

OFFICE OF
THE PARLIAMENTARY BUDGET OFFICER



BUREAU DU
DIRECTEUR PARLEMENTAIRE DU BUDGET

Supplementary Estimates (B) 2013-14

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Key Points of this Note:

- This note highlights items in Supplementary Estimates (B) 2013-14 that may warrant more detailed scrutiny by parliamentarians, owing to their fiscal materiality or risk.
- These Supplementary Estimates are seeking approval of a further \$5.4 billion in expenditures for the current fiscal year, which would increase total budgetary authorities to approximately \$259.9 billion. This is slightly higher than the total budgetary authorities sought in the previous year (0.3 per cent).
- Over half of the proposed increase pertains to increased transfer payments and subsidies to third-parties (e.g. negotiation of First Nations' specific claims) and other levels of government (e.g. reimbursement of costs related to natural disasters). The remainder primarily pertains to increases in departments' and agencies' operating budgets, in particular for personnel expenses (e.g. termination of accumulated severance benefits).
- These Supplementary Estimates also contain a substantial number of the new spending measures announced in Economic Action Plan 2013 (22 measures, valued at over \$925 million), including the planned enhancement to Veterans' funeral benefits. Combined with the measures proposed in Bill C-4 (*A second Act to implement certain provisions of the budget tabled in Parliament on March 21, 2013 and other measures*) and earlier budget legislation that received Royal Assent prior to prorogation, virtually all Budget 2013 measures have now been presented for parliamentary consideration.
- The Government has been unable to spend approximately \$10 billion of the budgetary authorities provided by Parliament over each of the past three years. As such, parliamentarians may wish to seek clarification regarding why this level of unspent money remains so high, what measures will be undertaken by departments and agencies to ensure that spending directed by Parliament occurs and whether all of the \$5.4 billion sought in these Supplementary Estimates is actually required.

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1. Context

The Parliamentary Budget Officer's (PBO) legislative mandate includes research and analysis regarding the Government of Canada's (Government) Estimates.¹ To implement this aspect of the mandate, the PBO reviews the Estimates and highlights proposed adjustments that warrant detailed scrutiny, including:

- i. Proposed changes to programs that are material to adjustments in the federal budget balance; and,
- ii. Proposed changes to programs that represent significant growth compared to the status quo.

PBO's Estimates analysis focusses on authorities delineated by program. While Parliament will continue to only appropriate on inputs (e.g. operating or capital expenditures), parliamentarians have been clear that a program lens provides greater insight into proposed spending.

2. Supplementary Estimates (B)

Supplementary Estimates (B) proposes to add approximately \$5.4 billion of budgetary authorities to the Government's spending plan. Combined with a marginal net upward revision to forecasted budgetary statutory expenditures (\$5.4 million), this would result in a \$5.4 billion net increase in total planned authorities (Figure 2-1).

Overall, the proposed changes in Supplementary Estimates (B) would bring total budgetary authorities for 2013-14 to approximately \$259.9 billion. This level of budgetary authorities is 0.3 per cent higher than the total budgetary authorities granted in the previous year and is consistent with the forecast growth in overall expenses identified in Budget 2013.²

¹ <http://laws-lois.justice.gc.ca/eng/acts/P-1/FullText.html?term=79.2>. Accessed November 2013.

² <http://www.budget.gc.ca>. Accessed November 2013.

Figure 2-1

Supplementary Estimates (B): Budgetary Authorities

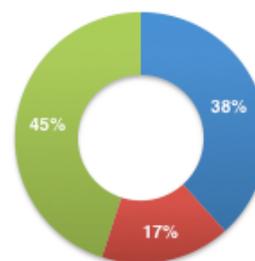
Voted	\$5.4 B
Statutory	\$0.0 B
Net Change	\$5.4 B

Source: Supplementary Estimates (B) 2013-14.

While the overall growth in proposed authorities is consistent with the forecast, its composition differs from the overall fiscal trend of constrained direct program spending offset by growth in transfers to individuals and other jurisdictions. As noted in Figure 2-2, while the majority of proposed budgetary authorities relate to transfer payments and other subsidies, almost half pertains to proposed increases in program expenditures (i.e. operating and capital).

