSA's Admissibility Determination program the largest single beneficiary (+\$93 million, +10%).

The Admissibility Determination program's objective is to "intercept people and goods that are inadmissible to Canada and to process legitimate people and goods seeking entry into Canada...[as well as]...control the export of goods from Canada." ⁶

One of the targeted outcomes of the program is that people and goods that are inadmissible to Canada are intercepted at ports of entry. A current performance measure is the share of travellers to Canada that are deemed inadmissible. The performance target for 2016-17 is 3.2 percent.

The number of non-resident travellers to Canada grew from 26 million in 2009-10 to over 30 million in 2015-16 (Figure 3-2). At the same time, the share of travellers deemed inadmissible grew from 1.9 per cent to 3.2 per cent, equal to the performance target.

Figure 3-2 Stable share of non-resident travellers to Canada deemed inadmissible



Sources: Canada Border Services Agency; Statistics Canada.

3.3. International Affairs

These Supplementary Estimates propose the greatest spending growth in **International Affairs** (+\$384 million, +4.7 percent). This follows the Government's commitment in Budget 2016 to top-up Canada's International Assistance Envelope.⁷

Virtually all of the increase (85 percent) is attributable to the *Global Poverty Reduction Through International Sustainable Development* policy outcome (+\$321 million, +7.9 per cent) and relates to two programs administered by Global Affairs Canada:

1. International Humanitarian Assistance (+\$165 million, +23 percent).

This program provides direct short-term humanitarian assistance and long-term support to other organizations that pursue similar objectives.⁸ The money sought by the Government would be used to provide humanitarian assistance to people affected by El Niño, people affected by conflict or disaster, as well as contribute toward international action on antimicrobial resistance.

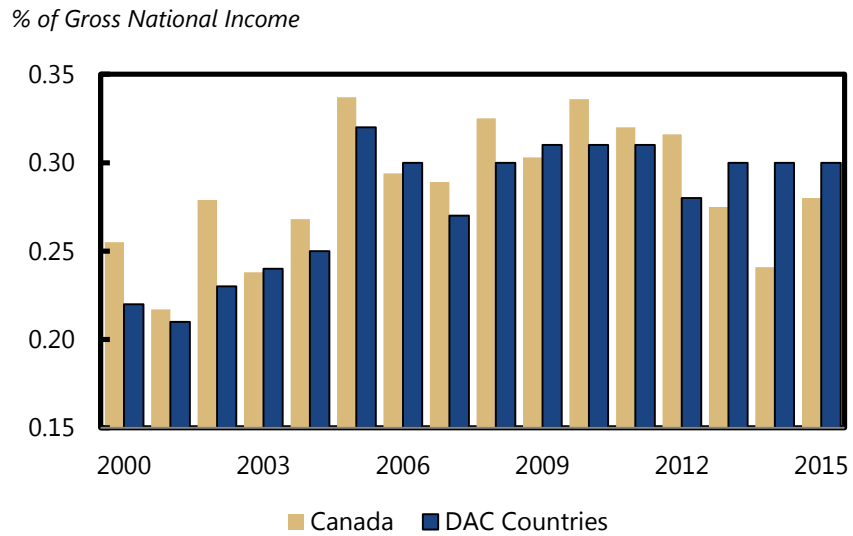
2. International Development (+\$155 million, +7 percent).

This program provides long-term support in developing countries for poverty reduction initiatives. The money requested in these

Supplementary Estimates would support various initiatives related to renewable energy in Africa and climate change.

According to the OECD, Canada’s spending on Overseas Development Assistance has generally moved in tandem with the overall average contribution made by members of the OECD Development Assistance Committee (Figure 3-3). Canadian contributions as a share of gross national income grew from a low of 0.22 percent in 2001 to a peak of 0.34 percent in 2005, before gradually falling to 0.28 in 2015.

Figure 3-3 Canadian Overseas Development Assistance Close to Overall OECD Average



Source: Organization for Economic Cooperation and Development.

Note: DAC member countries are: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Japan, Luxembourg, the Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, United Kingdom, the United States and the Commission of the European Communities.

Budget 2016 announced a review of Canada’s international assistance policy framework, with an objective of ensuring that federal resources are focussed on poverty reduction. The results of this review are anticipated to be announced in Budget 2017.

3.4. Government Affairs

Overall, spending in **Government Affairs** would increase by \$975 million (+3.9 percent) through these Supplementary Estimates. Almost all of this increase lies in *Well-managed and efficient government operations* (+\$970 million, +4.2 percent), which is primarily attributable to two central votes

managed by the Treasury Board of Canada Secretariat: \$95 million for compensation adjustments and \$545 million for payroll requirements.

The compensation adjustments vote would transfer money to departments and agencies for collective agreements that have already been reached. The payroll requirements vote, which encompasses a number of benefit programs, would compensate departments and agencies for collective agreements that may be ratified prior to the end of the fiscal year.