Figure 2-2

Supplementary Estimates (B): Delineation of Proposed Authorities



■ Transfers ■ Subsidies and Other Payments ■ Program Spending

Source: Supplementary Estimates (B) 2013-14. <http://www.tbs-sct.gc.ca/ems-sqd/sups/b/20132014/bss0-dbcd-eng.asp>.

Note: Figures are calculated as the net new proposed spending authorities from the Treasury Board Secretariat's Standard Object authorities table for Supplementary Estimates (B) 2013-14. Offsetting revenue adjustments that represent less than 10 per cent of net new budgetary authorities, which are not allocated across standard object categories, have not been included.

Direct Program Expenditures (DPE), which comprise the operating budgets of departments and agencies, have been the target of recent budgetary restraint exercises and the recent Speech from the Throne announced a further operating budget freeze is planned.³

The proposed boost to operating budget authorities primarily arises from a combination of one-time and potentially ongoing factors. With respect to the former, \$955 million in budgetary authorities are sought to pay out accumulated severance benefits for employees as a result of changes to collective agreements. The latter relates to a proposed increase to the Operating Budget Carry Forward (\$449 million to \$1.65 billion), which permits departments and agencies to “carry forward” unused operating funds from one year to the next (see section 3).

The increase in the Operating Budget Carry Forward was expected given the unanticipated growth in unspent operating funds in 2012-13, which was reported in the Public Accounts of Canada 2013 (Box 2-3).⁴

These Supplementary Estimates also contain 22 spending initiatives worth over \$925 million that were announced in Economic Action Plan (EAP) 2013. This includes funding to pay for the enhancement to Veterans’ Funeral Benefits. In concert with the measures proposed in Bill C-4 (*A second Act to implement certain provisions of the budget table in Parliament on March 21, 2013 and other measures*) and earlier budget legislation that received Royal Assent prior to prorogation, virtually all EAP 2013 measures have now been presented for parliamentary scrutiny.

Box 2-3

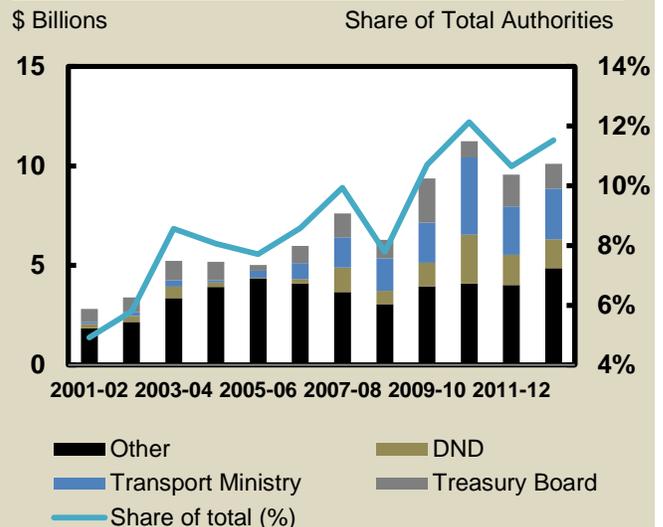
Historical Lapses of Budgetary Authorities

Budgetary authorities are provided through two mechanisms: Appropriation Bills that are voted annually (*i.e.* “voted”); and non-expiring statutory authorities provided through legislation (*i.e.* “statutory”). The former sets “up to” expenditure ceilings for types of monies, such as operating and capital. In the case of the latter, the Government publishes annual point estimates of the most likely level of expenditure in a given year.

Each year, there is a certain level of “voted” authorities that remain unspent. This is generally referred to as “lapsing authorities”. As depicted in the graph below, lapses have consistently grown over the past decade, rising to a high of \$11.2 billion or 12.1 per cent of budgetary authorities in 2010-11. Over the past 5 years, growth is primarily attributable to operating and capital expenditures for National Defence and infrastructure transfer payments.

EAP 2013 forecasts that lapses in budgetary authorities would decrease in 2012-13 compared to the previous year. Notwithstanding this, lapses as a share of budgetary authorities actually rose due to growth in operating budget lapses. Part of these lapses were carried forward to this fiscal year.

Lapses of Voted Budgetary Authorities



Sources: Public Accounts; PBO Calculations

³ <http://speech.gc.ca>. Accessed November 2013.

⁴ <http://www.tpsgc-pwgsc.gc.ca/recgen/cpc-pac/2013/index-eng.html>. Accessed November 2013.

3. Program Details

Tables detailing the largest proposed changes in authorities by program, measured by dollar value and percentage growth, have been released in tandem with this note and can be found on the PBO website.⁵

Some of the larger changes in authorities are examined in detail below, specifically programs managed by Public Works and Government Services Canada (PWGSC), Public Safety and Emergency Preparedness Canada (PSEPC), Aboriginal Affairs and Northern Development Canada (AANDC), and the Treasury Board of Canada Secretariat of Canada (TBS).

These programs are examined with regards to historical precedent and paired with an indicator representing a potential correlate to the cost of delivering on the program's objectives.

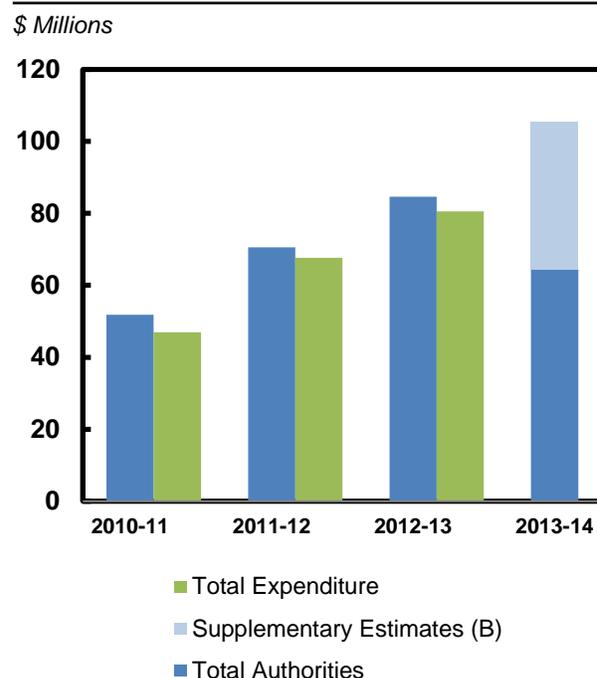
Public Works and Government Services: Federal Pay and Pension Administration

One of the larger proposed percentage increases in budgetary authorities (64 per cent) relates to the one-time Transformation of Pay Administration project receiving a \$39 million increase (\$37.4 million in capital authorities and \$1.6 million in operating authorities) to replace the forty-year old Regional Pay System with a cost-efficient, modern system by 2015-16.⁶ An additional budgetary increase of \$2.1 million for Pension Administration is also sought for Pension Administration services provided by Shared Service Canada. The current pay system administers the pay of more than 322,000 individuals and represents the largest payroll in Canada.

Figure 3-1 depicts the historical authorities and expenditure on Federal Pay and Pension

Administration.⁷ Expenditures attributed to the pay activity have grown over the past three years as they now reflect the full costs, including internal services. The one-time *Transformation of Pay Administration* project investment of \$310 million over 7 years to restructure and improve the Government's payroll system is forecast to result in annual savings of \$78.1 million beginning in 2016-17.

Figure 3-1
PWGSC: Federal Pay and Pension Administration



Sources: Public Accounts of Canada 2010-11 to 2012-13, Supplementary Estimates (B) 2013-14. PWGSC Departmental Performance Reports 2010-11 to 2012-13. PWGSC Reports on Plans and Priorities 2013-14.

⁵ <http://www.pbo-dpb.gc.ca/en/RESEARCH+RESOURCES>

⁶ Transformation of Pay Administration Initiative <http://www.tpsgc-pwgsc.gc.ca/remuneration-compensation/txt/tap-tpa-eng.html>. Accessed November 2013.

⁷ PWGSC 2013-14 Report on Plans and Priorities. <http://www.tpsgc-pwgsc.gc.ca/rapports-reports/rpp/2013-2014/rpp-02-eng.html>. Accessed November 2013.