The current round of collective bargaining negotiations started in December 2013. The Secretariat is negotiating the renewal of 27 collective agreements with 15 bargaining agents in the core public administration, and overseeing the negotiation of 32 collective agreements with 5 bargaining agents for the 14 separate agencies.⁹

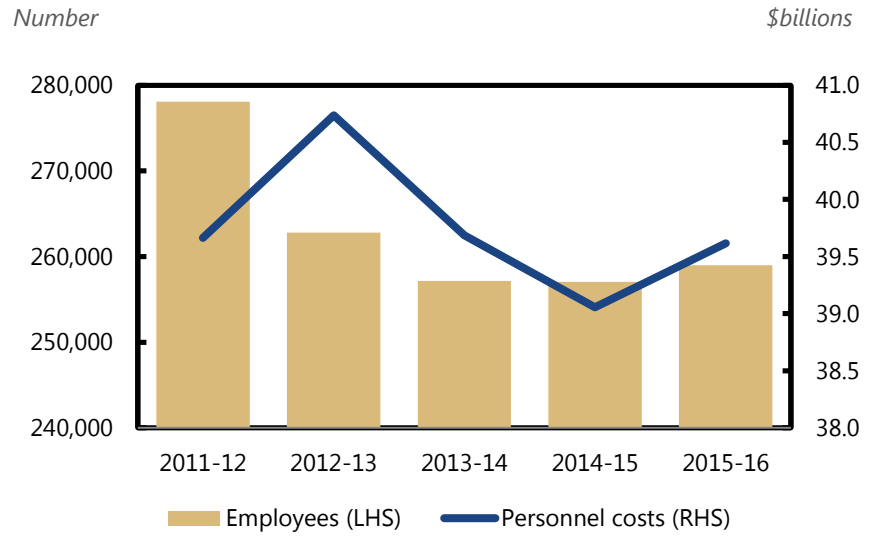
In October 2016, the Canada Revenue Agency signed a new agreement with one of its bargaining units, and the Treasury Board has concluded tentative settlements with 12 of 27 bargaining units representing over three-quarters of public service employees for which Treasury Board is the employer.

As the agreements are retroactive, a significant portion of the funds set aside for collective agreements is primarily related to back-pay.

Parliamentarians may wish to enquire about the progress of collective bargaining and whether agreements will be ratified sufficiently before March 31, 2017 to allow the funds to be allocated this year.

More generally, as shown in Figure 3-4, the size of the public service and personnel costs have declined over the past five years, with a modest up-turn in 2015–2016. However, according to data from Statistics Canada's Labour Force Survey, the number of employees in the federal public administration (including Defence services) has increased by 23,500 from March 2016 to January 2017.

Figure 3-4 Number of employees and personnel costs of the federal public service



Sources: Public Accounts of Canada, TBS Infobase.

Notes

- 1 Treasury Board of Canada Secretariat, *Supplementary Estimates (C) 2016-17*. <http://www.tbs-sct.gc.ca/hgw-cgf/finances/pgs-pdg/se-bsd/index-eng.asp>.
- 2 Treasury Board of Canada Secretariat, *Frozen Allotments in Voted Authorities for Supplementary Estimates (C), 2016–17*. <https://www.canada.ca/en/treasury-board-secretariat/services/planned-government-spending/supplementary-estimates/c-2016-17-frozen-allotments-voted-authorities.html>
- 3 Treasury Board of Canada Secretariat, *Empowering Parliamentarians Through Better Information*. <https://www.canada.ca/en/treasury-board-secretariat/services/planned-government-spending/empowering-parliamentarians-better-information.html>
- 4 Parliamentary Budget Officer, *Considerations for Parliament in Reforming the Business of Supply*. http://www.pbo-dpb.gc.ca/web/default/files/files/files/Publications/Business%20of%20Supply%20Reform_EN.pdf
- 5 Parliamentary Budget Officer, *Expenditure Monitor 2016–2017 Q2*, <http://www.pbo-dpb.gc.ca/web/default/files/Documents/Reports/2017/Expenditure%20Monitor%202016-17%20Q2/Expenditure%20Monitor%202016-17%20Q2.pdf>
- 6 Canada Border Services Agency, *Report on Plans and Priorities 2016-17*. http://www.cbsa-asfc.gc.ca/agency-agence/reports-rapports/rpp/2016-2017/report-rapport-eng.html#_a3h
- 7 Department of Finance Canada, *Budget 2016*. <http://www.budget.gc.ca/2016/docs/plan/budget2016-en.pdf>.
- 8 Global Affairs Canada, *Report on Plans and Priorities 2016-17*. http://international.gc.ca/gac-amc/publications/plans/rpp/rpp_1617.aspx?lang=eng#s2_3_2
- 9 Treasury Board of Canada Secretariat, *Report on Plans and Priorities 2016-17*, https://www.canada.ca/en/treasury-board-secretariat/corporate/reports/treasury-board-secretariat-2016-17-report-plans-priorities/analysis-programs-strategic-outcome.html#s2_1_3_2