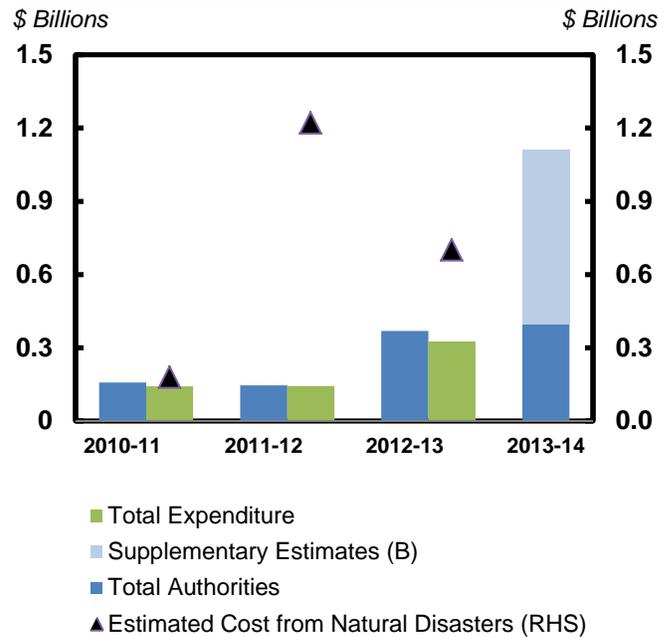
The unit cost of managing each employee payroll file in PWGSC has risen from approximately \$98 in 2010-11 to \$108 in 2012-13. This increase is primarily attributed to one-time project investments, full-cost reporting and the increased provision of pay services to departments. Despite these cost increases, the unit cost of managing each employee payroll file remains substantially below the PWGSC target of \$120.

Public Safety and Emergency Preparedness: Emergency Management

Another significant percentage, and dollar, increase in budgetary authorities relate to the \$714 million request for Emergency Management program administered by Public Safety and Emergency Preparedness Canada (an increase of 180 per cent). This proposed increase is in addition to the \$230 million in additional authorities requested in Supplementary Estimates (A), for a total increase of authorities of \$944 million over the Main Estimates (Figure 3-2).

The current increase in authorities is requested for the Disaster Financial Assistance Arrangements (DFAA) to provide \$2 billion in assistance for the province of Alberta for the flooding that occurred in June 2013. An early estimate of the cost of the flooding by TD Bank put the cost of the flood at \$3-\$5 billion, and a more recent statement by the Alberta Minister of Finance in August priced the floods at the \$5 billion upper range of the initial cost estimate.^{8,9}

Figure 3-2
PSEPC: Emergency Management



Sources: Public Accounts of Canada 2010-11 to 2012-13, Supplementary Estimates (B) 2013-14. Public Safety Canada: The Canadian Disaster Database.

Notes: All values refer to fiscal years.

Disaster Financial Assistance Arrangements provide funding to provinces in instances where the expected costs of disasters exceed what the province could reasonably be expected to pay on their own. The DFAA has paid out approximately \$2.3 billion out in assistance since it began providing assistance in 1970.¹⁰

⁸ The Economic and Fiscal Impacts of Flooding in Alberta. <http://www.td.com/document/PDF/economics/special/EconomicandFiscalImpactsOfTheFloodingInAlberta.pdf>. Accessed November 2013.

⁹ <http://alberta.ca/release.cfm?xID=34876E94383F4-BCB4-ADFE-72DDFD444CEC35FC>. Accessed November 2013.

¹⁰ <http://www.publicsafety.gc.ca/cnt/mrgnc-mngmnt/rcvr-dsstrs/dsstr-fncl-sstnc-rmgmnts/index-eng.aspx>. Accessed November 2013.

Assistance provided by the DFAA helps to repair public infrastructure and replace the homes and personal belongings of affected people, restoring items to pre-disaster levels. Funding is not provided for assets covered under other mitigation prevention measures, such as insurance or another government program.

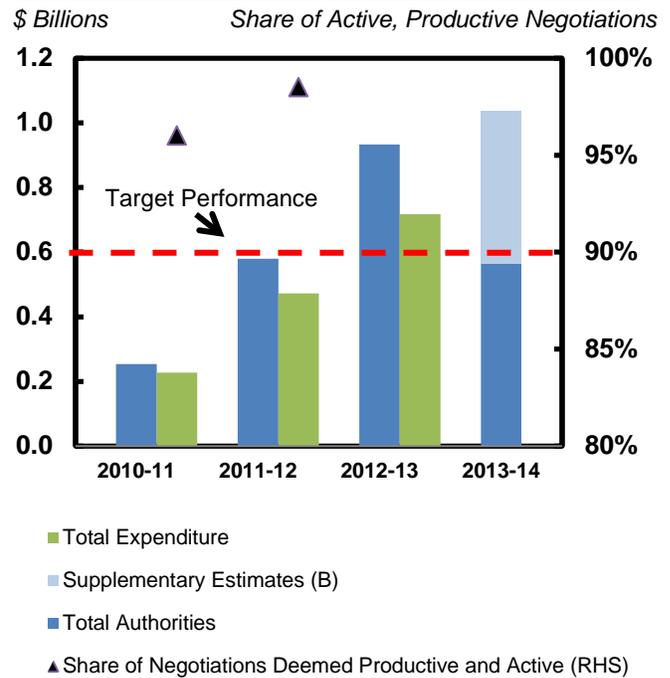
Aboriginal Affairs and Northern Development: Co-operative Relationships

One of the largest funding items relating to EAP 2013 is the proposed increase in budgetary authorities for the Co-operative Relationships program, which “seeks reconciliation and the strengthening of the relationship between governments and Aboriginal groups through mutual respect, trust, understanding, shared responsibilities, accountability and dialogue.”¹¹ Supplementary Estimates (B) seeks an additional \$451.4 million in transfer authorities and an additional \$20.9 million in operating authorities, which is largely the continuation of the implementation of *Justice at Last: Specific Claims Action Plan*. The requested increase is in addition to the almost \$170 million in budgetary authorities requested in Supplementary Estimates (A).

Figure 3-3 depicts historical authorities and expenditures for the Co-operative Relationships program in conjunction with the performance target listed in the AANDC Departmental Performance Reports and Reports on Plans and Priorities. Target performance is 90% as a percentage of active negotiation tables that are productive. Actual performance results for 2012-13 were unavailable as a result of a *New Approach* to negotiations, however in previous years this target has been exceeded.¹²

Figure 3-3

AANDC: Co-operative Relationships



Sources: Public Accounts of Canada 2010-11 to 2012-13, Supplementary Estimates (B) 2013-14, AANDC Departmental Performance Reports 2010-11 to 2012-13, AANDC Report on Plans and Priorities 2013-14.

¹¹ Receiver General for Canada Government-wide Chart of Accounts - 2013-2014. Chapter 6: Program Codes. <http://www.tpsgc-pwgsc.gc.ca/recgen/pceaf-gwcoa/1314/6-eng.html>. Accessed November 2013.

¹² AANDC Departmental Performance Report 2012-13. http://www.aandc-aandc.gc.ca/DAM/DAM-INTER-HQ-AI/STAGING/texte-text/2012-2013 DPR_1383160972538_eng.pdf. Accessed November 2013

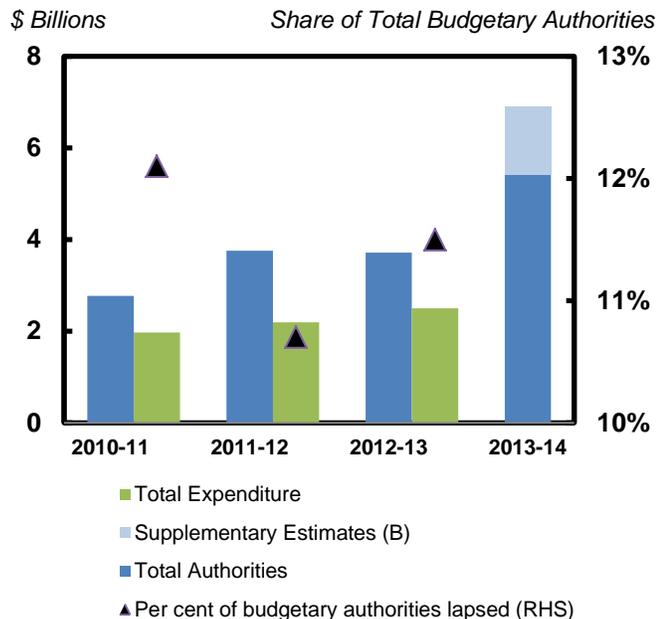
*Treasury Board of Canada Secretariat:
Government-Wide Funds and Public Service
Employer Payments*

This program is operated by the Treasury Board Secretariat in its role as the “management board” of the Government and employer for the core federal public service. Supplementary Estimates (B) flags a required increase in budgetary authorities of \$1.67 billion (Figure 3-4). The majority of this increase (\$955 million) is required for to pay out of accumulated severance benefits. The balance relates to an increase in the forecast of statutory payments of Employer contributions made under the *Public Service Superannuation Act* and other retirement acts and the *Employment Insurance Act* (\$443 million), as well as the Operating Budget Carry Forward (\$275 million net proposed increase, offset by transfers from other budgetary authorities).

As noted earlier, the rise in budgetary authorities for the Operating Budget Carry Forward is consistent with the higher than anticipated lapses in departments’ and agencies’ operating budgets during 2012-13.

As noted earlier, as part of its negotiations with unions, the Government has eliminated a “severance allowance” previously available to employees when they retire or resign. While no further benefits will accrue, current employees were given the option of either accepting an immediate payment for the accrued value, or deferring the payment until they retire or resign from their jobs. These payments reflect the estimated level of incremental payouts for the former and are in addition to approximately \$2 billion in payments already made. The Government estimates that it will realise approximately \$500 million in annual, ongoing cost savings from this initiative.¹³

Figure 3-4
TBS: Government-Wide Funds and Public Service Employer Payments



Sources: Public Accounts of Canada 2010-11 to 2012-13, Supplementary Estimates (B) 2013-14. PBO Calculations.

Notwithstanding this proposed increase in budgetary authorities for compensation-related costs, personnel expenditures remain on track to decrease in the current fiscal year due to the elimination of 16,000 positions in 2012-13 in the public service compared to the previous year (Figure 3-5).

¹³ <http://actionplan.gc.ca/en/initiative/public-sector-compensation>. Accessed November 2013

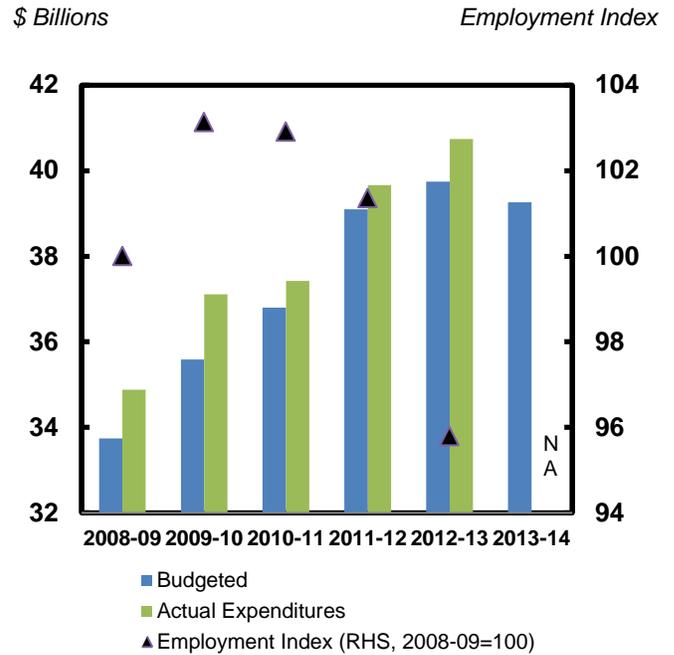
4. Conclusion

Parliamentarians may wish to seek further details on the items in the Government's expenditure plan exhibiting the greatest changes in value or per cent.

The Government has been unable to spend approximately \$10 billion of the budgetary authorities provided by Parliament over each of the past three years. As such, parliamentarians may wish to seek clarification regarding why this level of unspent money remains so high, what measures will be undertaken by departments' and agencies' to ensure that spending directed by Parliament occurs and whether all of the \$5.4 billion sought in these Supplementary Estimates are actually required.

The Integrated Monitoring Database has been updated with proposed spending adjustments in Supplementary Estimates (B) 2013-14.

Figure 3-5
Personnel Expenditures



Sources: Public Accounts of Canada 2010-11 to 2012-13, Supplementary Estimates (B) 2013-14. PBO Calculations.